

Description of Action/Joint Programme Document

I. COVER PAGE

Country: Georgia

**Project Title:** EU Innovative Action for Private Sector Competitiveness in Georgia (EU IPSC)

**Joint Project Outcome:** Enhance entrepreneurship and business sophistication by strengthening the capacities of government and local entities to develop and operate clusters and supporting companies directly with strategic investments while also demonstrating the effectiveness of these strategies to businesses.

<b>Project Duration:</b> 48 months	<b>Total estimated budget*:</b> USD 5,843,500
<b>Anticipated start/end dates:</b> 1 February 2019 - 31 January 2023	<b>Out of which:</b>
<b>Fund Management Option:</b> Pass-through	<b>Funded Budget:</b> EU USD 5,693,500
<b>Administrative Agent:</b> UNDP (MPTFO)	UNDP 80,000
	FAO 50,000
	UNIDO 20,000
	<b>Unfunded budget:</b> 0
	*Total estimated budget includes both Project costs and indirect support costs

<b>Sources of funded budget:</b> <ul style="list-style-type: none"><li>• EU</li><li>• UNDP, FAO, UNIDO</li></ul>
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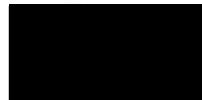
Participating UN organizations or PUNOs

UNDP



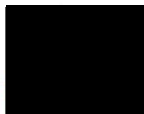
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## 1. Executive Summary

The “EU Innovative Action for Private Sector Competitiveness in Georgia” is a joint initiative of the European Union and four UN Agencies – United Nation Development Programme (UNDP), the Food and Agriculture Organization (FAO), United Nations Industrial Development Organisation (UNIDO) and the International Organization for Migration (IOM).

This project responds to the objectives set out in the Annual Action Programme 2017 “for Economic and Business Development in Georgia”. In particular, the project will support Component 3: Enhancing Greater Business Sophistication.

The overall objective of the proposed UN Joint Programme (UNJP) is: **to enhance entrepreneurship and business sophistication by strengthening the capacities of government and local entities to develop and operate clusters and supporting companies directly with strategic investments and better connect to diaspora groups, while also demonstrating the effectiveness of these strategies to businesses.**

This will be achieved through support to a range of entities in developing specific clusters for the benefit of enhancing geographically constrained value chains for improving cluster coordination, marketing, innovation, public private dialogue and more. It will also be done through strategic investments in companies that are deemed necessary to facilitate improvements in the cluster. This will also be enhanced by a sustained effort to consolidate evidence-base, clustering-related policy and implementation capacities and connect local businesses to diaspora communities, for the purpose of knowledge and technology transfer and financing.

The Joint Programme will include four specific outputs/results:

1. Strengthened capacities of policy-makers and other stakeholders to identify and develop clusters
2. Development and functioning of the clustering approach in the packaging and seeds/seedlings sectors
3. Development and support of strategic investments in companies deemed necessary to improve the cluster.
4. Mainstreaming Migration in SME Development

The JP will be implemented in close cooperation with the entire Government of Georgia, though particularly the Ministry of Economic and Sustainable Development (MoESD) and Enterprise Georgia, Ministry of Environmental Protection and Agriculture (MEPA) and the Diaspora Relations Department of the Ministry of Foreign Affairs, as well as stakeholders within and connected to the private sector or to private sector development. This includes businesses and entrepreneurs, both general and sectoral business associations, educational institutions, professional associations, trade unions and many others.

The project will also align with the other entities and agencies working on private sector development. Most obviously, this would include GIZ and ADA who are working on cluster development explicitly, but also includes Dfid, SDC, the Danish Government and many others.

## 2. Situation Analysis

Georgia's economic competitiveness has changed dramatically in the last 15 years under both governments. Starting in 2004 corruption has reduced substantively; opening a business and paying taxes were made simpler, cheaper and quicker and access to local markets and international markets has improved.

Perhaps most importantly, through signing the Association Agreement with the EU, Georgia has made EU-alignment the most important trajectory of public policy reform, and this has brought with it a strong westernization agenda to every facet of market reforms.

These reforms have created dramatic improvements in rankings like World Bank Doing Business Indicator, the Fraser Indicator of Economic Freedom, the Corruption Perception Index and the Global Competitiveness Index.<sup>1</sup>

Nonetheless, the economic and social development of Georgia is hampered by a stubbornly low performance in innovation and sophistication. The Global Competitiveness Report (GCI) clearly shows Georgia's weak performance in business sophistication (ranked 99 out of 137) and innovation (ranked 118).<sup>2</sup> Correspondingly, Georgia has an Economic Complexity Indicator of -0.25, which is about at par with Dominican Republic and Jamaica.<sup>3</sup> This has translated into Georgia failing in business sophistication, value-added activity and technology transfer and absorption.<sup>4</sup>

This low level of sophistication is particularly problematic given that Georgia aims to expand its exports to the EU under the DCFTA, and the EU is a highly sophisticated market requiring complex, consistent and high-quality products. The need for improvement of quality management systems was revealed by the "South Caucasus Trade Study"<sup>5</sup>.

Georgian weakness in this area results from a range of factors at an individual company and sector level. At an individual level, given the ease of starting a business, the business start-up rate in Georgia is a disappointing 8.6%.<sup>6</sup> This is compounded because, facing a small local market and limited experience exporting, local companies have historically lacked the incentives or the experience to innovate and grow.

At the same time Georgia ranks particularly poorly in inter-firm cooperation<sup>7</sup>. 'Clusters' of businesses in developed countries, often coordinate their activities, to share risk, enhance technological uptake and reduce cost. Lack of cluster development in Georgia has limited provision of inputs and skills, downstream service

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<sup>1</sup> Doing Business Indicator from rank 112 to rank 16 in the last 11 years; Fraser Indicator of Economic Freedom from 58 to 5 between 2004 and 2014; Corruption Perception Index from 124 to 44 between 2003 and 2016; Global Competitiveness Index from 90 to 59 between 2009/10 and 2016/17.

<sup>2</sup> Global Competitiveness Report (2017-2018), <http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/#series=GCI.C.11>

<sup>3</sup> Note that Georgia's economic complexity, and with it its development potential, deteriorated significantly between 1998 (0.48) and 2008 (-0.26) but increased again since then again. 2016 data <http://atlas.cid.harvard.edu/rankings/?country=geo>

<sup>4</sup> GCI/sophistication of the production processes rank 95; GCI/FDI and technology transfer rank 97; GCI/firm-level technology absorption rank 111.

<sup>5</sup> South Caucasus Trade Study. ISET, SDC, UNDP, November 2018.

<sup>6</sup> According to World Bank Data early-stage Entrepreneurial Activity increased from 7.22% in 2014 to 8.58% in 2016 [https://tcdata360.worldbank.org/indicators/aps.ea.total?country=BRA&indicator=3116&countries=GEO&viz=line\\_chart&years=2001,2017](https://tcdata360.worldbank.org/indicators/aps.ea.total?country=BRA&indicator=3116&countries=GEO&viz=line_chart&years=2001,2017)

This was 7<sup>th</sup> place out of 9 compared to EU and Non-EU countries. GIZ, Caucasus University. (2014). Global Entrepreneurship Monitor, 2014 Georgia Report, p. 39

<sup>7</sup> UNIDO, Leuven Centre for Global Governance Studies. (2015). Networks for Prosperity: Advancing sustainability through partnerships, p. 35

development, product certification and quality control, export facilitation, transport and logistics, international branding and marketing.

This project will therefore use cluster development to help enhance inter-firm cooperation, to overcome coordination externalities, improve technological uptake and new market penetration. It will also use strategic investments to support individual companies and overcome cluster bottlenecks in technology upgrade and innovation, increased design input, certification, environmental standard uptake (particularly Extended Producer Responsibility and recycling), foreign market understanding and access and much more.

This will therefore align with the EU's goal to support Greater Business Sophistication and will align with government goals of entrepreneurship and cluster support. In particular, the Georgian Government have already committed to the development of a Cluster Development Strategy. The project also aligns with the UN commitment to support Private Sector Development and innovation in the United Nations Partnership for Sustainable Development: Georgia (2016-2020) as well as with the numerous activities of UN agencies in this area.

The project will also work to engage better with the Georgian diaspora, in order to better utilise this pool of international expertise and potential finance. The UN Population Fund estimates that around 920,000 Georgians have emigrated since the early 1990s. Georgians can be found across Russia, Europe and North America. This is generally considered to have included some of Georgia's most talented individuals, as many migrated for economic reasons, and represented some of the most skilled and best educated individuals.

While this 'brain-drain' from Georgia is generally considered to have a negative impact on the labour market and development certain benefits also accrued; most notably, in the form of remittances. According to the National Bank of Georgia, Euro 1.2 billion, or the equivalent of 9% of Georgia's GDP, was sent as remittances to Georgia through the formal banking system in 2017, with hundreds of millions more sent informally.

Over the years, the potential offered by the Georgian diaspora community to contribute to development has been suggested in multiple studies, including IOM's experience in its Programme on the Temporary Return of Qualified Nationals (TRQN)<sup>8</sup> as well as the stated interest of diaspora generally, in a wide range of forums. Perhaps most importantly, the importance of the Georgian diaspora can be seen by the prominent position that many Georgian returnees from the diaspora hold in the Georgian government, as business managers and as investors.

The government has already undertaken a lot of work to turn the diaspora potential into reality. Nonetheless, engagement seems modest, relative to the opportunity. The concept of the diaspora is largely absent from strategic national and local development documents. Absence of any official register on diaspora and their comprehensive professional profile represents an important impediment for active outreach and cooperation with the Georgian Diaspora. An ability to connect to diaspora groups is particularly lacking at the local level. Therefore, this project will seek to map the diaspora, develop communication channels to better coordinate with interested diaspora partners, and support both local government and CMOs to encourage diaspora engagement in the SME development process.

The project will develop the differing methodologies for private sector support and entrepreneurship development with a particular focus on the packaging sector as well as the seeds and seedlings sector. Following extensive research and analysis and in collaboration with the Georgian Government and the EU,

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<sup>8</sup> Temporary assignments (3 months with the possibility of repeated assignments as needed) of qualified diaspora persons at the public and private institutions and NGOs (two phases of the TRQN Project – with 62 assignments of the qualified diaspora persons to different institutions)

these sectors have been selected because they combine the greatest opportunity for growth, for cluster development, as well as wider economic and social impact. The sections below will elaborate the logic for this selection. In Appendix 1, the explanation for the sectors is provided in even greater detail.

## **Packaging**

### *Why packaging?*

The packaging sector was identified as a priority sector on the basis of its size, opportunities for growth and its broader significance for the Georgian economy through its impact on other sectors and on recycling. The positive impact of cluster formation in the Georgian packaging sector has been explicitly highlighted in a recent internal government study.

Trade orientation is crucial to Georgia's development, in order to improve its balance of trade and to grow faster than local consumption. In order to achieve greater trade, Georgia requires a viable packaging sector. At the current time, much of Georgia's packaging is imported, allowing for building up import substitution, thus improving the current account balance. As packaging materials are usually voluminous and of relatively low value, proximity to the market is important. Local supply will reduce transport cost, thus improve the price-competitiveness of national businesses, improve Georgia's positioning for re-packaging imports for further export (utilizing tariff differentials) and, as positive spill-over effect, reduce overall emissions.

Globally, 73% of packaging is used for food and beverages, demonstrating its specific importance for the Georgian economy. The functions of packaging are broadly split into:

1) Technical functions: Protection of the contents from the environment and vice versa, and storage, loading and transport. 2) Communication functions: Appealing packaging to generate interest and influence the purchasing decision, as well as proper labelling to inform consumers and inspectors. The low use of packaging in Georgia appears to have various reasons (costs, suitability awareness), but certainly has significant consequences, associated with the identified major functions of packaging: First, products are not protected and therefore subject to increased risk of damage and spillage. Waste and spillage of agricultural goods are especially high between farmgate and wholesale.<sup>9</sup> Improvements in local packaging will also be necessary for the fulfilment of EU phytosanitary standards, and improvements in the packaging sector would be useful for environmental reforms, particularly recycling. Second, spillage of goods quickly leads to environmental damage.

Third, appropriate packaging influences occupational safety and health as well as transport efficiency.

Fourth, the major addressee of packaging communication is the final consumer. No or inappropriate packaging deprives companies of the possibility to market their product well and thus stand out from the competition.

Fifth, labelling also contains information which protects the consumer and facilitates inspections (e.g., guarantee that details on packaging correspond to contents).

A strengthened packaging industry in Georgia would reduce these identified problems.

### *Growth potentials*

The packaging sector is a high growth and dynamically intertwined sector that enables the development of many other sectors and functions. Being valued at worldwide US\$ 1,000 billion by 2020, if it averaged global per-capita use, the industry would be worth over US\$ 400 million in Georgia. As packaging use is low in Georgia,

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<sup>9</sup> For example, in India, the agricultural supply chain suffers from cumulative wastage of almost 10% of agricultural GDP.

this would imply a six-fold increase of 2017 sales volume, demonstrating the enormous growth potential and importance to the other sectors.

The most important materials used in packaging (by value) are paper and board (over 30%) and flexibles and rigid plastic (each around 25%). Of much lower importance are glass, metal and others. Georgia has paper, boards, plastics and glass producers and finishers. The analysis below focuses on the cardboard and plastic producing sectors. It excludes glass, since there is only one registered company in Georgia producing glass bottles, called *Mina JSC*, with a turnover of approximately US\$ 10 million. Discussions with people working in the sector have suggested that there are unlikely to be new entrants in this market.

*Size, importance and growth potential of the sector*

**Figure 1: Geostat Data on Production Volumes of Cardboard Packages (000 GEL)**

	2013	2014	2015	2016	2017 (preliminary)
<b>National Production</b>	11,508.30	11,235.10	11,036.60	12,206.90	25,620.10
<b>Imports</b>	43,782	39,965	33,070	38,846	26,398
<b>Exports</b>	5,351	2,350	962	506	780
<b>Net use</b>	49,939.30	48,850.10	43,144.60	50,546.90	51,238.10
<b>Growth</b>		- 2,2%	-11.7%	17.2%	1.4%

**Figure 2: Geostat Data on Production Volumes of Plastic Packaging (000 GEL)**

	2013	2014	2015	2016	2017 (preliminary)
<b>National Production</b>	24,329.00	29,191.10	40,561.60	49,151.30	56,673.30
<b>Imports</b>	44,451	45,682	36,961	34,215	34,073
<b>Exports</b>	2,761	3,875	3,575	3,624	6,372
<b>Net use</b>	66,019	70,998.10	73,947.60	79,742.30	84,374.30
<b>Growth</b>		7.5%	4.2%	7.8%	5.8%

Figures 1 and 2 show the development of the cardboard and plastic packaging in Georgia. A brief analysis reveals the very strong drive towards import substitution in the cardboard packaging sub-sector in recent years, despite very slowly growing local demand. On the other hand, both, import substitution and national net use grew rapidly in the plastic packaging sub-sector. Most of the imports originate from Turkey.

A study carried out by the USAID financed Economic Prosperity Initiative in 2012 outlines the further growth potential of the sector



“According to 2010 data, per capita consumption in Georgia is 6.6 kilograms, in Azerbaijan its 5.5 kilograms, and in Armenia–3.1 kilograms, while the same indicator in Turkey and Germany is respectively 98.7 and 222 kilograms”.<sup>10</sup>

This potential can also be understood through the common problems in the packaging sector, at the current time.

#### *Predominant problems*

As previously indicated, insufficient or inadequate availability of packaging can place limits on certain kinds of production. In Georgia, one of the complaints often made by producers who use imported packaging is that supply is unreliable and inflexible. This unreliability and inflexibility can create bottle-necks and disincentives for production in other areas.

The inflexibility and unreliability of foreign suppliers to the domestic market also creates opportunities for local producers. Many of the local companies acknowledge that while they are still not able to produce at the same price level as large international producers, their ability to sell smaller quantities, at shorter notice, is a distinct advantage.

The same USAID study as quoted above also suggested that local need for flexibility and reliability may create opportunities for the production of higher-end niche products that provide highly individual and stylised products. Investigating the opportunities in this area will certainly be one of the ways in which this joint programme will look to provide input, in order to support innovation.

As part of preparation for this project, UNDP conducted extensive discussions with companies in the packaging sector including 67 interviews with companies registered as ‘packaging’ companies and 9 in-depth interviews with larger producers.

Generally, this showed a complicated picture with considerable opportunity for coordination, improvement of standards, opportunities for innovation, support of value-added activities, collective marketing, improvements in environmental processes and much more.

One key finding of our research is that in spite of considerable demand for packaging products, the sector has over-capacity. This may seem contradictory but merely reflects a mismatch between what the producers are able to produce and what the market demands. Local producers are squeezed on two sides. First, when it comes to the cheapest, bulk, commoditized products, they do not produce at sufficient scale to compete on price with very large producers, mostly located in Turkey. At the other end of the spectrum, in the high value-added elements of the market, where companies want packaging that conforms to the highest international standards, involves technology or which is highly bespoke, with high-end design or complicated construction, Georgian producers generally lack the capacity to provide quality products.

This is also complicated by a number of other factors which leave local producers at a disadvantage. Most importantly, relatively few producers have been able to obtain the certification necessary to provide packaging required by export-oriented producers (for example, locally producers of agri-food products for export) or those supplying locally to super-markets, which also may have high-end packaging demands. Again, this partially results from economies of scale. Certification is expensive to obtain and cannot be justified until enough local producers (consumers of packaging) demand it.

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<sup>10</sup> Economic Prosperity Initiative (2012), *Corrugated Packaging Sector in Georgia*, USAID

Certification is also made difficult by the quality of local recyclables available in Georgia. Recycled paper and plastic are common (and sometimes required) components of packaging, but recycled inputs need to derive from highly differentiated recyclables. This is hard to find locally.

As is explained in more detail below, all of these problems will be reduced by increasing requirements on certification of all food/beverage packaging, improvements in waste separation, support of the recycling sector and work on Extended Producer Responsibility. This project will use the packaging cluster as a tool for private sector engagement, to help support these trends and ensure that the local market sees the greatest possible benefit from them.

#### *Specific relevance due to DCFTA*

Strengthening the packaging sector is relevant to the development of the Georgian market in relation to two EU standards in particular. First, improvements in packaging are necessary to *improvements in food safety*. The packaging of food is a particularly sensitive issue for the Association Agreement and the DCFTA and part of this is the need to use packaging that complies with certain standards.

Currently, locally produced packaging that fits that standard is rare. Therefore, packaging has to be imported. But, as has been mentioned before, using imported packaging from unknown suppliers is seen as a risk by local businesses. Also, foreign producers require clients who buy in large volumes and foreign producers have limited flexibility in the products they supply, quantities or financing arrangements. Therefore, the lack of appropriately certified locally produced packaging is a bottleneck for export growth.

Local production should also encourage, and be supported by, *improvements in recycling*. One of the reasons why certified local packaging is rare, is that products that comply to the appropriate standards require a detailed understanding of inputs. One of the primary materials for the sector is recyclables.

Ensuring quality of inputs can be difficult if locally utilised recyclable products are not reliably sorted. Improvements in recycling standards should improve the quality of recycled plastic and paper, which should in turn make it easier for local producers of packaging to improve their products and reach a larger market. February 2019 will see the beginning of requirements to sort trash into different recyclable categories. This will create an opportunity for the packaging sector, and improvements in the packaging sector should increase demand for local recyclables and help production.

In addition, shifts in requirements to use more recycling or for producers to do more recycling will also have to be integrated into local production processes. National Waste Management Strategy (2016-2030) Action Plan adopted by the Georgian Government requires that 80% of all plastic waste needs to be recyclable by 2030. Similarly, starting in December 2019, Extended Producer Responsibility (EPR) will be enacted in Georgia for several waste streams including packaging waste (plastic, paper/cardboard, wood, metal, glass). EPR is a policy approach successfully implemented throughout Europe in which producers/importers of products take a responsibility for the proper collection and treatment of specific waste. The application of EPR to packaging sector will be a stimulus to develop more adapted packaging products and at the same time develop further capacities to recycle packaging waste. This will create opportunities and challenges that the cluster can work on.

#### *Additional benefits*

Besides the participating businesses, major benefits will be felt by farmers (less spillage lead to higher incomes), workers (improved occupational safety and health), the labour market (especially demanded skilled

labour)<sup>11</sup>, the environment and the Georgian economy as a whole. Application of international packaging standards requires the establishment of a quality infrastructure (according to European standards because of the DCFTA). An orientation towards the trend of “more with less” includes among others anti-counterfeiting packaging (very high growth potential), smart labelling and green packaging with the corresponding supply and recycling chains.

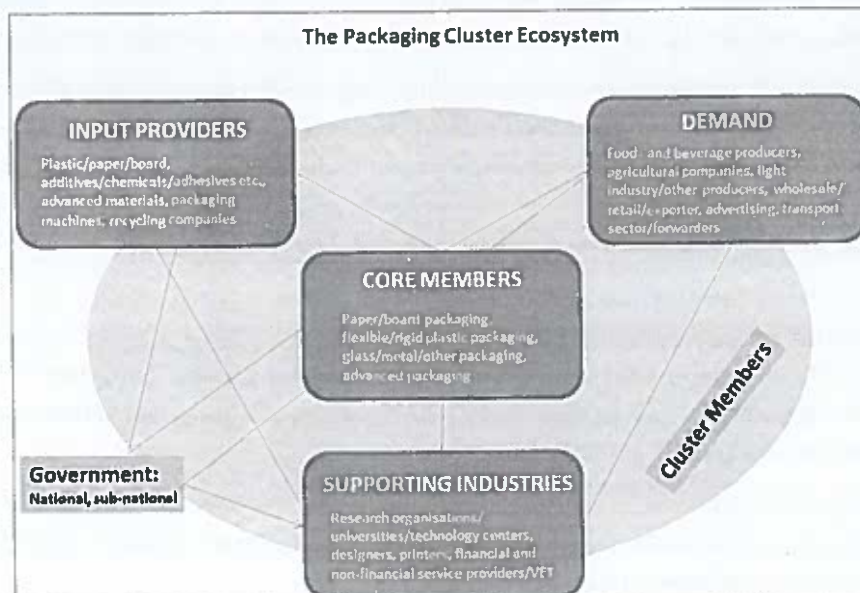
**The Packaging Cluster**

Up until now, the packaging review has focused on the ‘packaging sector’ as conventionally understood. This has focused on the producers of the final packaging product. However, inclusion in the ‘cluster’ will need to move significantly beyond the confines of companies that manufacture packaging products, if it is to generate the impact which the program envisages.

Michal Porter, who coined the term ‘cluster’, considered it “a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities”. In the case of Georgia, and in the packaging sector, the geography of the main cluster should be Tbilisi since, as the tables of the geographic distribution of the identified packaging companies, presented in the annex, demonstrate that over 2/3 of the companies are located in Tbilisi. This should, however, be understood to have a national reach. In particular, by many conventional understandings, a cluster is defined by a roughly 2-3hr radius of its centre. This would certainly allow a Tbilisi hub to include the Imereti regional capital of Kutaisi and the Kakheti regional capital of Telavi. This is an important consideration, not only because these are EU priority regions, but also because they are important agricultural and industrial centres that definitely have significance as upstream and downstream elements of the value chain.

In Europe, only 10 clusters predominantly oriented towards the paper and packaging sector could be identified. These have a median membership of around 40 companies and institutes. All belong to cluster networks and have various cluster partnerships.

Figure 3: Packaging Cluster Ecosystem



<sup>11</sup> Currently, Georgia is sourcing skilled packaging labour from Turkey and Ukraine.

In an ideal case, all of the packaging companies could become core members of a packaging cluster. Additionally, input material and machine suppliers, 3d-printing companies, recycling companies, designers and other members of the creative industries, and especially universities and research institutes usually form part of a cluster.

In some cases, training and educational institutes, providers of specialised business development services, financial service providers and major buyers can form parts of the cluster. In Georgia, those buyers as cluster members would likely include producers of beverages and agro-industrial products, but potentially also forwarders and managers of multi-modal hubs or repackaging facilities.

It will be particularly important to include B2B companies that are upstream of the packaging manufacturing sector like input suppliers and particularly design and ICT, as well as packaging consuming companies. Enhancing the technology, design and ICT element of the packaging cluster will be vital to increasing value-added in the sector, and for the production of bespoke and design-intensive products. Relationships with packaging consuming businesses will be important so that the two groups (packaging producers and consumers) can be aligned, particularly on developing business needs, new standards and new approaches to environmental responsibility.

#### **Seed/Seedling Sector**

Georgia's agricultural sector remains critical for the overall food supply, for the Georgian economy and for the social and cultural fabric of the country. According to preliminary information from GEOSTAT, the national statistical agency, in 2017 agricultural production accounted for 8.2 percent of the Gross Domestic Product (GDP), and almost 40% of the sector comes from crop production. More than 40 percent of the economically active population and more than 90 percent of economically active rural residents find employment in agriculture (more than half of them being women); however, only less than 1 percent of economically active population is formally employed in this sector, with the rest considered as self-employed. A significant share of the self-employed workers are rural women who work in family farms as non-paid workers.

These facts clearly indicate that despite the overall economic progress of recent years and promising processes unfolding in agriculture, much remains to be done to ensure the successful modernization of the rural economy and inclusive growth. The small-scale and fragmented nature of agricultural production, the chronic lack of technology and expertise, the poor state of rural infrastructure and the difficulties in accessing the finances needed to upgrade productive capacities necessitate further comprehensive reforms in the Georgian agriculture.

Agriculture production is concentrated among small-scale farming households. According to the results of 2014 Agricultural Census, 571 900 family holdings farm about 86.5 percent of total agriculture. The majority of holdings have small plots. About 77 percent of family holdings have, at most, one-hectare area of land, and the average plot size per family holding is 1.2 hectares.

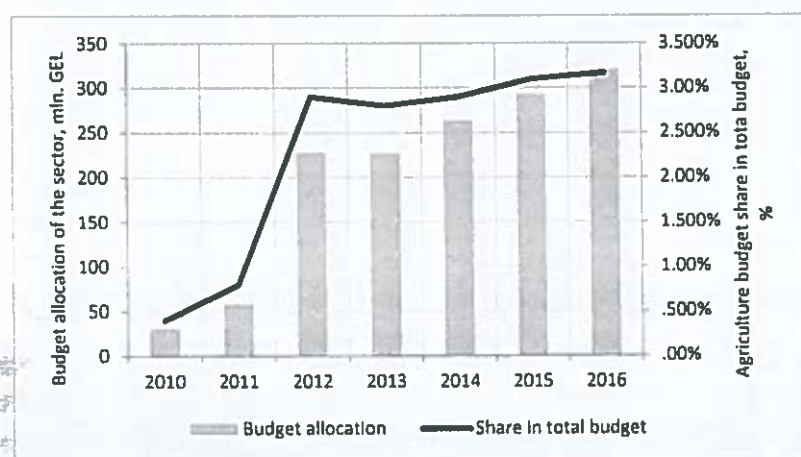
Georgia has for a long time been a net importer of agriculture and food products. The total trade turnover fell in 2015 due to political and economic developments in main trade partner countries. In recent years, the growth rate of exports has been higher than that of imports.

Recently, fifteen agriculture and food products account for about 78 percent of total agriculture exports, with live animals, hazelnuts, wine and mineral water making up 50 percent of these exports. The most significant growth rates during the last five years were observed in the export of live cattle, fish meal, hazelnuts, mineral waters, and wine (Source: International Trade Centre, estimates 2016).

The main 15 imported products represented about 47 percent of total agriculture imports, with wheat and flour totalling 14 percent of them, which clearly highlights the weakness of the cereal production sector.

State allotment to the agriculture sector has increased substantially since 2012. The Ministry of Environmental Protection and Agriculture’s ongoing main activities include animal and plant health protection, research, international promotion of Georgian products, support to the development of business-oriented farmer groups, rehabilitation of irrigation and drainage systems, and improvement in the availability and accessibility to financial resources and production inputs (planting stock, seeds, fertilizers, and chemicals, etc.). State funding of agriculture sector and the share in total budget allocations from 2010 to 2016 have increased by 48 percent and 41 percent, respectively (Figure 3).

**Figure 4: Budgetary Allotment to the Ministry of Agriculture**



One of the key underperformances of the agricultural production is the yield per hectare of most of the crops, which is linked to the very small size of plots that don’t allow for intensified agriculture, leading to a subsistence farming and an increase of the rural poverty. While the size of plots is a very structural problem linked to land tenure and the distribution of land after the collapse of the Soviet Union, there are no technological nor structural problems that should impede a steady increase of the yield per hectare in the coming years.

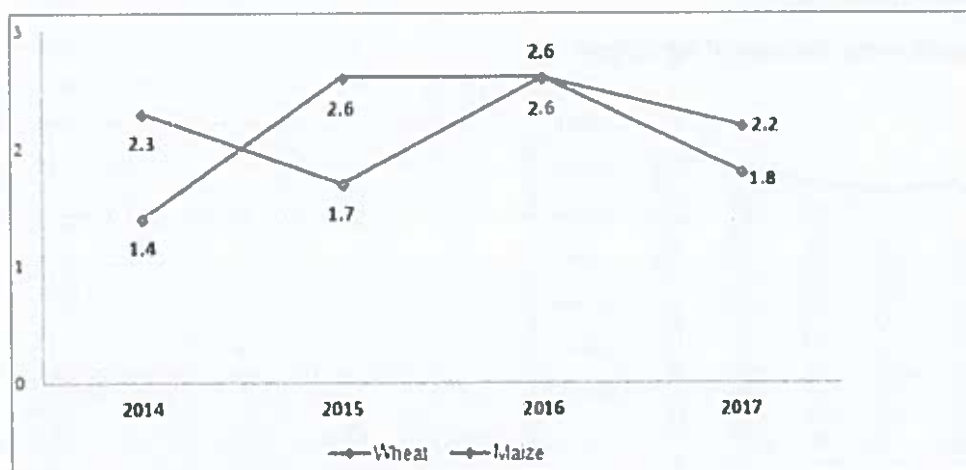
Together with improved extension advice provided to farmers, that would lead towards improved agronomic techniques, the quality of seeds and seedlings is probably the key underperforming factor where considerable improvement can be achieved with a relatively small effort.

This is why seed certification has been a priority for the Ministry of Environmental Protection and Agriculture of Georgia (MEPA) since 2012. As a result of the support provided through the ENPARD Programme by the EU as well as the Austrian Development Agency (ADA), FAO provided technical support to develop a seed certification scheme for cereals in 2014, that led to the voluntary certification of wheat and barley seed production since 2016, that is obligatory as of October 2018, and the laboratory for seed certification was fully equipped and the staff trained. Another big step forward was the approval of the seed law in 2017, that provided the right basis to give legal stability to the seed sector and assurances for the big seed producers worldwide to include Georgia as a market for their premium genetics.

The law provides the main principles for the seed and seedling sector regulation in Georgia and currently Scientific Research Centre for Agriculture (SRCA) has finalized drafting of the bylaws and technical regulations for the seed production and certification and will be followed by bylaws and technical regulations for the seedling sector including fruit trees, berries and grape vines.

The figure 5 below, with data from GEOSTAT, shows the increase in the yield per hectare in wheat production, and the significant increase in the wheat yield produced as of 2015, coinciding with the voluntary certification. While the yield per hectare of maize (through non-certified seed) followed a very unstable tendency, the yield of wheat has followed a much more stable pattern, and with a less dependency on the climatic conditions.

**Figure 5: Average Yield (t/ha)**



The figure above, although only focused on the wheat seed, shows the clear opportunity to significantly increase the yield per hectare in a relatively short period of time, and this very low yield can be applied to most of the commodities produced in Georgia. The seed certification of wheat and barley shows, therefore, the appropriate path towards an improved agriculture in Georgia, and the MEPA is moving forward with the certification of potato seed and planting materials (rootstocks and seedlings).

In this endeavour, several partners are joining forces in supporting the efforts in the policy, regulatory and technical framework, including the International Centre for Potato (CIP) with ADA funding, as well as the ENPARD programme through FAO technical support, and some other initiatives, such as the ongoing TAIEX support provided through Italian experts to the Scientific Research Centre for Agriculture, dependant on the MEPA, that is also the seed authority for Georgia.

This project comes as a perfect complement of the efforts already being implemented at the policy level to support the private sector (seed cereal producers and nurseries) to consolidate the efforts already being made by the seed companies to adjust to the obligatory certification as of October 2018, but also to accompany the nurseries in the ongoing process of development of the voluntary certification for seedlings, focusing in orchards and grape vines. This project would also provide a very significant improvement for seed and seedling producers, if a seed/seedling association can be created in Georgia, that will act as the private representative of the seed sector towards national and international fora.

#### **Size of the Seed and Seedling Sector**

While the seed and seedlings sector is small relative to demand, there has been a significant increase in number and size of the nurseries following the demand on seedlings triggered by the GoG programme "Plant the future". Similar increase is expected within the seed sector as soon as the mandatory certification of wheat and barley seeds will be enforced in 2018.

The main Georgian seed producers for wheat are able to produce and market around 500 tonnes for wheat seed out of a market need evaluated to 7 000 tons (estimation based on planted area), which is roughly a 7%

of the market needs. Assuming that the wheat producers would renew the seed only every three years, as it is an Open Pollinated Variety (OPV), the production would not go further than the 21% of the market needs for this crop. The situation is more drastic for the hybrid seeds, which needs to be procured every year from foreign markets, leading to higher costs to the farmers as a result of the fluctuations of local currency.

According to the National Wine Agency, estimated demand for the grape vine seedlings per annum is around ten million vines, without taking into consideration the vines for table grape production. Today the grape vine nurseries active in Georgia are not able to satisfy the demand, to a point where there are imports of seedlings of Georgian varieties coming from several European countries. If we take into consideration the increasing trend of the wine production in Georgia and exports, that has led to a planted area of vineyards in a continuous growing trend, grape vine nurseries are under an increasing pressure to be able to meet the market demand.

While the demand for scions for Georgian varieties could be met to a certain degree, there is a worrying lack of mother rootstocks of American varieties resistant to *Phylloxera*.

A similar situation in terms of the demand for the fruit tree and berry seedlings are estimated by Scientific Research Centre of Agriculture. More than five thousand hectares of the new orchards were planted under the government programme "Plant the Future" since its inception, with a subsidy of a 75% of the price of seedlings, leading to a significant pressure to meet demand on the 62 nurseries in Georgia authorised by APMA to deliver seedlings to this programme.

Underperformance of the Georgian nurseries to deliver verified quality products in fruit and berry seedlings and grape vines, in a context where the demand clearly exceeds the supply, is clearly stated by both involved agencies from the MEPA with competencies in grape vines and orchard seedlings, the National Wine Agency (NWA) and the SRCA. The main reason for the under delivery of the nurseries operating in Georgia is weak and non-reliable rootstock production for both fruit seedlings and grape vines.

The reasoning of this lack of mother rootstock is the technical complexity for the correct maintenance of the elite mother root stocks to be used for vegetative propagation purposes, and inappropriate agronomic activities may lead to the contamination of viruses or nematodes. In Georgia, only the Jigaura facility under the SRCA can be considered as a well-maintained nursery for mother root stock, providing a valuable service for the genetic conservation, but only able to cover a very small fraction of the country demand for root stocks.

As a result, most of the nurseries are obliged every year to research in foreign country markets, identify proper mother rootstock and import it to Georgia and conduct grafting in the country. This means a significant constraint for the development of the sector, and at a cost. Indeed, the cost of the imported certified mother root cost is roughly half of the market price for the final seedling or vine. This not only increases the price of the final product but requires additional administration expenses from nursery and higher operating costs in terms of identification of foreign suppliers, ensure the certification of these imported root stocks and finalise the import within the appropriate time frame to allow for the grafting locally in due time.

This bottleneck for the sector is proving to be a major threat for the economic viability of many nurseries, to a point that Georgian farmers are importing directly grape vines already grafted with Georgian varieties in European countries. The fact that a Georgian farmer is importing certified grape vines of endemic famous varieties such as Saperavi from a European producer is symptomatic of a critical problem in the local supply. The fact that this problem is mainly technical and regulatory (through an appropriate certification process) provides good grounds for a possible correction of this bottleneck if the State and the private sector join forces.

The nursery producers have stated the general problems that they face on their activity, such as access to finance, availability of technology, size of market and unpredictable changing demand, but also and more

importantly the lack of available staff with technical horticultural skills, particularly grafting and the need of a general certification process that ensures the quality of their production and allows to access to foreign markets.

Also, in most instances, there was an understanding that the inclusion of trainings on production standards, new products and identifying foreign markets would all be valuable, this was particularly the case for the larger producers.

Agriculture can be a significant driver of growth, export improvement and poverty reduction. In terms of growth, the low levels of current yield offer an opportunity for productivity gains to be a large net contributor to economic growth generally. In trade, agricultural products remain Georgia's largest productive category of tradable goods and so offer one of the clearest paths to increase exports. Finally, as the biggest 'employer' of the poorest class of people in the country, upgrading agricultural productivity is the surest way to generate pro-poor growth.

In conclusion, consistent with Georgian Government policy, as well as EU and UNDP priorities, business sophistication, innovation and entrepreneurship have been identified as priority areas for support. This project will support clusters and cluster policy to help overcome coordination externalities and to encourage innovation at a value-chain level. At an individual company level, the project will provide strategic investments to support company projects/developments deemed necessary for cluster improvements. Both the cluster and the grant support will be enhanced by project work to intensify business ties with diaspora. These project components will be piloted focusing on the packaging and seeds/seedlings sectors, because of the opportunities that these sectors offer for growth and wider impact. In this way, the project will hope to not only gain traction in these important sectors but, also, to provide platforms to enhance these improvements across the wider economy.

### 3. Joint Programme Strategy

#### 3.1 Theory of Change and Project Overview

This Joint Programme (JP) aims to address the low levels of entrepreneurship, business skills, local production, poor diversification and limited trade opportunities in the Georgian economy. The project will work on these problems by supporting 'cluster' development to facilitate improvements in value chain efficiency and collaboration, by providing strategic investments to individual businesses and by reaching out to the Georgian diaspora as an under-utilized business development resource. This will be done by working at an institutional, sectoral, geographic and individual business level.

Lack of coordination in regional value chains is seen as a critical hurdle to innovation, growth and productive diversification. 'Clusters' are made up of businesses within a particular value-chain/geography. By helping these cluster members to coordinate their activities in order to solve common problems it is possible to help enhance efficiencies and innovation and alleviate coordination externalities across the value chain. For example, through a Cluster Management Organization (CMO), a group of businesses can coordinate marketing for a particular regional product (or group of products), can help to improve certification and standards, can test new technologies, work to attract new suppliers or access new markets. And, by working together, they can do all this while exposing themselves to limited risk.

To do this, at an institutional level, the project will support ongoing efforts to develop and implement a cluster policy and support clusters in two sectors. More specifically, the project will support a mapping of Georgia's existing clusters/agglomerations (irrespective of whether they are currently performing/developed or not) and








educate the wider society on the benefits of the cluster approach. This will contribute to other efforts at the national government level in this regard. The project will also pilot cluster support with a focus on the packaging and seeds/seedlings sectors. These sectors have been selected as they offer high growth potential, and because packaging and seeds and seedlings are crucial to the development of several wider sectors. Both sectors also have an important impact on the environment. The project will support Cluster Management Organisations as focal points for coordination in the sectors.

The Georgian diaspora often have experience and resources that can help to develop the business sector. Therefore, to support the clusters, the project will develop systematic approaches to mainstream strategies for utilizing diaspora skills, experience, networks and resources both within clusters and at an individual business support level.

The effect of these interventions will be mutually-reinforcing. By developing the framework for cluster policy, testing pilots for cluster support through Cluster Management Organisations and for individual company support through strategic investments as well as better integrating Georgian diaspora into the whole process, the Joint Programme will produce holistic impacts on private sector development in the country.

### Theory of Change

<b>Overall Impact</b>	<b>Enhance entrepreneurship and business sophistication by strengthening the capacities of government and local entities to develop and operate clusters and supporting companies directly with strategic investments while also demonstrating the effectiveness of these strategies to businesses.</b>			
				
<b>Output Results</b>	<b>Output 1.</b> Strengthened capacities of policy-makers and other stakeholders to identify and develop clusters	<b>Output 2.</b> Pilot clusters in packaging and seeds/seedlings sectors are working to enhance their value chains	<b>Output 3.</b> Strategic investments in companies/projects are developing the clusters	<b>Output 4:</b> Diaspora engagement is a mainstream component of SME Development support
				
<b>Intermediate Results</b>	1.1: Overview and mapping of existing clusters available, focused on manufacturing and agribusiness 1.2: Diagnostic Studies are available for 8 emerging clusters 1.3: Stakeholders across central and local government, as well as in local communities, understand the benefits of working in clusters 1.4 Local and national institutions have an understanding of clusters and a capacity to conduct analysis in relation to them 1.5 Up to 2 pilot clusters identified through the diagnostic realize collective activities	2.1 Cluster management organizations are formed 2.2 Capacity development of Cluster management organizations 2.3 CMOs are able to work as sector coordinators 2.4 Support CMOs as service providers 2.5 Financial support to coordination activities	3.1 Strategic investment requirements are identified 3.2 Companies submit applications for financial support for projects in line with strategic requirements 3.3 Funds are disbursed, and projects monitored, ensuring achievement of strategic goals	4.1 Diaspora mapping has taken place 4.2 Diaspora are engaging with selected SME clusters 4.3 Diaspora are considered in the development plans of local authorities and CMOs

## 3.2 Lessons Learned

### UNDP

UNDP has significant experience supporting private sector development in Georgia for over a decade which includes business development services, facilitation of access to finance and grant support schemes, as well as skills development and employment. This has included work on policy development and technical assistance, on business support and the support of agricultural cooperatives and women in business. These projects have been funded by the EU, Swiss Cooperation Office in South Caucasus, Swedish International Development Agency (SIDA), Romanian and Finnish Governments.

The lessons from this experience have been incorporated into the project design. In particular:

- Where possible it is important to avoid creating entirely new institutions, outside of existing structures. Therefore, where possible, our clusters will build on existing sectoral associations.
- Financial and institutional sustainability needs to be at the core of building any organisation. Both are very hard to achieve with cluster management organisations (CMOs). Businesses are often resistant to pay for the continuation of clusters/associations and trying to make them sustainable through chargeable services is also a challenge, given that most businesses are very price sensitive in this area. Because of this, CMOs usually need long-term government or outside financing. Therefore, and in addition to point 1, it is important that these institutions maintain low overheads and focus on delivering demonstrable value for money.
- Development of intellectual resources requires buy-in to ensure utilisation. Producing e.g. a cluster-map or lists of diasporas within a given sector are only then likely to be valuable, if the products have been developed with the government agencies who are likely to use them. Integrating government agencies into the research is therefore crucial and has the added benefit that it increases the likelihood that research will be duplicated and updated in the future.

### UNIDO

UNIDO's competence in the promotion of clusters and business linkages is well established and derives from the successful implementation of numerous technical assistance programmes implemented in the areas of cluster, consortia, partnerships and CSR development that have been underway since the mid-1990s in Latin America, Africa, Asia and Eastern Europe. Of particular interest might be the cluster development project in Montenegro, funded by the EU, and implemented (one component) in partnership with UNDP. The project set a strong focus on supporting the Ministry of Economy of Montenegro in the development and implementation of the Strategy for Sustainable Economic Growth through the Introduction of Clusters (2012-2016) as a tool for the competitiveness enhancement of SMEs. As UNIDO will focus in Georgia on capacity building of public institutions, provide cluster mapping and diagnostic studies, and organize awareness-raising events, which are similar to the activities of the Montenegrin as well as other UNIDO led projects in this field, the following lessons from these countries and projects have been incorporated into project design:

- Cluster development is a long-term process that is based on the building of trust amongst involved stakeholders, which cannot happen in a short project time frame.
- In order to increase the motivation from the side of cluster firms and institutions to participate actively in diagnostic studies it is key that the process does not end with the presentation of the results of this assessment. Diagnostic studies should rather come with a detailed roadmap of actions that would be required to further develop the clusters. Those might be taken up by some members of the group at their

own initiative even in the absence of further project support, or it might be used as a basis to prepare proposals for available funding schemes or state aid calls.

- Training of cluster development agents needs to have a strong field coaching/handholding component by experts in this field that enables the trainees to really translate the theoretical knowledge into practice.

## FAO

FAO has been supporting the policy making in agriculture and rural development through technical assistance of the Ministry of Environmental Protection and Agriculture of Georgia since 2013 within different phases of the EU funded ENPARD Programme.

Relevant to this proposal, FAO supported the seed certification system that is ongoing in Georgia since 2013 and provided technical support to develop a seed certification scheme for cereals in 2014, that led to the voluntary certification of wheat and barley seed production since 2016, that will be obligatory as of October 2018.

Parallel to the development of the scheme, and with FAO support, the laboratory for seed certification was fully equipped and the staff trained, allowing for the first times for Value for Cultivation and Use (VCU) tests, to be implemented in Georgia for cereals.

In the policy part, another big step ahead was the approval of the seed law in 2017, that provided the right basis to give legal stability to the seed sector and assurances for the big seed producers worldwide to include Georgia as a market for their premium genetics. The law provides main principles for the seed and seedling sector regulation in Georgia and currently SRCA has finalized drafting of the by-laws and technical regulations for the seed production and certification and will be followed by by-laws and technical regulations for the seedling sector including fruit trees, berries and grape vines.

One of the lessons learned of the past experience with the certification scheme for wheat and barley is the need to support the producers to accommodate to the new regulations and technical requirements. In this sense, FAO worked very closely with cereal seed producers to facilitate the process by which these seed companies were able to come into compliance with the new requirements. Based on this joint effort, the voluntary certification was a success that is becoming compulsory now. This will be a significant step in improving the availability of genetics of cereal producers. A similar path will be followed by this project to complement this initial work with the certification of planting materials, but a lot of efforts have already been invested to ensure that this will also be a successful story.

Other than the seed certification system, FAO has supported the MEPA in different areas that are also relevant for this proposal, including the support to the Agriculture Project Management Agency (APMA) in terms of the evaluation and monitoring of their ongoing programmes, with some of their programmes very linked to the provision, at subsidized rates, of planting materials (seedlings for orchards and berries, and for grape wine producers under certain conditions).

In parallel to this project, FAO is developing a project under ENPARD III, focused in 8 municipalities in Georgia, and in some of them, there will be some synergies with this project in terms of direct support to farmers, cooperatives, entrepreneurs and enterprises for individual investments in the agriculture sector. In this sense, it is expected that some of the support will be provided to investments linked to the start-up of new orchard, wine or cereal production. In this sense, this project is complementary to other FAO activities also financed by the EUD.

## IOM

IOM has a long record of cooperation with the Georgian government in the areas of integrated border management and strengthening migration governance by developing the government's capacity to counter irregular migration, facilitate socio-economic reintegration of returned migrants and legal migration through bilateral labour migration programmes, uphold migrants' rights in line with effective international standards and harness the development potential of migration. These activities have been funded by the EU, IOM Development Fund, Swiss Cooperation Office in the South Caucasus, Bureau of International Narcotics Law Enforcement Affairs (INL) and various EU Member States.

The lessons learnt particularly from the human mobility and development area have been incorporated into the diaspora component of the project.

Of particular importance, IOM has learned to avoid the creation of any new structures. Instead it will strive to develop local capacity, mainstream migration into the local development plans, programmes and respective budgets to ensure the sustainability of all the pilot initiatives. Through this mechanism the project will liaise with the diaspora community abroad. It will also use the existing diaspora web portal to establish a regular communication platform for provision of information on prospects for business start-ups and investments.

### 3.3 Proposed joint programme

The JP aims to **Enhance entrepreneurship and business sophistication by strengthening the capacities of government and local entities to develop and operate clusters and supporting companies directly with strategic investments while also demonstrating the effectiveness of these strategies to businesses.** The participating UN Agencies will work to realize the four key results/outputs in order to reach this outcome.

1. Strengthened capacities of policy-makers to identify clusters and support the establishment of SME clusters
2. Developed pilot clusters for the two sectors of packaging and seeds/seedlings through the support of cluster management organizations
3. Development and support of strategic investments in companies deemed necessary to improve the cluster.
4. To Enhance the ability of national and local-level institutions and businesses to identify and connect with diaspora for the purpose of sector development, skill transfer and financing.

Below are listed the outputs and activities that apply to the project:

1. **Strengthened capacities of policy-makers and other stakeholders to identify and develop clusters (UNIDO)**

Following extensive project coordination discussions between UN Partners, the Ministry of Economy and the EU, UNIDO will work on policy in two main areas.

First, it will work with the Ministry of economy and other relevant public and private support institutions to strengthen their competencies in identifying potential clusters. This will include working with the Ministry and other partners to map potentially existing clusters as well as undertaking a detailed diagnostic of 8 identified clusters.

The second element on which UNIDO will focus is the capacity building and advocacy with a range of stakeholders, outside of central government and including businesses, business associations, local government, universities etc, to help enhance their understanding of the clustering approach and its benefits.

### **1.1 Cluster mapping and analysis**

A well-designed and executed selection process is a precondition for a successful cluster support initiative. It permits the identification of clusters where the impact of the intervention can be maximized given available time and resources.

In this component, a set of prioritization criteria is developed with local counterparts. According to the country specific needs a participatory analysis of the different variables is undertaken to map potential clusters. UNIDO will undertake a mapping of emerging and potential clusters in Georgia with a focus on manufacturing and agro-business sectors. This activity will be undertaken in close coordination with the respective government departments in order to ensure 'learning by doing' and capacity development on this type of economic analysis. The mapping exercise results will be presented during a national awareness raising event on clusters in Georgia to be closely coordinated with GIZ and ADA partners.

### **1.2 Diagnostic studies**

Based on the mapping, detailed diagnostic studies of a minimum of 8 emerging and/or potential clusters will be undertaken. The selection of these clusters will be based on the priorities listed in the national cluster strategy that will be published by the end of 2018.

The diagnostic study is used to: Identify the main strengths and weaknesses, opportunities and threats (SWOT) of a cluster; promote dialogue between cluster-based stakeholders in order to create consensus around a shared development vision; identify priorities and generate concrete proposals for activities that will feed into the cluster action plans; and collect information that will be used to establish a baseline for monitoring and evaluation (M&E).

The information collected during the cluster selection process provides the basis on which the diagnostic study is built, but the diagnostic study builds on the previous work to provide a more detailed picture of the cluster. Another important distinction between the cluster selection and the diagnostic is that different informants are consulted. In the cluster selection process, the primary informants are representatives of national or regional governments (since the aim is to identify the clusters in a country/region with the greatest potential). In the diagnostic study the main counterparts are cluster stakeholders.

Also, under this activity, cluster action plans will be developed in participatory manner with local stakeholders and counterparts.

### **1.3 Awareness raising on clusters**

It is accepted that the central government, and the Ministry of Economy, in particular, should have developed a good awareness of the clustering strategy and the opportunities that it presents by the time that the project starts. This activity will, however, look beyond central government. By focusing on the potential clusters identified during the mapping exercise it will be possible to raise awareness of clustering with key institutional stakeholders and identified potential cluster members to sensitize them on the available policies and support schemes. This could include, for example, businesses, business associations, local government, educational institutions, etc.

This activity will also support identified clusters to register on the European Cluster Observatory platform.

#### **1.4 Local and national institutions capacity building on diagnostic and action planning**

As in 1.3, focusing on institutions outside of central government, this activity will provide capacity building on the cluster development approach with a focus on diagnostics and action planning for sustainability at the level of local associations, institutions, technical centres, local governments, universities, etc. based on the priorities outlined in the national cluster strategy.

#### **1.5 Up to 2 pilot clusters identified through the diagnostic realize collective activities**

Among the potential clusters identified through the diagnostics, up to 2 pilot clusters will be supported to develop collective action plans, establishing first activities and strengthening inter-firm cooperation. Priority will be given to potential clusters where there is already a governance structure in place (sectoral association) in order to involve key stakeholders and permanent staff into the collective action planning definition and therefore ensure sustainability of the actions undertaken during the project life cycle.

Potential collective activities will be defined based on the diagnostics results and needs and opportunities identified, and could range from marketing and market access activities, to collective training and quality enhancement, from linking companies with potential financial programmes and grant to enhancing collective efficiency.

## **2. Development and functioning of the clustering approach in the packaging and seeds/seedlings sectors (UNDP and FAO)**

The project will pilot the development of clusters in the packaging and seeds/seedlings clusters. The clusters will be formed and grow supported by Cluster Management Organizations (CMOs), that will serve as the principle focal point for cluster formation and improvements. The project will support the set-up of the CMOs, their institution building, sector coordination and service provision.

Cluster Membership Organisations (CMO) typically provide two basic services to their members:

- Facilitation of networking between members and between the cluster and outsiders
- Provision of targeted information and basic advisory service, especially coaching

Almost all CMOs additionally provide a selected mix of the following services:

- Market access
- Technology transfer
- Linkage to advanced business development services and specialised providers
- Trend scouting and innovation management

A Georgian CMO would certainly have to emphasise networking, coaching and business diagnostics as the former is absolutely required to overcome the identified coordination failure, and the latter will generate the highest return on investment and therefore membership benefit.

Within the process of development of clusters in the packaging sector, particular attention will be paid to Extended Producer Responsibility (EPR) and supporting the industry to comply to EPR regulations applicable to the packaging sector starting December 2019. UNDP will cooperate with EU-funded project and SIDA-funded project implemented by UNDP currently working in the waste sector with a particular focus on EPR.

## 2.1 Formation of CMOs

UNDP and FAO will form CMOs for the packaging and seed and seedlings sectors. These will generally aim to exist inside sectoral associations, in order to improve the chances for sustainability. This will happen after an inception phase when UNDP/FAO will bring together stakeholders from the clusters under consideration to verify likely partners, geographic orientation of CMOs within a given sector, and to identify areas of most productive work. If required, equipment will be provided.

In the first instance, in the packaging sector, the CMO will coordinate with the packaging sector association. It will be primarily based in Tbilisi, as over 2/3 of the packaging related companies are located there. However, it should be understood to have a national reach. In particular, in line with EU priorities, the CMO will pay particular attention to including companies from Imereti (particularly Kutaisi) as Georgia's second industrial hub, and Kakheti as one of Georgia's most prolific agricultural regions. The packaging sector association is planned to be formed in the second round of a UK-Government project that finishes in March 2019. Cluster members are expected to be

- packaging companies: especially paper and board and flexibles and rigid plastic, but also e.g. glass, metal cloth, wood, alternative materials, and, if emerging, advanced packaging;
- upstream companies: e.g. providers of paper, plastics (recycled and non-recycled) and, if emerging, special coatings;
- downstream companies: e.g. food- and beverage companies and forwarders;
- supporting industries: e.g. printers, designers, equipment suppliers, and particularly universities and research institutes.

By reaching beyond the more restricted membership of the packaging association, the packaging cluster will not only be able to work on value chain related issues but will also become a central focal point for broader issues in the sector, particularly recycling, extended producer responsibility and environmental issues more generally. As such it will be well placed to connect to internationally supported programs working on these issues, as a source of expertise and potential financing. The group will also build on the international network that was started with the packaging association connection to the UK packaging association.

FAO is seeking the creation of a National Seed Association in given geographies. These will be primarily composed of seed/seedling producers of the following kind:

- Cereal seed producers (around 15 producers, with a geographical focus in south east Georgia)
- Wine grape and table grape vine producers (around 20 producers, without geographical concentration, but sub/groups can be identified).
- Orchard seedling producers (65 identified producers, without geographical concentration, but subgroups can be identified).

The National Seed association will be the central private seed sector organisation for all of these groups. Once it is created and functional, it will be registered to the International Seed Federation as the national entity that represents seed/seedling producers. That will open business opportunities since attending the annual business congress of ISF is open exclusively for members of approved

National Seed Association. Both the importing of new varieties to Georgia as well as developing an export market are strongly facilitated by being a member of ISF.

In parallel to the creation of the National Seed Association, the project will support the MEPA through this project in the development of a seedling certification scheme within the Scientific Research Centre of Agriculture (SRCA), that will serve as a legal and normative umbrella for the nurseries to be able to produce certified seedlings (rootstocks and scions). This policy work within the MEPA will set the criteria and minimum requirements for nationally produced seedlings, but also the requirements that will regulate the import and export of seedlings or its parts.

## 2.2 Capacity Development of CMOs

The CMOs will require institution building and management training, in particular

- a suitable business model including planning of financial and institutional sustainability;
- the development or adjustment of internal rules/Standard Operating Procedures and general principles of CMO activities;
- a Management Information System aiming at evidenced decision making and continuous improvement;
- recruitment and human resource development; and
- communication/marketing/public relations.

The degree of capacity building or capacity modification will depend upon the existing profile and professional orientation of the organisation with which the CMO will potentially be associated. More developed institutions will only need adaptation on the specific functionalities of the CMO.

Early on, the packaging CMO will seek assistance from the European Foundation for Cluster Excellence (EFCE) and apply the EU benchmarking methodology of the European Cluster Excellence Initiative (ECEI).

## 2.3 Support CMOs role as a sector coordinator

One of the key roles of the CMOs are to act as coordinators between companies within the cluster, who may not immediately know about or think to have discussions about their areas of mutual interest. It will therefore be the CMOs responsibility to provide a platform for this area of work and the project will support them in this activity. This coordination role could include:

- **Supply chain development** – Companies meeting regularly may identify supply chain issues that they can work to resolve collectively with the support of CMOs.
- **Public-Private Dialogue** – Companies may identify business environment or legislative issues, and CMOs can help them to articulate these problems and take them to the appropriate government official to resolve.
- **Discussion of new technology** – Companies meeting regularly can discuss new innovations in a sector. The CMO can bring speakers to help educate and resolve technological weaknesses.
- **Capacity Development** – members of a cluster may have similar human resource needs. Talking with each other, they (or the CMO on their behalf) can talk to government about standards or work directly with VET centres to help improve training provision. The CMO may also provide capacity building programmes in various common needs (such as propagation of mother



rootstock at nursery level, management of local varieties and use as well as observation of underutilized ones).

A range of strategies will be utilised by CMOs. This may include:

- **Cluster strategy development:** To sustainably achieve this role as platform coordinator, the CMO needs to obtain the clear mandate of the cluster members and thus create ownership of the actions and directions within the members. A well-suited approach to achieve this is the collective elaboration of a cluster strategy based on an in-depth cluster analysis. This might include guidance from the EFCE and should, in the case of the packaging cluster, involve Enterprise Georgia.
- **Network and inter-firm cooperation development:** The predominant reason for cluster development is improving inter-firm cooperation, which is weak in Georgia. Low cooperation between companies is usually the result of low trust and low opportunity recognition. Hence, the CMO will provide the platform for frequent interaction between the cluster participants, e.g., through business roundtables, business matchmaking meetings, informal brown-bag meetings and other group-based approaches (e.g., group coaching, see below). It will especially foster joint programmes and responsibilities between cluster members, e.g. through the provision of additional services for joint programmes. UNDP will consider the provision of higher grants for joint programmes implementation between cluster members.
- **User-Led Innovation:** Following a long-established ILO approach, bring suppliers of packaging materials together with their customers in regular intervals to identify specific requirements and demands. Support those through technology transfer and/or specific grants. This includes e.g. farmers, businesses, exporters and European importers as well as Georgian and European officials that express demands e.g. for anti-counterfeiting packaging, labelling requirements, etc. Such approach will also address Georgia's low ranking in customer orientation.
- **Business climate information:** Regularly survey the business climate of the cluster participants, following the simple methodology of the German IFO institute. This will serve as input for Public-Private Dialogue, and simultaneously instil longer-term oriented thinking and planning among cluster participants.
- **Inter-cluster and international networking:** Integrate Georgian cluster members into existing European cluster networks and institutions for continuous guidance and exchange of experiences, but also for the initiation of business contacts.

In the packaging sector, while much of the CMO's specific work will be decided ground-up, this will certainly include:

- The development of a participatory sector needs assessment that looks to identify key weaknesses in supply-chain and technology utilisation, as well as new market opportunities both locally and internationally, within the context of the DCFTA requirements and improvements in certification and environmental practices. This could also consider new markets in more design-led sub-sectors and up-stream and down-stream opportunities that could be created by greater opportunities. As well, it would consider the use of new and locally available materials, such as plant-based materials, cloth, recycled materials, and similar. This will also inform the planned strategy development.
- The Joint Programme will perform a survey of the Packaging Cluster Companies' to detect the employees' skills development needs including managerial and technical level skills. The skills

anticipation methods will be performed to detect the company and CMO level needs related to planned DCFTA and waste management related regulations introduction. The analysis of the survey will provide a ground for discussion between CMO and national VET authorities and VET service providers for detecting the most suitable model for skills development in the technical and crosscutting fields (such as labour safety, environmental standards and others). The Joint Programme will design and deliver short-term training to the employees of the cluster companies in selected 2 topics.

- Link the packaging cluster to other relevant clusters of Georgia to improve the competitiveness of the Georgian economy and foster cooperation between companies of the wider packaging eco-system.
- The focal work of the packaging association to date has been in self-certification to different production and quality standards. The cluster, as an extension of the association, or working in coordination with it, will work to expand certification and self-certification processes.
- In particular, many of the quality standard issues relate to the quality of inputs and, as such, are outside of the direct control of the companies. The CMO will work with local input suppliers (particularly in recyclables) to help ensure that input upgrade is aligned with market needs and supports improvements across the value chain.
- The cluster will develop a package of supports to help packaging companies and consumers of packaging come into alignment with new packaging regulations. At the same time, by coordinating work with suppliers of packaging and consumers, in this area, it should be possible to help suppliers adjust production to match the evolving needs of their customers. The cluster will also enhance the packaging producers with labelling and related sectors with high export potential (such as light industry).

In the seeds/seedlings sector, CMO work will include:

- The establishment and coordination of a network of demonstration plots (mainly for cereals) for the promotion and the facilitation of adoption of new varieties by farmers, in coordination with the Information and Consultation Centres (ICCs), private sector and other partners. Demo plots will put together old and new varieties so farmers in each geographic area will be able to observe their performance in relation to yield and resistance to diseases. This promotes the adoption of new varieties based on data obtained from the exact agroecological region (geographic region) where the crop will be produced.
- The signature of a Memorandum of Understanding with the state germplasm bank in Jigaura will allow for the preferential access to cluster members for training and capacity building activities of the cluster members, but also during promotion of local varieties for possible clients (farmers or companies involved in primary production) and preferential access to mother stocks to nursery producers.
- The implementation of promotion events of seed/seedling varieties produced locally. The CMO would be responsible for the implementation of a strategy for the promotion of locally produced seed/seedlings in Georgia, in order to raise awareness of the certification process of seeds/seedlings, often more adapted to local conditions and with a record of production in Georgia.
- The creation of a multi-stakeholder platform including the industry (cereal mills, wine producers, juice producers), farmers, Ministry of Environmental Protection and Agriculture and the Scientific Research Centre for Agriculture (SRCA), for a regular dialogue to identify trends and

challenges in agriculture practices, industry needs and potential use of new varieties or new agriculture practices for addressing those needs, as well as serve as a discussion platform for regulatory issues.

- To be the reference interlocutor with the SRCA in terms of the process of development and approval of a seedling certification framework.
- Technical and financial support to some nurseries for the establishment of the mother root stocks and provision of the required grafting equipment according to best practices in EU.

#### **2.4 Capacity Development for CMOs as Service Providers**

In addition to providing a forum for collective action, CMOs should also operate as service providers. These services can be focused on sector-related issues as well as general business development services. Sector-oriented services that CMOs might provide would include certification standards development and training on cluster issues like new technology. CMOs can also develop products for the whole cluster, like the development of geographic/sectoral marketing products. The project will help the CMO staff develop the capacity to provide these services or develop a network with people who can be hired bespoke to do so.

For the packaging cluster this may include building the capacities of CMO staff and developing appropriate training guides/materials to perform the following functions:

- **Business diagnostic services:** In many cases, the identification of problems and potentials for improvement brings the recipient company already a long way towards its solution, because of which it is very cost effective. Thus, business diagnostic services, often provided by Chambers and Business Associations in advanced economies, are a good entry point for further advancement and also for trust building. The diagnosis reveals the priority need and a sequence of activities to be pursued to address this need.
- **Coaching and group coaching:** Coaching has been proven to be one of the most efficient business development services. It is therefore envisaged that the CMO provides basic coaching services to cluster members. Experience shows, that one good coach can coach up to 100 companies.
- **BDS referral services:** The CMO staff will not be in the position to address all required and identified priority need. In those cases, the CMO may support the cluster member to identify and supervise a suitable business development service provider. It may be considered to provide a subsidy. Potentially, the project will have to provide ToTs to BDS providers to upgrade their knowledge and skills.
- **Technology transfer:** As provider of information, the CMO will also be in the best position to identify technologies and technology providers that might give the cluster member a strong competitive edge, especially if that has strong spill-over effects for the country (portfolio approach). The CMO will thus do the linking and support the transfer.
- **Training of labour supply:** If the diagnosis reveals a mismatch of labour supply and company demands, the CMO will link with universities, educational establishments and the diaspora to advance the supply of adequately qualified mechanics and engineers.
- **Business start-ups:** The cluster dynamics will benefit from newcomers. As well, there will be certain niche sectors not covered by the existing companies. To address these cases, the CMO will consider providing targeted support to start-ups, e.g., through the organisation of boot camps and similar.

In the seed/seedlings cluster this could include:

- Capacity development of CMO staff (through ToT) for it to be able to provide concrete technical training and advice to the members of the clusters. This could include terms of seed production and certification (legal framework, SOPs, certification process, roles and responsibilities).
- Capacity development of CMO staff (through ToT) in terms of business development (Managerial) of seed companies, to provide managerial support to individual companies upon request, but also to ensure minimum standards of the members (registration, statutes, representability, accounting, auditing, etc.).
- Capacity development of CMO staff in marketing and sector promotion, this includes the capacity development of skills of the staff of the CMO to promote and lobby for the use of locally produced goods. In the seed sector this could include certified seed/seedlings versus imported seed/seedling varieties, with a vibrant communication strategy using the existing platforms of farmers. In the case of packaging it could be highlighting the flexibility and quality benefits of buying local.
- Capacity development of CMO staff (through ToT) on management of mother root stock, local seeds varieties and use (i.e. wine production with local varieties) as well as observation of underutilized ones.

## **2.5 CMOs Support of Extended Producer Responsibility**

Starting December 2019, Extended Producer Responsibility (EPR) will be enacted in Georgia for several waste streams including packaging waste (plastic, paper/cardboard, wood, metal, glass) as it is stipulated by the “National Waste Management Strategy for 2016-2030”.

The Joint Programme will analyse the needs of the packaging sector (especially plastics and glass) and particularly the identified target cluster related to the implementation of EPR. In particular, in the packaging sector:

- **The project will identify the EPR support needs of the CMO participants and Public Responsible Organizations (PRO) related to packaging sector.** Specific awareness raising measures, as well as capacity development of the CMO and cluster member companies’ management. Relevant staff will be provided to support the EPR measures planning and implementation (such as stimulation of production of recyclable packaging, waste management practice improvement, information campaigns and awareness raising of packaging companies clients and other). The project will provide support to the Public Responsible Organizations (PRO) institutional set up through capacity development and technical assistance in developing relevant economic model and piloting selected initiatives of PRO and packaging cluster members companies.
- **Environmental Scan of the packaging cluster companies.** The Joint Programme will support the CMO in performing environmental scan of the packaging cluster member companies to detect the environmental risks of pollution. The Project will provide technical assistance for the cluster member companies elaborating the measures for eliminating the environmental pollution risks.

## **3. Provision of strategic investments, for companies/projects that facilitate development of the clusters.**

The project allocates funds for the provision of strategic investments to companies that facilitate the development of clusters. These strategic investments will take the form of grants to individual companies,

requiring matching funds, for the development of their businesses at key point in the value chain, where under-developed companies are considered to place a bottle-neck on development of the cluster.

This support will be fundamentally different to the support provided by the CMOs in component 2. CMOs will largely support the cluster by focusing on coordination activities that facilitate networking, PPD, facilitating standards development, technology uptake, collective marketing, information sharing and much more. This will include some direct company support, like the provision of business development services, but most of the activities will aim to provide support and services which apply to multiple members of the group. In contrast, the strategic investments will finance specific companies/projects.

While this will represent a different modality of support, to the work done with the CMOs, the 'strategic investments' will align with the objective of the project, as it will all serve the goal of developing the Georgian economy through cluster support.

Provision of the strategic investments will be undertaken in coordination with the other UN Agencies, relevant government agencies and the CMOs, but in order to avoid moral hazards and conflicts of interest, will be managed by UNDP and facilitated by UNDP analysis and oversight. The geographic scope of the investments will be national. This will naturally have a Tbilisi-orientation in the packaging sector but will be predominantly rural in seeds/seedlings for obvious reasons. That said, also in line with the CMOs, the project will make an effort to pay particular attention to Imereti as it contains Georgia's second industrial hub and is a major agricultural producer, and Kakheti as one of Georgia's most prolific agricultural regions.

### **3.1 Identification of strategic investment requirements**

The identification of the strategic investments will combine the strategic assessment of the overall cluster, undertaken in 2.1 and the individual business analysis undertaken in 2.4. The broad cluster assessment, which will be updated over the course of the project, will be continually looking to identify key bottlenecks to cluster growth, and these will be discussed extensively with the UNDP grant management entity. This will provide a number of categories of investment that are considered likely areas for cluster development, including for example:

- Environmental upgrade – particularly related to Extended Producer Responsibility
- Specific production innovations for early adopters
- Design innovations for improving value-added
- Adjustment to production process to facilitate certification
- Financing of certification processes

This structural assessment will also be supported by analysis of particular company needs. As part of their institutional assessment, the CMO will support companies in the formulation of development plans. Where the priority needs of companies include the investment expenditure, the CMO will be able to work with the company to develop its project proposal for UNDP. UNDP will then investigate the desire based on strict criteria (see 3.2) and decide if the project is suitable for 'strategic investment' financing.

### **3.2 Develop criteria and ToR for grants and grant selection**

The provision of grants will follow strict and transparent procedures. To achieve this, UNDP will elaborate, in close coordination with FAO, a set of criteria for the provision of grants, SPOs and model ToR.

Grants will be made on a rolling basis, in order to be responsive to identified needs. Grant applications will be judged based on the criteria identified in 3.1 and will be allocated based on achieving a threshold score. Companies that have already undertaken the institutional assessments suggested in 2.4 will gain additional positive marks. It is assumed that all applicants will be cluster participants, but UNDP will be prepared to consider non-cluster participants in exceptional cases.

Grants are expected to cover 70% of the total cost, with a 30% cash-contribution of the recipient. The minimal grant is targeted to be Euro 5,000, with a maximum of Euro 50,000. It is foreseen that certain, especially larger grants will be accompanied by corresponding training and conclusion of maintenance contracts.

### **3.3 Selection and monitoring of grants**

The decision of approval and disapproval of grants will be made with a committee that will be identified to comply with EU, UNDP and FAO requirements, and intended to ensure expertise and independence.

Of particular importance is the monitoring of both, the correct use of the grant provided and of the impact it will achieve. UNDP will visually verify expenditures including inspection of the installation and use of the equipment and use this for the approval of the final payment.

Based on the developed criteria and procedures, UNDP will disburse the grants. Monitoring of grant implementation and impact is of essential importance. UNDP, in close coordination with FAO, will therefore elaborate a system of implementation monitoring and impact assessment. This will include, among others, surprise visits in case of doubt.

## **4. Mainstreaming Migration in SME Development**

The objective of this component is to map the diaspora using a range of mechanisms, to develop platforms for communication and to particularly target local government and CMOs to build technical skills to facilitate outreach and contacts with diaspora groups, so that they can make better use of this resource for managerial and technical skills transfer as well as potentially for financing and development of trade networks.

Diaspora engagement is vital to private sector development, particularly through cluster development in Georgia, because the Georgian diaspora can bring an understanding of international ways of doing business, as well as international finance, while at the same time understanding and connecting fundamentally to the local Georgian market. Enhancing the understanding of diaspora resources will therefore support the diaspora mapping and development of policy as it will help illuminate clusters that have obvious pathways to enhance international markets (Outcome 1). Individual clusters will be able to connect to the diaspora network to identify international expertise in a given sector (Outcome 2). Finally, companies will be able to connect to diaspora to identify expertise and co-financing, to enhance the success of strategic investments. Therefore, by developing the diaspora networks we will be able to enhance the effectiveness of the overall program.

#### **4.1. Diaspora Mapping and Surveying**

Using Namsor software, which can be used for searching and cataloguing big databases of people, the project will map the location and professional characteristics of the Georgian diaspora community. This identification process will also allow the targeting of specific individuals with relevant skills and expertise to the project. This identification process will also generate resources that can be used by other identified Georgian Government sectors, for example, including those covered by the GIZ/ADA cluster projects (within reason).

The diaspora web portal has already been developed and integrated into the overall MFA web portal. This provides information on Georgian diaspora, both nationals and non-nationals. The project will also support further development of the Diaspora web portal for efficient diaspora outreach and engagement. The functionality enables the introduction of all the necessary information and services of diaspora interest and provides the unlimited and uninterrupted communication and cooperation channel between the diaspora and state and private sectors as well as the other actors interested in any purposeful interaction with Georgian diaspora.

The project will also survey the diaspora in four selected EU countries to gain insights into diaspora interests and support needs in order to enhance their contributions to business and economic development in Georgia.

#### **4.2. Encourage Diaspora engagement in the Selected Clusters' SMEs development**

Building on the previous analysis and the enhancements to the diaspora portal, the project will encourage diaspora engagement with the SME business community, particularly in the target clusters. This will envisage training and development of a diaspora liaison, possibly at a local or municipal level. The project will also develop a networking event in the EU and one in Georgia. This will ideally result in the engagement of diaspora in the sector-oriented clusters developed by the project.

#### **4.3. Develop the Capacity of Local Authorities and CMOs to mainstream migration and engage diaspora in their development plans and programmes**

The joint programme will aim to develop the knowledge-based available on diaspora (in 3.4.1) and build capacity for communication and coordination with diaspora members (in 3.4.2). In this component, the joint programme will build the capacity of local authorities and CMOs to more effectively use this information to include diaspora in their planning and in their activities. Three trainings will be provided,

one for the local authorities and two other for CMOs; the latter will include the participation of diaspora business persons and focus on enhancing transnational connections and cooperation with the diaspora.

### 3.4 Risk Analysis

#	Description	Political Type	Probability & Impact 1 -lowest 5-highest	Countermeasures / Management response	Owner
1	High turnover of ministry staff will decrease effectiveness of capacity development measures	Political and Organizational	P = 2 I = 3	Effective planning and delivery of capacity development measures. Design of regular capacity development interventions targeting stakeholder institutions with due consideration of authorities' staff change/turnover. Put sufficient emphasis on the mid-level civil servants who remain more resilient during the turnover as opposed to senior officials. More staff will be trained to counter possible losses due to staff change/turnover.	UNJP team
2	Change of government policy regarding business support, including clustering and diaspora	Political	P = 2 I = 4	Relevant advocacy with national institutions, including at the very senior level, advocacy for designing multi-year strategy implementation Action Plans and relevant M&E frameworks which will inform the policy formulation. Effective visibility of the results of the interventions will also be used as an advocacy tool.	UNJP team
3	Lower than expected uptake of sector support by businesses in the seed/seedling or packaging sectors	Organisational	P = 2 I = 3	Advocacy regarding opportunities of clusters and support provided by strategic investments. In the event of a still a lower uptake, expansion to broader value chain partners can be further discussed.	UNJP team
4	Reluctance and inability of individual Ministries and other institutions in replication of clustering and diaspora mainstreaming.	Organisational Financial	P = 2 I = 4	Targeted TA and capacity development measures for replication of best practices of cluster support and support to diaspora mainstreaming. Effective visibility of the outcomes of the intervention as well as their linkage with ongoing government priorities. Production of lessons learned and evidence of implementation of measures of the results of implementation of pilot clusters for informing and supporting the replication and upscale.	UNJP team
5	Limitations in the absorption capacity by these actors	Beneficiary Organisational	P=2 I=2	The trainings will be rolled out in a pace, which will allow the beneficiaries to slowly absorb the content and link it to real life experiences on the ground; combination of class-room and field/practical training.	UNJP team
6	Findings from the mapping and diagnostics will not be adequately mainstreamed into policy processes and other cluster initiatives in the country	Political Organisational	P=2 I=4	Regular communication and exchanges with GIZ and policy makers to involve them into the process from the beginning and create a feeling of ownership and complementarity of activities.	UNJP team
7	The seedling certification system is not approved or made operational	Political and Organizational	P=2 I=4	The preparation of the seedling certification system has already started with the support of TAIEX missions to Georgia in 2018, and there is a clear commitment from the MEPA to have the system operational. This could also be considered as a Budget Support Conditionality for this EU Programme.	UNJP team



### 3.4 Partnerships and Stakeholders

#### Central Government

The JP will be implemented in close cooperation with the entire Government of Georgia, though particular emphasis will be placed on work with the **Ministry of Economic and Sustainable Development (MoESD)** and its agencies **Enterprise Georgia**, **Georgian Innovations and Technology Agency**, the **Ministry of Environmental Protection and Agriculture** and its agency **Scientific Research Centre** and the **Diaspora Relations Department** **Ministry of Foreign Affairs**.

Work with the MoESD will be reflected in all four components of the project. UNIDO support on cluster mapping will engage with the MoESD to identify criteria for cluster selection, and the cluster mapping itself will be undertaken with direct involvement of the MoESD analytical unit and Enterprise Georgia, to ensure that all work also involves 'learning by doing' on the side of the government agency. UNIDO will also work with MoESD on selection of the 8 clusters where diagnostic studies will be piloted.

MoESD is also the key responsible agency for cluster policy and over the course of 2018 will be working to develop a cluster development strategy and action plan. The project will, of course, align with this strategy in the design of its clustering pilots in the seeds/seedlings and packaging sectors, to ensure that the lessons learned from these projects can feed-into broader policy development.

**Georgian Information and Technology Agency (GITA)** being responsible for creation of enabling ecosystem for developing of innovations and technology transfer will be involved as a partner supporting the CMOs in technology and innovations development.

MoESD will also be a coordination focus for work in the diaspora mainstreaming and will be provided access and training to data collected on diaspora.

The **Ministry of Environmental Protection and Agriculture (MEPA)** will partner the project, both as a recipient of some of the support, and as a partner in the project implementation. In particular, the Scientific Research Center for Agriculture (SCRA), which is dependent on the MEPA, will be the entity responsible for the regulatory work of the seedling certification system and, as the Seed and Seedling Authority, it will receive training to be able to make the system operational. At the same time, the MEPA and the SRCA will be partners in supporting the nurseries to adapt to the new technical requirements resulting from the seedling certification system. MEPA is also in charge of promoting Extended Producer Responsibility (EPR) concept which will be enacted in Georgia starting December 2019 for specific waste streams, including packaging waste.

The **Diaspora Relations Department at the Ministry of Foreign Affairs of Georgia** is the major responsible agency on relations with the Georgian Diaspora. The project will extensively cooperate with this agency and the Diaspora Relations Department will significantly benefit from the diaspora mapping qualifications inventory development and surveying of diaspora attitudes, perceptions and priorities regarding investments in the country. The Diaspora Relations Department will assist in contacting and engaging diaspora organizations in the selected EU countries in the diaspora business persons survey. The agency will provide support in awareness raising and capacity building on mainstreaming migration in the development agenda at all levels of government.

The **State Commission on Migration Issues (SCMI)**, is also a coordinating body on diaspora issues and, together with its constituent ministries that have a thematic interest in the project components, will be intensively involved in the management of this project through the SCMI Secretariat. The SCMI will assume the

coordination function with the central and local authorities and assist in capacity building and awareness raising of the local authorities in the project locations.

#### **Sub-National Government**

Sub-National government will be involved in this project in a range of ways. Generally, as regionalization is becoming increasingly important in Georgian politics and economic development, local government entities will be involved in discussion about clusters and cluster development. Since clusters, by necessity, have a regional component, this educational effort will be particularly significant in those municipalities where clusters are located.

Regional and local government entities will be focal points also for diaspora engagement and migration mainstreaming at the local levels. They will be given capacity support to play a significant role in organizing the diaspora local businesses networking events and operate diaspora liaison hubs. They will host Project Coordination Meetings at the local level, for bringing together all the development actors operating locally, to coordinate and find synergies between different initiatives.

#### **Private sector actors**

Private sector actors, whether businesses or individual entrepreneurs are clearly the most important partners of this project. Companies and entrepreneurs will be the focal point for cluster development and the strategic investments. In preparation for this project, UNDP has already conducted extensive outreach to the target sectors and has been assured that there is sufficient interest for cluster coordination activity and for grant support. Outreach to the business sector will continue, through-out the project, using sectoral associations and experts, government databases and (increasingly) networks through primarily identified contacts.

The companies will benefit from diaspora networking activities throughout the project to find entry points for cooperation with diaspora businesses (in terms of knowledge exchange, networking and development of trade opportunities) and/or attract diaspora investments for their business development purposes. Migrant workers in the EU and/or remittance receiving households will also have opportunities for involvement.

#### **NGOs**

There are a range of ways in which the project will partner with NGOs. First, the clusters will often work with sectoral associations. For example, in the case of packaging, the Tbilisi-based packaging association will be the contact point for the packaging cluster. A seed and seedling association will be founded by the FAO and will also serve as a key interlocutor.

The project will also partner with the diaspora associations in the selected EU countries, for developing their capacities in diaspora outreach and cooperation and to get their assistance in organizing the diaspora surveys and networking events. IOM and UNDP will work-out the coordination mechanism for regular information exchange between the participant agencies of this joint action on the matters of common interests and to ensure the synergies between the activities of involved UN agencies and enhance the overall impact of the joint programme.

In addition, on a range of policy issues, the project would expect to coordinate with NGOs that have particular interests. For example, in the packaging sector, there will be discussion with government on recycling issues, and this should be coordinated with environmental NGOs.

### **Complementarity and Synergy with Other International Projects**

There are a wide range of projects working on private sector development, including major EU, USAID, DfID, a wide range of European countries and beyond. Most of these projects are complimentary, in that they attempt to improve particular facets of the business environment.

Of particular importance are the projects that have focused on cluster development and business support. GIZ has been working on cluster development with the Georgian Government in the apparel, furniture, film and ICT sectors, as well as working in honey and trout. They are also working with the MoESD on the development of a cluster strategy. In a new project (also financed by the EU), they will continue to work on particular areas of policy, as well as working on tourism, construction materials and apparel. At the same time, under another part of the same EU financing, ADA will be working on the clusters of mountain tourism and bio farming.

The UN project has been developed in coordination with these two groups in order to ensure that the activities are complimentary and mutually reinforcing, therefore the policy component of the UN project has been specifically designed to reinforce and support the policy work of the GIZ project.

UNIDO's policy component has a focus on capacity building, mapping and diagnostic studies, and an awareness-raising campaign will be highly complementary with the ongoing and planned GIZ cluster policy/strategy initiative as well as with ADA's activities in the areas of mountain tourism and bio farming clusters. UN/UNIDO teams will meet regularly with project coordinators and experts of GIZ and ADA to identify synergies and discuss cooperation and possible joint activities, especially in organizing awareness-raising events. Core activities, mapping and diagnostic studies, will be aligned with the policy/strategy document to be finalized by the end of 2018 with the support of GIZ.

More broadly, of course, it will be important to coordinate with other EU projects in the private-sector support terrain. The EU has been working, through a wide range of projects, to support SME development and to enhance preparedness of companies, in a range of sectors and geographies, who may want to access to the EU under the DCFTA. In addition, through wide ranging technical assistance, they have been improving the business environment in Georgia by enhancing EU-alignment under the Association Agreement.

The UN Joint Programme Proposed here will work closely with the EU to ensure that the goals and activities of the project reinforce the good work done in other areas and take advantage of the opportunities that they create. Most obviously, much of the work in cluster development and the supports given in the form of strategic investments will be to help companies prepare to align with EU standards, ideally with the aspiration of exporting to the EU.

In addition, other specific work of the UN project partners will be aligned with connected projects. These include ENPARD, Integrated Border and Migration Management project, etc.

### **3.5 Gender Mainstreaming**

The JP would make sure that its activities and interventions promote gender equality and the empowerment of women in line with principles of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) (ratified by Georgia in September 1994), the State Concept of Gender Equality and the National Action Plan on Gender Equality 2018-2020, and the Law on Gender Equality (March 2010).

"Gender equality and women empowerment considerations demonstrated" will be one of the general assessment criteria of the JP supported initiatives. Additionally, close attention will be paid to ensuring that women are pro-actively involved in the analysis of the Georgian economy, the management and involvement of businesses in clusters, recipients of strategic investments and in all diaspora engagement.

Across its work, UN Agencies ensure in all projects that no-harm is caused to women and to the disadvantaged groups and take every opportunity and action to contribute to closing the gender gap.

UNIDO will be ensuring a good representation of women within the project team and on the side of the project beneficiaries. It is envisaged that at least 20-30% of the participants of the capacity-building programme will be women. This estimate strongly depends on the women present in the targeted clusters. A more precise indicator will be defined after the cluster mapping has been undertaken.

Gender-sensitive indicators will be collected and monitored throughout the project implementation.

### **In relation to each of the components**

In the policy element, UNIDO has prepared a guide on “Gender mainstreaming in cluster development projects”, which will be applied during the preparation of the mapping and diagnostic studies. In particular “sex-disaggregated data”, data will be carried out to define the baseline and identify activities for integration of gender dimensions for specific clusters.

UNDP, in its support of clusters and support of strategic investments will adopt a range of practical commitments. CMOs will aim to have at least 30% participation of women staff. Participation of women-led businesses in the clusters will be especially encouraged. Also, the grants will aim to provide 30% of its grants to women-led businesses by integrating gender ratings. In addition, if initial rounds of funding seem to be falling short of this goal, then additional support will be given to woman-led businesses in application preparation.

FAO commitment to women’s empowerment is supported by its Policy on Gender Equality; the FAO Regional Gender Equality Strategy for Europe and Central Asia; the UN System-Wide Policy on Gender Equality and the Empowerment of Women (UN-SWAP) and the FAO Environmental and Social Management guidelines. At country level, FAO released in October 2018 ‘Gender, agriculture and rural development in Georgia’ report, which identifies gender inequalities in agriculture, and their impact on economic and social development of the country. In particular, the report reveals an active role the rural women play in all sectors of agriculture, however, due to widespread social practices, they are perceived as helpers and contributing family members in small subsistence farming, heavily involved in unpaid and informal work, earning 75 percent of men’s salary. FAO will also take into account women limited access to productive resources, such as land, finance and decision-making, but also new technologies and agricultural inputs as seeds, which, in case of female headed households, further limits their economic opportunities.

To address the issues related to unequal access to the productive resources, this Project will be specifically informed by the FAO Voluntary Guidelines on the Responsible Governance of Tenure (and its technical guidelines).

The approach is based on the Strategy for Agriculture Development of Georgia (SADG) and its action plan which reflect the principles of the National Gender Strategy and related action plan.

A gender-sensitive approach will underpin all activities within the diaspora component of the project. In project-specific terms, this means that IOM will be looking for action with counterparts, such as the local authorities and CSOs, to develop a gender sensitive approach and participation in capacity building initiatives, business start-ups, and networking events.

Particularly, the diaspora qualifications inventory will provide gender disaggregated data. To the extent possible, the equal participation of women will be ensured in the trainings planned for the local authorities

and CMOs. Participation of diaspora women will be promoted in the planned assignments of qualified diaspora in the companies and CMOs for their capacity building and/or during the diaspora and local business-to-business networking events.

### 3.6 Sustainability

The main objective of the project is to develop entrepreneurship and innovation through the development of cluster policy, cluster management entities and strategic investments. The clearest indication of the sustainability of this work will be better performance of the target companies, revealed in stability and growth of the sales and financial performance, new entrants into the market, implementation of environmentally friendly practices and good practices.

Sustainability will also be achieved when the government recognizes the success in the pilot sectors and expands that success with similar support in other areas. To that end, the project will ensure that it rigorously documents the efforts of its pilot schemes and works, along with other agencies in the area, to provide evidence-based support for the modification and continuation of the policy.

Institutional sustainability will be achieved once the organizations are structured in such a way to allow for long-term effective operation. This will be facilitated through well-developed procedures, HR policies, communication and marketing strategy as well as an effective financial model.

Financial sustainability will be achieved when the operation of the organization has been optimized to fit within its funding and revenue generating environment. That will be achieved in a number of ways. First, as mentioned, the project will not seek to create new institutions, but will develop new functionalities in existing institutions. CMOs will, for the most part, will be connected to sector associations. This will keep costs lower and make financial sustainability more likely.

Second, in all instances, the project will start with a focus on developing a business model that works from a financial point of view, implying keeping costs (particularly fixed costs) minimal and focusing on revenue generation as a priority from the beginning of the project.

Finally, there is an understanding that the CMOs may not be self-financing within the life of the project. With that thought in mind the project will advocate to convince stakeholders of their value and to build relationships with other institutions, most obviously connected to national or local government, to fund them in the future.

**Logical Framework “EU Innovative Action for Private Sector Competitiveness in Georgia (EUIPSC)”**

Impact	Indicators	Baseline	Target (By 2020)	Sources of verification
Promote market oriented and innovative business models for job creation and greater business sophistication	Innovation in production measured by the share of enterprises which introduced either new or significantly improved goods or services	In 2016, an average of 13.5% of enterprises introduced either new or significantly improved goods or services	An average of at least 30% of enterprises introducing either new or significantly improved goods or services (2020)	GEOSTAT (enterprise survey on innovation).
<b>Outcome</b>	<b>Indicators</b>	<b>Baseline</b>	<b>Target (By 2022)</b>	<b>Sources of verification</b>
Enhance entrepreneurship and business sophistication by strengthening the capacities of government and local entities to develop and operate clusters and supporting companies directly with strategic investments while also demonstrating the effectiveness of these strategies to businesses	1. # of identified potential clusters	0	10	National Cluster Policy Project Report
	2. Growth rate of selected clusters' members' turnover	2018 output data	20% growth	GeoStat data CMO surveys Project Evaluation
	3. Balance of trade in selected sectors	2018 sector balance of trade	10% improvement (higher exports or lower imports)	GeoStat data Project Report
<b>Outputs</b>	<b>Indicators</b>	<b>Baseline</b>		<b>Sources of verification</b>
1 Strengthened capacities of policy-makers and other stakeholders to identify and develop clusters	1.1 Cluster mapping undertaken based on prioritization criteria set with local counterparts	0	1	Press clips Conference reports
	1.2 No of emerging and/or potential clusters detailed diagnostic studies by the programme	0	8	Ministry of Economy and Sustainable Development and Project reports
	1.3 No of institutions and people trained on cluster mapping and diagnostic (% of women)		5 institutions 30 people (male/female – TBI)	Training reports

1.4 # of cluster activities realized in pilot clusters identified through the diagnostic	0	2	Project reports Press clips
2 Development and functioning of the clustering approach in the packaging and seeds/seedlings sectors	0	2	Project reporting
2.1 Number of CMOs that are operating in the packaging and seed and seedling sectors	0	2	Project reporting
2.2 No of companies who are part of the CMOs in the packaging and seed and seedlings sector	0	At least 50 (at least 10 % women-led)	Project reporting
2.3 No of inter-firm collaborative initiatives/projects undertaken between the CMOs' members	0	At least 10	Project reporting
2.4 % of self-financing of CMO in packaging	0	At least 30% (does not include donor funding)	Project reporting CMO reporting Project evaluation report
2.5 CMO in packaging cluster facilitates EPR implementation in packaging	No	Yes	Project reporting Project evaluation report
2.6 No of priority needs solved in CMOs	No	20	Project reporting Project evaluation report
2.7 Seedling Certification System Approved and operational	No	Yes	Project reporting
2.8 Seed Association created	0	1	Project reporting
2.9 Number of nurseries certified and seed producers selling certified cereal seed	0	25 (at least 10 % women-led)	Project reporting
2.10 The creation of a multi-stakeholder platform for seeds and seedlings	0	1	Project reporting

3	Packaging and seeds/seedlings clusters enhanced through strategic investment	3.1 No of jobs supported/sustained by the EU	0	At least 30	Programme reporting Project Evaluation Report
		3.2 No of companies expanded sales at least by 15%	0	At least 10	Programme reporting Project Evaluation Report
		3.3 No of quality schemes adopted by economic operators with EU Support	0	At least 8	Programme reporting Project Evaluation Report
4	Migration is a mainstream component of SME development support	4.1 Diaspora mapping conducted, interests, and priorities for investment identified and presented to the partner agencies for further consideration	No	Yes	Diaspora professional profiles inventory; Survey report with recommendations; Minutes of roundtable discussion meetings
		4.2 No of trained staff of central and/or local authorities in mainstreaming migration into local development	0	60 (at least 30 % women)	National, local development strategies, or municipal plans mainstreaming migration. TORs for diaspora liaison focal points established at the municipal level; upgraded Diaspora networking web portal <a href="http://www.gda.ge">www.gda.ge</a>
		4.3 Networking events and/or trade fairs in Georgia and EU	0	3	Project Report Government reports, project reports, press reports; diaspora web portal;
		4.4 No of qualified diaspora assignments for CMOs and/or companies capacity building purposes	0	6	CMOs reports, project reports, diaspora experts reports; workshop agendas, list of participants etc.

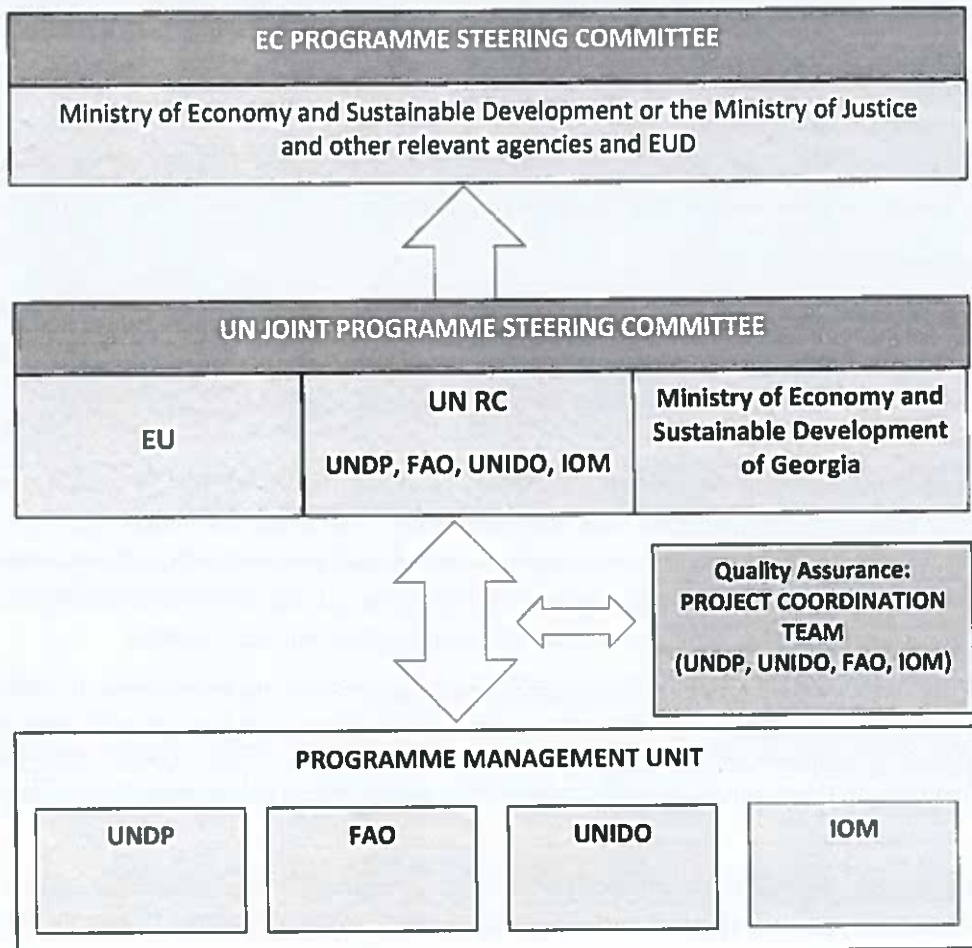


#### 4. Management and coordination arrangements

The Joint Programme (JP) will be jointly managed, coordinated and implemented by UNIDO, FAO, IOM and UNDP (thereinafter referred as “Participating UN Organizations” or PUNOs). The Joint Programme will be managed and coordinated using the pass-through funding modality. The Multi-Partner Trust Fund Office (MPTF Office) of the UNDP will serve as the Administrative Agent (AA) of the Joint Programme. The AA functions are fully described in the Fund Management Arrangement Section below. UNDP CO in Georgia will serve as a convening agent in the UNJP, responsible for coordination of joint programmatic activities.

The Joint Programme’s Steering committee will contribute to the Steering Committee of the European Commission “Programme for Economic and Business Development in Georgia” or to its separate sessions dedicated to the Programme’s relevant components. The Steering Committee of the Programme will oversee and guide the overall direction and policy of the programme. Therefore, the Joint Programmes’ Steering Committee will support the Programme Steering Committee in fulfilling its functions<sup>12</sup>.

The UN Joint Programme governance and oversight structure is provided below:



<sup>12</sup> Programme Steering Committee will meet indicatively twice a year and can be convened whenever the project implementation requires strategic decisions. Separate sessions may be organized for different components. The project steering committee shall be chaired by the Ministry of Economy and Sustainable Development or the Ministry of Justice.

#### **4.1 The UN Joint Programme Steering Committee**

The Project Steering Committee will be established to ensure full national ownership, as well as smooth and successful implementation of the Joint Programme. The Steering Committee, co-chaired by the UN Resident Coordinator, and the designated authorities from the EU delegation in Georgia, and the Ministry of Economic and Sustainable Development (MoESD). It will consist of the representatives of senior personnel of all signatories to the Joint Programme Document. The Steering Committee will provide strategic guidance for a coherent and coordinated Project implementation, approve Project annual work plans and fund allocation, as appropriate, review progress against set targets, review and approve the periodic progress reports. The Joint Programme Steering committee will meet at least twice a year and ensure a senior level oversight.

#### **4.2 The Joint Programme Coordination Team**

The Joint Programme Coordination Team will be established with participation of the designated Programme Officers of the Participating Agencies with the responsibility to coordinate the planning and implementation for the Joint Programme, assuring the quality of the implementation and reporting vis-à-vis the Steering Committee, as well as ensuring the joint approach to the cross-cutting themes, such as visibility.

The coordination team will be jointly responsible to identify and foster synergies across various project initiatives and promote joint/consolidated implementation. The Team will meet at least on a quarterly basis, or more often if required to review the progress, work-plans and ensure the coordinated implementation. The team will jointly serve as a quality assurance to the project steering committee.

#### **4.3 The Programme Management Unit**

The Project Management Unit will be set up for successful implementation of the Project outputs and activities towards achievement of the Joint Programme outcomes. The Project Management Unit will consist of personnel, designated for this programme and responsible for the day-to day implementation of this programme, including with managerial, technical and administrative responsibilities (as detailed below).

As the AA and the CA of the UNJP, the overall coordination will rest with the UNDP Project Manager responsible for, among others, ensuring joint planning and implementation. The Project Management Unit will be responsible for all aspects of Project execution, including coordination with national partners, oversight of implementing partners (selected institutions connected to the private sector or to private sector development), achievement of set results under the respective outcomes, overall monitoring and reporting.

Guided by respective Country Office units of participating UN organizations, the Programme Implementation Unit will be responsible for all aspects of programme execution, including coordination with local partners, oversight of contractors, achievement of set results under the respective results, overall monitoring and reporting. The EU representative responsible for this programme will be invited and take part in the coordination meetings.

The four Participating UN Organizations will act as collectively responsible for attainment of the Project objectives and will be jointly accountable for successful implementation of the activities as specified in the four outcomes:

- UNIDO – lead responsibility – outputs and activities under output 1 - Strengthened capacities of policy-makers to identify clusters and support the establishment of SME clusters;
- UNDP – lead responsibility – outputs and activities under output 2 (in relation to Packaging sector) and output 3;

- FAO – lead responsibility – outputs and activities under output 2 - (in relation to the seeds/seedlings sector);
- IOM - lead responsibility– outputs and activities under output 4 - To enhance the ability of national institutions and businesses to identify and connect with diaspora for the purpose of sector development, skill transfer and financing.

#### 4.4 Fund management arrangements

The present UN JP will follow the Pass-through fund management modality according to the UNDG Guidelines on UN Joint Programming. The UNDP MDTF Office, serving as the Administrative Agent for the Joint Programme.

The Administrative Agent will charge direct costs which are included under the personnel/staff budget line for MPTF Office staff based in New York to carry out the following activities:

- (a) Sign PAGODA and SAAs with donors and receive contributions from donors that wish to provide financial support to the Fund/Programme through the AA.
- (b) Administer such funds received in accordance with its regulations, policies and procedures, as well as the relevant MOU and Fund Terms of Reference (TOR) and PAGODA/SAA, including the provisions relating to winding up the Fund account and related matters;
- (c) Subject to availability of funds, disburse such funds to each of the PUNOs in accordance with decisions from the Steering Committee (SC), taking into account the budget set out in the approved TOR/JP documents;
- (d) Ensure consolidation of statements and reports, based on submissions provided by each PUNO, as set forth in the TOR/JP document and provide these to each donor that has contributed to the Fund/Programme account and to the SC;
- (e) Provide final reporting, including notification that the Fund/Programme has been operationally completed;
- (f) Disburse funds to any PUNO for any additional costs of the task that the SC may decide in accordance with the programmatic document/JP document.

The Participating UN Organizations will:

- Assume full programmatic and financial responsibility and accountability for the funds disbursed by the AA.
- Establish a separate ledger account for the receipt and administration of the funds disbursed to it by the Administrative Agent.
- Each UN organization is entitled to deduct their indirect costs on contributions received according to their own regulation and rules, taking into account the size and complexity of the programme. Each UN organization will deduct 7% as overhead costs of the total allocation received for the agency.

The Joint Programme Account will be administered by the Administrative Agent in accordance with the regulations, rules, directives and procedures applicable to it, including those relating to interest.

Prior to the Joint Programme launch a Memorandum of Understanding will be signed between Participating UN Organizations and the Administrative Agent. A common action plan will be elaborated. A detailed joint work-plan as a part of this Project will be developed for one year of the implementation before the first month of each yearly cycle.

Some of the Implementing Partners of the Joint Programme have been already identified by the Participating UN Organizations through previous cooperation experience and partners' capacity assessments. The other Implementing Partners will be identified through open tenders and competition in accordance with participating UN agencies' regulations, rules, directives and procedures.

**Transfer of cash to national Implementing Partners:** Cash transfer modalities, the size and frequency of disbursements, and the scope and frequency of monitoring, reporting, assurance and audit will be agreed prior to project implementation, taking into consideration the capacity of implementing partners, and can be adjusted in its course in accordance with applicable policies, processes and procedures of the Participating UN Organizations.

#### 4.5. Project office and respective costs

##### UNDP

UNDP will use the following staff to facilitate implementation of the project:

1. **Project Manager (SB4 Q3 100%):** Provides daily guidance and management of the project activities, strategic, content, and administrative oversight, coordination and supervision of institutional relations with relevant government institutions. The cost includes UNDP salary scale and other entitlements for Service Contract (national staff).
2. **Administrative and Finance Assistant (SB3 MIN 100%):** Provides support in financial, contractual, logistical and organizational matters. The cost includes UNDP salary scale and other entitlements for Service Contract (national staff).
3. **Economic Development Team Leader (NOB 10%):** Economic Development Team Leader. Quality assurance of the project by supporting the project Steering Committee, leading elaboration of planning and management instruments, facilitating coordination within UNDP, other UN agencies and concerned stakeholders. The salary rate includes Salary and UNDP regulated entitlements for this position for Fixed-Term National Staff. Estimation for potential salary increase based on performance review and upcoming salary scale revision is included. The time spent to project implementation will be backed with supporting document – timesheet.
4. **Programme Associate (G6 10%):** Programme Associate. Provides assistance, advice and quality assurance to project administrative staff on HR, financial, procurement related matters, including financial reporting to CO and Donors. Provides liaison support of project staff and CO operations. Provides quality check of financial reporting to Donor, as well as ensures consolidation of financial reporting to Donor. Tasks listed are necessary for carrying out operational tasks of the project and is directly attributable. The salary rate includes Salary and UNDP regulated entitlements for this position for Fixed-Term National Staff. Estimation for potential salary increase based on performance review and upcoming salary scale revision is included.
5. **Monitoring and Evaluation (M&E) Officer (NOA 10%):** Supports the setting up of a rigorous monitoring system, including individual sub-projects, and will be responsible for external evaluation of the project. The Monitoring and Evaluation Specialist will be charged for the time spent directly attributable to the implementation of the Project, not exceeding 10% of the working time during the project implementation period. The salary rate includes Salary and UNDP regulated entitlements for this position for Fixed-Term National Staff. Estimation for potential salary increase based on performance review and upcoming salary scale revision is included. Cost of 10% is calculated based on the estimated time spent on similar project/s during the year. The Monitoring and Evaluation Officer will complete monthly timesheets reflecting actual time spent on the given project.
6. **Finance Analyst (NOB 10%)** – Provides assistance and advice, as well as quality assurance to the projects on finance related matters, such as, assistance with Financial advice to projects on budgeting, expenses tracking, financial transaction, project level reporting at CO level. The duties are stipulated in the respective terms of reference which is in compliance with Standard Operating Procedures of the office. Cost of 10% is calculated based on the estimated time spent on similar projects of the Finance Analyst during the year. Cost of 10% is calculated based on the estimated time spent on similar project/s during

the year. The Finance Analyst will complete monthly timesheets reflecting actual time spent on the given project.

7. **Procurement Associate (G7 10%)** Provides assistance and advice, as well as quality assurance to the projects on procurement related matters, such as, assistance in conducting tenders to acquire goods and services for projects; logistics support services such as travel, event management; equipment and asset management services; The duties are stipulated in the respective terms of reference which is in compliance with Standard Operating Procedures of the office. Cost of 10% is calculated based on the estimated time spent on similar project/s during the year. The Procurement Associate will complete monthly timesheets reflecting actual time spent on the given project.
8. **Driver (SB1 Min 100%)** provides driving and logistics support for projects staff, office, consultants, field missions.

UNDP will have one Office in Tbilisi. The programme budget includes the following costs related to the office:

1. Rental costs, including security charges and cleaning costs;
2. Cost of IT and telecommunication;
3. Cost of Utilities (Electricity, water, heating, etc);
4. Consumables and stationery supplies for operation;
5. IT/Computer and office equipment purchase and maintenance;
6. Vehicle costs (purchase, maintenance, insurance, fuel and depreciation)
7. Costs of travel and field trips for the project activities;
8. Costs of project communication and visibility activities (as spelled out in the communication and visibility plan).

Such costs as Office rent/security/cleaning, office supplies, office utilities and office communication costs (mobile, internet, telephone and etc) will be reported according to Art. 7.1.1 of Special Conditions using simplified allocation method.

## UNIDO

UNIDO envisages the following arrangements for the project implementation:

1. **A National Project Coordinator (SB4, 100%)** - in charge of project implementation, follow up with national experts and project stakeholders, as well as with HQ and will provide daily guidance and management of the project activities, strategic, content, and administrative oversight, coordination and supervision of institutional relations with relevant government institutions. The cost includes costs of the Individual Service Agreement for the recruitment of National Project Coordinator. Estimation for potential salary increase based on performance review and upcoming salary scale revision is included.
2. **Senior Industrial Development Officer (Allotment holder)** - Senior Industrial development Officer (Allotment Holder) providing direct technical expertise in support of component 1 of the programme (mapping, diagnostic and support to industrial clusters).The senior industrial development officer is responsible for project implementation, financial disbursements, national and international recruitments as well as releasing contracts and sub-contracts, monitoring and evaluation of the project component of UNIDO. Salary cost for the allotment holder is budgeted based on applicable UNIDO salary scales and include all statutory staff costs UNIDO obliges to pay in relation to staff employment. The foreseen number of days the staff will dedicate to the project is in line with the tasks allocated to this position and with the agreement with EU funded projects. Costs will be encounter by working days of experts and will be supported by respective evidence on time spent – timesheets.

3. **International experts for cluster mapping, diagnostic and training** (depending on the yearly activities between 40 and 75% of their time, i. e. between 5 and 9 months per year). Involved in cluster support and in the UNIDO cluster methodology for training and project implementation supervision. Responsible for technical activities (trainings, awareness, case study presentation, etc.) as well as supervision of local staff. Provides guidance of the technical project activities, strategic, content, and oversight to national project coordinator and relevant government institutions. The cost includes costs of the Individual Service Agreement for the recruitment of international experts.
4. **National experts for diagnostics, cluster analysis and support to clusters workplan** (between 25 and 100% of SB4, depending on cluster activities and needs). agreed, and clusters' technical needs identified. Responsible for supervising cluster activities, implementation of collective actions and follow up with relevant stakeholders. The cost includes costs of the Individual Service Agreement for the recruitment of national experts.
5. **National Experts (SB4, depending on the yearly activities between 25 and 100% of their time, i. e. between 3 and 12 months per year) – responsible for technical activities linked to the needs identified in the inception phase and project implementation** (trainings, technical support, collective action plans definition and follow up, etc.). Number of experts and contract duration to be defined after mapping has been approved, exact location of clusters agreed, and clusters' technical needs identified. Responsible for supervising cluster activities, implementation of collective actions and follow up with relevant stakeholders. The cost includes costs of the Individual Service Agreement for the recruitment of national experts.

UNIDO's project coordinator will closely liaise with national partner institutions and might have an office in one of the national partner institutions or partner UN agencies.

Such costs as office rent, supplies and utilities will be reported in line with Art. 7.1.1 of Special Conditions using simplified allocation method.

#### FAO

FAO will use the following staff for the implementation of the project:

1. **National Project Manager (100%)** of the project, with concrete experience in seed and seedling sector development
2. **P3 Programme Officer** in charge of project operations, covering a 20% of his/her salary throughout the duration of the project
3. **P3 Value Chain Officer** will be responsible for the provision of technical support on value chain and agribusiness. covering a 30% of his/her salary throughout the duration of the project
4. **G5 administrative support staff**, supporting in HHRR, procurement, Travel, Assets, at 50% of his/her salary throughout the duration of the project
5. **National or international consultants** based either on short consultancies, or on mid or longer-term contracts based on the needs identified throughout the inception phase and project implementation, including nursery management, entomology and international certification and trade of seedlings and grape vines.
6. **International Expert in Seedling Certification:** international part time Consultant responsible for the provision of technical support on the Certification of seedlings
7. **Nursery Development Expert:** Contract for the provision of Services related to the international promotion of locally produced seeds and seedlings

8. **Locally Contracted Labour:** non-technical temporary casual Labour to support implementation of project activities.
9. **Technical Support Services (Component 1):** covers FAO direct technical expertise services to Component 1 support in seedling certification standards and regulations to the seed authority (registration, certification and control) and phytosanitary regulations for import and export of virus free seedlings. Costs will be calculated by working days of experts and will be supported by respective evidence on time spent – timesheets.
10. **Technical Support Services (Component 2):** covers FAO direct technical expertise services to Component 2 support capacity development of nurseries in seedlings production and value chain development, multiplication and maintenance of mother rootstocks and production of standardized seedlings and quality control. Costs will be calculated by working days of experts and will be supported by respective evidence on time spent – timesheets.

FAO will not have a separate Office in Tbilisi for this project, and will use their ongoing premises, and will charge to the project a proportional of the costs related to the office, linked to the percentage of utilisation of these premises. These office costs to be included in the project budget are:

1. Rental costs, including security charges and cleaning costs;
2. Cost of IT and telecommunication;
3. Cost of Utilities (Electricity, water, heating, etc);
4. Consumables and stationery supplies for operation;
5. IT/Computer and office equipment purchase and maintenance;
6. Maintenance, insurance, fuel and depreciation costs
7. Costs of travel and field trips for the project activities;
8. Costs of project communication and visibility activities (as spelled out in the communication and visibility plan).

Such costs as Office rent/security/cleaning, office supplies, utilities and communication costs, IT and Security Services will be reported in line with Art. 7.1.1 of Special Conditions using simplified allocation method.

## IOM

IOM will use the following staff to facilitate implementation of the project:

1. **Project Coordinator (NOB - 40%):** Project Coordinator, with direct involvement in the implementation of activities envisaged by IOM within the Action: responsible for the implementation of all project activities foreseen under the Action (activities assigned to IOM). The salary cost of a National Programme Officer (NOB) is budgeted based on applicable UN/IOM salary scales and include all statutory staff costs IOM obliges to pay in relation to staff employment. The foreseen percentage of time the staff will dedicate to the project is in line with the tasks allocated to this position. **Project Assistant (G5 - 100%):** Project assistant, with direct involvement in the implementation of activities envisaged by IOM within the Action: responsible for providing everyday assistance to any project activity implementation as foreseen under the Action (activities assigned to IOM). The salary cost of a General Service Staff (G5) is budgeted based on applicable UN/IOM salary scales and include all statutory staff costs IOM obliges to pay in relation to staff employment. The staff will fully support the project. **Procurement & Logistics Officer (G7 - 10%):** Procurement & Logistics Officer, with direct involvement in the implementation of activities envisaged by IOM within the Action: responsible for all procurement and logistics tasks in compliance of EU and IOM procurement guidelines, planning and optimization of the procurement activities. The salary cost of a General Service Staff (G7) is budgeted based on applicable UN/IOM salary scales and include all statutory staff costs IOM obliges to pay in relation to staff employment. The foreseen percentage of time (0.10FTE) the staff will dedicate to the project is in line with the tasks allocated to this position.

2. **Resource Management Officer (NOB - 20%):** Resource Management Officer, with direct involvement in the implementation of activities envisaged by IOM within the Action: responsible for coordination and day-to-day administration of HR, finance (including processing the transactions in IOM's accounting system) and budgetary issues directly related to the Action; financial monitoring & evaluation, financial reporting incl. quality and compliance check with EU and IOM rules and regulations. The salary cost of a National Programme Officer (NOB) is budgeted based on applicable UN/IOM salary scales and include all statutory staff costs IOM obliges to pay in relation to staff employment. The foreseen percentage of time (0.20FTE) the staff will dedicate to the project is in line with the tasks allocated to this position. **Driver (G1 - 25%):** Driver, with direct involvement in the implementation of activities envisaged by IOM within the Action: responsible for transport of project staff and car maintenance. The salary cost of a General Service Staff (G1) is budgeted based on applicable UN/IOM salary scales and include all statutory staff costs IOM obliges to pay in relation to staff employment. The foreseen percentage of time (0.25FTE) the staff will dedicate to the project is in line with the tasks allocated to this position.

IOM will have one Office in Tbilisi. In order to promote cost efficiency and economies of scales, IOM staff directly working on the project in the project offices will be physically placed in the existing offices and the charging of the actual direct office costs related to their functions (rental of premises, office supplies, consumables, utilities, communication, vehicle running costs and staff travel, bank charges, etc.), will be based on actual expenditures incurred during the period distributed in proportion to the amount of time spent by the staff on the activities directly linked to the project.

Such costs as office rent and office supplies, consumables (and other related costs), office utilities, communication etc. will be reported in line with Art. 7.1.1 of Special Conditions using simplified allocation method.

## 5. Monitoring, evaluation and reporting

A Joint Programme monitoring, evaluation and audit will be carried out in accordance with the respective regulations, rules and procedures of the Participating UN Organizations (PUNOs).

**Monitoring:** The Joint Programme will be monitored throughout its duration and evaluated in accordance with the Project M&E plan. Participating UN Organizations will share information and progress updates and undertake joint visits where appropriate.

Project monitoring will be carried out by the Project Management Unit and by the JP Coordination Team in accordance with the policies and procedures of Participating UN Organizations. The Project implementation will be assessed continuously at the level of outputs. Outputs will be measured at regular intervals and against clearly defined indicators. Specific project activities will serve as benchmarks indicating the progress achieved.

The results of monitoring activities will be presented to the Project Steering Committee by the Coordination Team and Project Management Unit.

**Annual reviews:** As mentioned above, the Project Steering Committee will carry out annual reviews of the implementation.

**Evaluation:** A final external evaluation of the Joint Programme will take place close to the completion date of the UNJP implementation to collect feedback from stakeholders – partners and beneficiaries, analyse the results achieved and challenges encountered, document lessons learned and recommend further actions (as relevant). Joint Programme evaluation will be organized by UNDP and will be coordinated out by the Participating UN Organizations according to the agreed evaluation Terms of Reference (TOR). UNDP undertakes the responsibility for consolidating the final evaluation report in consultation with the participating UN agencies.



**Reporting:** The UNDG annual Standard Progress Report format will be adapted for the Joint Programme reporting purposes, reflecting the donor requirements.

Monitoring and Evaluation of the project will be conducted using the project-specific log-frame attached to the present description of the action. The partner should report on the results at impact, outcome and output levels, linked to sources of verification presented in the log-frame. Reporting will be carried out through Progress, Interim and Final Reports as laid down in the present Description of the Action and general conditions as set out in Annex 2 to the present EU-UNDP (etc) agreement. Once arrangements are in place for UN agency access to the EU projects monitoring platform OPSYS, the partner will report through OPSYS. The results framework may be revised for further streamlining by the parties; with that in view, for the better quality of the log-

Each Participating UN Organization will provide the Administrative Agent with the following statements and reports prepared in accordance with the accounting and reporting procedures applicable to the Participating UN Organization concerned. The Participating UN Organization will endeavour to harmonize their reporting formats to the extent possible:

- (a) Annual financial statements and reports as of 31 December with respect to the funds disbursed to it from the JP Account, to be provided no later than four months (30 April) after the end of the calendar year;
- (b) Certified final statements and final financial reports after the completion of the activities in the approved programmatic document and including the final year of the activities in the approved programmatic document, to be provided no later than six months (30 June) of the year following the financial closure of the JP.

The Project Management Unit will develop the following reports, in accordance with the reporting procedures applicable to the Participating UN Organization.

- (a) Annual narrative reports, to be provided no later than three months (31 March) after the end of the calendar year.
- (b) Final narrative report, after the completion of the activities in the approved Project document and including the final year of the activities in the approved Project document, to be provided no later than four months (30 April) of the year following the financial closing of the JP. The final report will give a summary of results and achievements compared to the goals and objectives of the JP.

The Administrative Agent will provide the Steering Committee and the Donor with the following statements and reports, based on submissions provided to the Administrative Agent by Participating UN Organizations prepared in accordance with the accounting and reporting procedures applicable to it, as set forth in the TOR:

- (a) Annual Consolidated narrative and financial progress reports, based on annual progress reports received from Participating UN organizations, to be provided no later than five months (31 May) after the end of the calendar year;
- (b) Final consolidated narrative and financial report, based on final report received from Participating UN Organizations after the completion of the activities approved Project document and including the final year of the activities in the approved document and including the final year of the activities in the approved programmatic document, to be provided no later than seven months (31 July) of the year following the financial closing of the JP. The final consolidated narrative report will contain a summary of the results and achievements compared to the goals and objectives of the JP.

The Administrative Agent will prepare consolidated narrative progress and financial reports, based on the reports referred to in paragraph 1 (a) to (d) above, and will provide those consolidated reports to each donor

that has contributed to the Joint Programme Account, as well as the Steering Committee, in accordance with the timetable established in the Administrative Arrangement.

The Administrative Agent will also provide the donors, Steering Committee and the Participating UN Organizations with the following statements on its activities as Administrative Agent:

- (a) Certified annual financial statement ("Source and Use of Funds" as defined by UNDG guidelines) to be provided no later than five months (31 May) after the end of the calendar year; and
- (b) Certified final financial statement ("Source and Use of Funds") to be provided no later than seven months (31 July) of the year following the financial closing of the Joint Programme.

## 6. Legal context or basis of relationship

**Table 1: Basis of Relationship**

Participating UN organization	Agreement
UNDP	This Joint Programme Document shall be the instrument referred to as the Project Document in Article I of the Standard Basic Assistance Agreement between the Government of Georgia and the United Nations Development Programme, signed by the parties in 1993.
FAO	The Food and Agriculture Organization of the United Nations and the Government of Georgia signed agreement for the establishment of the FAO Representation in Georgia on 26 January 2004.
UNIDO	UNIDO will operate under the Standard Basic Assistance Agreement between UNDP and the Government mentioned above.
IOM	The Country Mission Office was established in November 1993. The Cooperation Agreement was signed between the IOM and Georgian Republic on 6 September 1994.

*The Implementing Partners/Executing Agency<sup>13</sup> agree to undertake all reasonable efforts to ensure that none of the funds received pursuant to this Joint Programme are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by Participating UN organizations do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via <http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>. This provision must be included in all sub-contracts or sub-agreements entered into under this project document.*

<sup>13</sup> Executing Agency in case of UNDP in countries with no signed Country Programme Action Plans

## 7. Work plan

	Outputs, activities/sub-activities	Year 1	Year 2	Year 3	Year 4
	<b>Output 1 Strengthened capacities of policy-makers and other stakeholders to identify and develop clusters</b>				
	<b>1.1: Cluster mapping and analysis</b>				
1.1.1	Desk review of available studies	■			
1.1.2	Definition of identification and selection criteria with national and local stakeholders				
1.1.3	Questionnaire development and collection of information at the field level	■	■		
1.1.4	Data analysis		■		
1.1.5	Validation workshop		■		
	<b>1.2: Cluster Diagnostics</b>				
1.2.1	Identification of potential clusters for which the diagnostic will be undertaken		■		
1.2.2	Diagnostic and on the job training for local counterparts		■	■	
1.2.3	Local focus groups and SWOT analysis		■	■	
1.2.4	Validation workshops at the local level		■	■	
1.2.5	National seminar to present the results of the mapping and the diagnostics			■	
	<b>1.3 Awareness raising on clusters</b>				
1.3.1	Identification of support institutions to be targeted		■		
1.3.2	Awareness seminars targeting institutional stakeholders and identified potential cluster members to sensitize them on the available policies and support schemes		■	■	
	<b>1.4 Local and national institutions capacity building on diagnostic and action planning</b>				
1.4.1	Identification of potential local and national institutions to be involved in the training (local associations, institutions, technical centers, local governments, universities, etc.)	■	■		
1.4.2	Training of local and national institutions on the cluster development approach with a focus on diagnostics and action planning for sustainability	■	■		
	<b>1.5 Up to 2 pilot clusters identified through the diagnostic realize collective activities</b>				
1.5.1	Identification of collective activities that clusters can put in place and work plan validation with the identified cluster stakeholders			■	■
1.5.2	Implementation of cluster collective activities involving the cluster existing governance structure			■	■
	<b>Output 2. Pilot clusters in packaging and seeds/seedlings sectors are working to enhance their value chains</b>				
	<b>Intermediate result 2.1: Cluster management organizations are formed</b>				
2.1.1	Facilitate the formation of a packaging CMO	■			
2.1.2	Creation of the Seed Association of Georgia, composed of clusters of cereal seed producers and seedling producers (nurseries). Signing MOU with Jigaura germplasm Bank.	■			
2.1.3	The support in the implementation of the certification system for planting material of fruit species and vine	■	■		

	<b>Outputs, activities/sub-activities</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
	<b>Intermediate result 2.2: Capacity Development of CMOs</b>				
2.2.1	Formulate operating rules of the CMOs and business model, including institutional and financial sustainability				
2.2.2	Provide ongoing support on institution building including in the areas of finances, HR, marketing and communication				
	<b>Intermediate result 2.3: CMOs are able to work as sector coordinators</b>				
2.3.1	Support CMO in strategy development and implementation				
2.3.2	Conduct a sector needs assessment of the packaging sector, incl. skills gaps				
2.3.3	Support CMOs in membership growth and inter-firm cooperation				
2.3.4	Support CMOs in supply chain issues (like marketing and technology adoption), in HR development and CMO members' employees skills development				
2.3.5	Support CMOs in Public Private Dialogue and advocacy, e.g. in recycling				
2.3.6	Support certification and self-certification				
2.3.7	Support compliance with quality standards and new regulations in the packaging cluster				
2.3.8	Support the creation of new businesses, if required				
2.3.9	Support inter-cluster linkages and the internationalization of the clusters				
2.3.10	Establish and coordinate network of demonstration plots in seeds and seedling cluster				
2.3.11	Implement training and capacity building programme for seeds and seedlings cluster members				
2.3.12	Create a multi-stakeholder platform for seeds and seedlings				
	<b>Intermediate result 2.4: Support CMOs as service providers</b>				
2.4.1	Capacity development of CMO staff to provide support on standards and certification.				
2.4.2	Capacity development of CMOs to provide business advisory services				
2.4.3	Capacity development of packaging CMO to provide business diagnostics and coaching				
2.4.4	Capacity development of CMOs on sectoral service provision				
	<b>Intermediate result 2.5: CMOs Support of Extended Producer Responsibility</b>				
2.5.1	Analysis of EPR support needs of cluster member companies including environmental scan of cluster member companies				
2.5.2	Recruitment and/or training of staff to provide support services on EPR issues in packaging				
2.5.2	Provision of support in EPR implementation in packaging				
	<b>Output 3. Strategic investments support the growth of the selected clusters</b>				
	<b>Intermediate result 3.1: Identify strategic investment requirements</b>				
3.1.1	Identify strategic investment requirements and potentials				
	<b>Intermediate result 3.2: Develop criteria and ToR for grants provision and monitoring.</b>				
3.2.1	Develop criteria for support measure in each sector				

	Outputs, activities/sub-activities	Year 1	Year 2	Year 3	Year 4
3.2.2	Develop SOPs and monitoring procedures				
	<b>Intermediate result 3.3: Selection and monitoring of grants</b>				
3.3.1	Promote the availability of grants, if required				
3.3.2	Review applications, select beneficiaries and disburse funds according to developed criteria and SOPs				
3.4.1	Monitor implementation and evaluate results				
	<b>Output 4: Migration is a mainstream component of SME Development support</b>				
	<b>Intermediate Result 4.1: Diaspora mapping has taken place</b>				
4.1.1	Diaspora and their professional qualifications are mapped using Namsor software.				
4.1.2	the Diaspora portal is further developed to facilitate				
4.1.3	Diaspora in 3 countries will be surveyed				
4.1.4	Roundtable workshop on mapping survey findings and recommendations				
	<b>Intermediate Result 4.2: Diaspora are engaging with selected SME clusters</b>				
4.2.1	Training and development of diaspora liaisons to better utilise resources of 4.1				
4.2.2	Develop networking event in the EU				
4.2.3	Develop networking event in Georgia				
4.2.4	Qualified diaspora assignments (at least one-month length), to CMOs and individual enterprise for capacity building, support in competitiveness and growth				
	<b>Intermediate Result 4.3: Diaspora are considered in the development plans of local authorities and CMOs</b>				
4.3.1	Training for local authority on Diaspora engagement				
4.3.2	Training for CMOs on diaspora engagement				
	<b>PROJECT MANAGEMENT, MONITORING AND EVALUATION</b>				
	Management, monitoring, reporting				
	Final evaluation				

## Attachment 1: Pilot Sectors

### Packaging

The packaging sector was identified as a priority sector on the basis of its size, opportunities for growth and its broader significance for the Georgian economy through its impact on other sectors and on recycling. From the point of view of size, there seems opportunity for growth, particularly through import substitution and growth of the domestic market as a whole as a result of shifts in production and buying patterns. There may also be opportunities for niche exports. The sector also brings potential benefits for the wider economy, since absence of quality packaging provided in a flexible manner, is a bottleneck for some sectors, particularly food. In addition, improvements in local packaging may be necessary for the fulfilment of EU phytosanitary standards, and improvements in the packaging sector would be useful for environmental reforms, particularly recycling.

The analysis below focuses on the cardboard and plastic producing sector because there is only one registered company in Georgia producing glass bottles, called *Mina*. From conversations with *Mina* management, it also seems that there are good reasons why other glass bottle producers will not open. Therefore, it seems like an inappropriate sub-sector for cluster support.

**Size, importance and growth potential of the sector.** Geostatic Enterprise Survey provides data on cardboard and plastic national production outputs, as follows:

**Figure 6: Geostat Data on Production Volumes/Cardboard and Plastic Packaging (000 GEL)**

	2013	2014	2015	2016	2017 (preliminary)
Cardboard Packages	11,508.30	11,235.10	11,036.60	12,206.90	25,620.10
Plastic Packages	24,329.00	29,191.10	40,561.60	49,151.30	56,673.30

This shows a modest scale of production, compared to the imports below though, this also suggests truly dramatic growth in recent years. In cardboard packaging, this growth seems to have happened with production doubling in one year. Even more remarkably in some ways, the large plastic packaging has more than doubled in 4 years. Of note, this is still preliminary data and may further change. (NB further verification will be sought before final proposal is submitted).

**Figure 7: GeoStat Data on Exports and Imports for Paper Packaging (2018)**

000 USD	Paper packaging products						
	HS 4 digit level codes 4805 ; 4807 ; 4808 ; 4810 ; 4811 ; 4819 + HS 6 digit Code 482369*						
Year	2011	2012	2013	2014	2015	2016	2017*
Imports	35,046	41,342	43,782	39,965	33,070	38,846	26,398
Exports	611	7,718	5,351	2,350	962	506	780
BOT for this category	- 34,436	- 33,623	- 38,431	- 37,615	- 32,108	- 38,341	- 25,619

**Figure 8 GeoStat Data on Exports and Imports for Plastic Packaging (2018)**

000 USD	Plastic packaging products (HS 4-digit level code: 3923* + HS 6-digit level code 630533*)						
	2011	2012	2013	2014	2015	2016	2017*
Imports	37,112	43,059	44,451	45,682	36,961	34,215	34,073
Exports	499	1,969	2,761	3,875	3,575	3,624	6,372
BOT for this category	- 36,613	- 41,090	- 41,690	- 41,807	- 33,386	- 30,590	- 27,700

This suggests both a reasonable scale and an apparent opportunity for import substitution. It also shows a drop-off in imports of paper goods that matches the local production jump in the same year.

Most of the imports originate from Turkey. The main input supply for packaging production is waste. There is often a two-stage process, where processing of recyclable waste is used to produce a preliminary material (either paper or plastic) which is then shaped into the new packaging product. The Turkish packaging sector benefits from huge economies of scale, as recycled materials are processed and turned-into new products on the same plant. However, the scale often results in a more standardised product that sells in larger volumes.

Georgia used to have comparative advantage from lower waste price and lower input prices, particularly electricity. Since the collapse in the Turkish Lira, this may no longer be the case, though labour is certainly still cheaper in Georgia.

Another area for growth in local packaging sector is the development of the local market generally. According to a study carried out by the USAID financed Economic Prosperity Initiative,

“According to 2010 data, per capita consumption in Georgia is 6.6 kilograms, in Azerbaijan its 5.5 kilograms, and in Armenia–3.1 kilograms, while the same indicator in Turkey and Germany is respectively 98.7 and 222 kilograms”.<sup>14</sup>

Furthermore, Georgia is producing little in the way of manufactured consumer products. Its main industrial products of manganese, steel and large manufactures need little packaging. Also, agricultural products are rarely packed with both fruits and vegetables shipped in bulk (with considerable spoilage) and sold in shops with no more packaging than a cellophane bag. This suggests that packaging is likely to be a growth area, as western forms of food sale, in supermarkets rather than markets, increase.

Another reason why it is important to support the packaging sector is that the availability of packaging can place limits on certain kinds of production. In Georgia, one of the complaints often made by producers who use imported packaging, is that supply is unreliable and inflexible. This unreliability and inflexibility can create bottlenecks and disincentives for production in other areas.

The inflexibility, and unreliability, of foreign suppliers to the domestic market also creates opportunities for local producers. Many of the local companies acknowledge that while they are not still able to produce at the same price level, their ability to sell smaller quantities, at shorter notice, is a distinct advantage. The USAID study from 2012, also suggested that this may create opportunities for the production of higher-end niche products – that provide highly individual and stylised products. Investigating the opportunities in this area will certainly be one of the ways in which this joint programme will look to provide input, in order to support innovation.

<sup>14</sup> Economic Prosperity Initiative (2012), *Corrugated Packaging Sector in Georgia*, USAID

The final reason why an EU project, in particular, should focus on the packaging sector, is that packaging development is relevant to the development of the Georgian market, in relation to two EU standards. First, improvements in packaging are necessary to improvements in food safety. The packaging of food is a particularly sensitive issue for the Association Agreement and the DCFTA, and part of this is the need to use packaging that complies with certain standards.

Packaging products that comply to the appropriate standards are currently hard to produce locally as they require a detailed understanding of inputs and a well-documented and reliable production process. Ensuring quality of inputs can be difficult if locally utilised recyclable products are not reliably sorted or produced (for example). Improvements in recycling standards should therefore make it easier for local producers to improve their products and reach a larger market. Greater confidence on inputs may also justify investments in technology, as it will mean that higher-end outputs are also possible.

The second issue is recycling. The production of packaging connects to reform in the recycling sector in a range of ways. One of the primary materials for the sector is recyclables, but the lack of locally sorted waste collection has made it difficult for local producers to use. February 2019 will see the beginning of requirements to sort trash into different recyclable categories. This will create an opportunity for the packaging sector, and improvements in the packaging sector should increase demand for local recyclables and help production.

#### Registered businesses in the packaging sector

The list of registered and active businesses, which is maintained by the Ministry of Finance and can be provided by GeoStat, lists a total of 109 companies under different kinds of 'packaging'; 30 paper and cardboard producers, 67 plastic packaging producers and plastic processing businesses, and 12 glass producers.

Figure 9: Geostat data on the size of companies (6 companies missed information)<sup>15</sup>

Size of the company (2018)	
<b>Glass</b>	
Large	1
Small	10
<b>Paper</b>	
Small	25
Medium	4
<b>Plastic</b>	
Small	56
Medium	7
<b>Total</b>	<b>103</b>

<sup>15</sup> Geostat 2017. Small enterprises have an average yearly employee number less than 50 or yearly turnover less than GEL 12 million. Medium enterprises have an average yearly employee number between 50-250, or yearly turnover between GEL 12-60 million and large enterprises have an average yearly employee number more than 250 or yearly turnover more than 60 million.



**Figure 10: Geostat data on regional distribution of companies (2017)**

Region	No
Tbilisi	70
Imereti	12
Ajara	6
Kakheti	5
Kvemo Kartli	5
Mtskheta-Mtianeti	3
Shida Kartli	2
<b>Grand Total</b>	<b>103</b>

**Figure 11: Geostat data on regional distribution of companies by subsector (2017)**

	No
<b>Glass</b>	
Tbilisi	7
Imereti	1
Kakheti	1
Mtskheta-Mtianeti	1
Shida Kartli	1
<b>Paper</b>	
Tbilisi	26
Ajara	1
Imereti	1
Mtskheta-Mtianeti	1
<b>Plastic</b>	
Tbilisi	37
Imereti	10
Ajara	5
Kvemo Kartli	5
Kakheti	4
Mtskheta-Mtianeti	1
Shida Kartli	1
<b>Grand Total</b>	<b>103</b>

However, the pool of companies may be a lot smaller. Out of the 103 listed companies, only 67 have been responsive and out of that group only 33 confirmed that they were active producers in the packaging sector. These are overwhelmingly centred in Tbilisi with no other natural cluster. Below is the geographic distribution of companies (excluding the glass company Mina).

**Figure 12: Distribution of Confirmed Companies**

Plastic packaging companies Management location		Paper packaging companies Management location	
Tbilisi	11	Tbilisi	10
Kvemo Kartli	4	Ajara	1
Imereti	3	Mtskheta-Mtianeti	1
Ajara	1		
Guria	1		
<b>Total</b>	<b>20</b>	<b>Total</b>	<b>12</b>

**Detailed discussions with Businesses**

To have better understanding of the sector, 9 in-depth interviews were conducted with representatives of different packaging companies.<sup>16</sup> Most of these companies are located in Tbilisi. For one company management representatives are located in Tbilisi but production takes place in Shida-Kartli. Only one was located in Rustavi. The profile of the companies and their size are listed below. Companies did not give a standardized measure for their size so different measurements are provided.

**Figure 13: Output by year for interviewed companies (using different measurements)**

	Tons	Unit mil.	Products
LTD CaucasPack	2500		Disposable plastic containers for food
LTD AA Plast	1600		Consumer plastic bags, thermostatic packaging bags, big plastic bags (includes agricultural plastic materials for greenhouses and plastic mulch)
LTD POLIEDRO	500		Stretched polyethylene film for wrapping pallets
LTD Neoprint	1200-1800		Cardboard
LTD Georgian Paper products	1800-2000		Cardboard and Corrugated cardboard
LTD Sezanne		200-300	Paper packages for food products, cups, boxes, bags, branded bags etc.
LTD Sharavandi			Food packages from polymer and paper, different types
LTD GreenPack		50	Paper packages for food products, cups, plates, bags, etc.
LTD Megaplast	15-20		Plastic buckets for food products

One of the first elements to note from these interviews is that none of these companies were working at full capacity. From 9 respondents 6 reported production of less than 50% of their total producing capacity. The representative of LTD Neoprint noted that the company has 2 production lines and only one line is currently functioning and even this line is not working at full capacity. The representative of LTD Sezanne noted that they

<sup>16</sup> the list was share by another packaging-support project, before the GEOSTAT data was made available.

have capacity to produce 3 times their current production; representative of LTD GreenPack mentioned that if the market was bigger, they would produce more than twice as much as they produce currently.

Most of the products produced by these companies are sold locally in Georgia. Some of these companies provide packaging for big local chains of supermarkets, café/restaurants and even agricultural producers, wine producers, and companies who export their products. Only a small portion of the production is directly exported as packaging products. 3 out of 9 respondents did not export any of their production; 3 respondents mentioned that they export small portion (2-5%) of their products to Azerbaijan and Armenia; and remaining 3 reported export of 10-20% of their total production.

Export destination countries were usually Armenia, Azerbaijan and Turkey, but one producer exports to Israel. On multiple occasions, the producers mentioned they were exploring opportunities to sell their products abroad, in Germany, CIS countries, other EU countries and even in the USA.

Although, to be able to export products in EU countries certification is necessary and different producers mentioned different certificates they had or were working on to get in near future.

**Figure 14: Comments on certification**

LTD CaucasPack	"We have BRC certificate and ISO Certificate"
LTD AA Plast	"We plan to get certification in the near future. We produce our own certificate on the base of raw material certificate and with description of what procedures does the product pass through."
LTD POLIEDRO	"Current production is not in contact with food products, so there is no need for certification. In the future we plan to add new products and we might need proper certificates."
LTD Georgian Paper Mill	"We have quality certificate. There are consultations about The Certificate of Origin with GCCI."
LTD Sharavandi	"We are working on certificates ISO 2200 and 9001. ISO Consulting helps us with this."
LTD GreenPack	"Now we are working on ISO 2200 Certificate. Each our product comes with production certificate. Production processes are defined, but we need formal document for this."
LTD Megaplast	"GCCCI helps with self-certification."

The companies also recognize that Georgian Packaging Association is not established yet, but there are some efforts made and work done to create it. Many of our respondents stated that they participate in negotiations of its formation with GCCCI and PWC as well as the British Plastic Producers Association, who are all partners in the first round of the UK Good Governance Funded Project.

The Good Governance Fund project brought a UK packaging expert to help 8 packaging companies engage in a self-assessment and certification process, intended to help them align with EU requirements. The project succeeded in achieving this self-assessment with 4 companies and another 2 completed it partially. On the back of this, the GGF plans to support the formation of a packaging association to expand and deepen certification. This project ends in February and should leave a working institution which will form the focus of our Cluster Management Organization

Among the associations the respondents mentioned were Georgian Employers Association, Polymer Production Producers Association (directly translated from Georgian), British Packaging Association, Local Producers Association, and British Plastic Producers Association.

During interviews with companies, the companies mentioned a wide array of problems including problems on how the market works; challenges of access to finance; small market size; waste management issue; limited export opportunities; need for certification; challenges of getting inputs; and finding qualified employees.

One of the biggest problems seems to be the provision of reasonably priced inputs, particularly recycled products. Despite the fact that some of these companies are considered to be large producers with significant market shares in the Georgian market, they are not big producers internationally. This creates a number of problems. First, it means that they usually lack the local scale to process recyclables and rely on others to do it. For this reason, Georgia finds itself in the strange situation where it exports recyclables that are collected locally, they are processed outside the country and then shipped back-in to be used by packaging producers to make the final product. This is not only expensive, but uncertified imports mean that the producers can't always reliably guarantee the quality of the final product or get certification for it.

On the other side, faced with large producers, Georgian companies find it difficult to compete on price. However, where many local producers are able to take an advantage is in timeliness and flexibility. Foreign sellers of packaging require from their buyers to make large purchases and local producers cannot afford such large purchases, so local producers can do well by supplying smaller scale. One respondent suggested that collective selling might help, "It will be beneficial if cluster approach is implemented. This will lead to multiple operators making bigger orders together and price will go down to competitive price level."

There is also considerable demand for skills. Each respondent stated that finding skilled employees was a challenge. There are almost no paper and plastic technologist on the labour market; even equipment operators are hard to find. One respondent noted that he understands that quite narrow profile specialists are needed for his production, but: "*even finding people who have basic knowledge on how to operate equipment is extremely hard*".

When asked for areas for development, most of the respondents mentioned that for exporting they needed proper certificates and well-defined production processes. There were strong suggestions that the producers understand the need to adopt new technologies, particularly to make products greener. Producers also wanted to add new products. Among new products there was mention of bio-degradable products and products that can be easily added with slight modification of their current production lines.

There was interest in any new project bringing expertise that will help them in identifying foreign markets and ways to access them. The EU market was mentioned several times, but with the opening of the market "*there are some standards and requirements that need to be met.*" Producers expressed keen interest in consultations that will bring them closer to exporting to EU.

Most of the respondents think that bringing sector representatives together to be provided technical assistance and new technologies to be introduced will be beneficial, but some stated concerns that the sector contains many different types of productions and sometimes necessary information for one producer is irrelevant to another. Two respondents suggested that providing such consultations would be better if such trainings took place at more "micro level".

## Seed/Seedling Sector

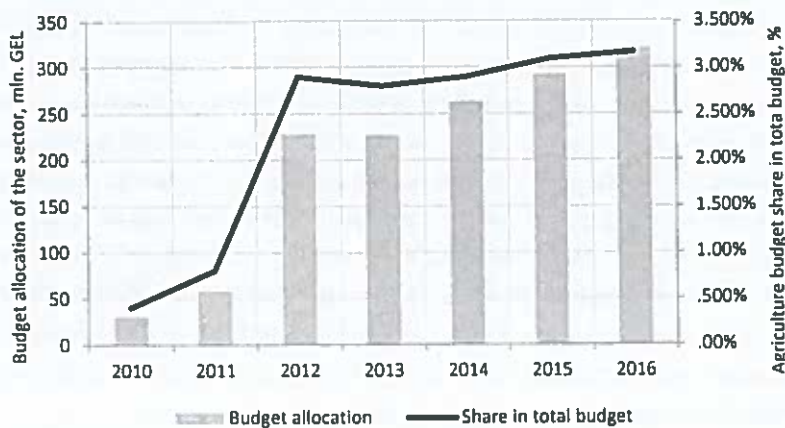
Georgia's agricultural sector remains critical for the overall food supply, for the Georgian economy and for the social and cultural fabric of the country. According to preliminary information from GEOSTAT, the national statistical agency, in 2017 agricultural production accounted for 8.2 percent of the Gross Domestic Product (GDP). Out of it, animal and plant production contribute 56 percent and 38 percent respectively. More than 40 percent of the economically active population and more than 90 percent of economically active rural residents find employment in agriculture; however, only less than 1 percent of economically active population is formally employed in this sector.

These facts clearly indicate that despite the overall economic progress of recent years and promising processes unfolding in agriculture, much remains to be done to ensure the successful modernization of the rural economy and inclusive growth. The small-scale and fragmented nature of agricultural production, the chronic lack of technology and expertise, the poor state of rural infrastructure and the difficulties in accessing the finances needed to upgrade productive capacities necessitate further comprehensive reforms in the Georgian agriculture.

Agriculture production is concentrated among small-scale farming households. According to the results of 2014 Agricultural Census, 571 900 family holdings farm about 86.5 percent of total agriculture. The majority of holdings have small plots. About 77 percent of family holdings have, at most, one-hectare area of land, and the average plot size per family holding is 1.2 hectares.

State allotment to the agriculture sector has increased substantially during the recent years. Ministry of Agriculture's ongoing main activities include animal and plant health protection, research, international promotion of Georgian products, support to the development of business-oriented farmer groups, rehabilitation of irrigation and drainage systems, and improvement in the availability and accessibility to financial resources and production inputs (planting stock, seeds, fertilizers, and chemicals, etc.). State funding of agriculture sector and the share in total budget allocations from 2010 to 2016 have increased by 48 percent and 41 percent, respectively (Figure 1).

Figure 1. Budgetary allotments to the Ministry of Agriculture



## International Trade of Agricultural and food products

Georgia's main trade partners in agriculture and food have included the Republic of Turkey, and member countries of the Commonwealth of Independent States (CIS) and the European Union. Georgia has a DCFTA with the European Union, Free Trade Agreement (FTAs) with CIS members and the Republic of Turkey, and General System of Preferences (GSP) trade regime with the United States of America, Canada, Japan, the Swiss Confederation, and the Kingdom of Norway.

Georgia has been a net importer of agriculture and food products. The total trade turnover fell in 2015 due to political and economic developments in main trade partner countries. In recent years, the growth rate of exports has been higher than that of imports.

Recently, fifteen agriculture and food products account for about 78 percent of total agriculture exports, with live animals, hazelnuts, wine and mineral water making up 50 percent of these exports. The most significant growth rates during the last five years were observed in the export of live cattle, fish meal, hazelnuts, mineral waters, and wine (Source: International Trade Centre, estimates 2016).

The main 15 imported products represented about 47 percent of total agriculture imports, with wheat and flour totalling 14 percent of them, which clearly states the weakness of the cereal production sector.

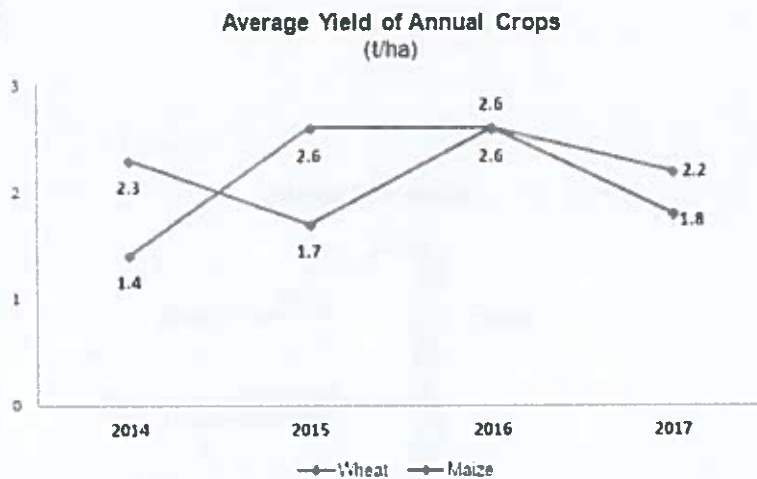
#### **Importance of the seed/seedling sector**

One of the key underperformances of the agricultural production is the yield per hectare of most of the crops, which is aggravated by the very small size of plots, leading to a subsistence farming and an increase of the rural poverty. While the size of plots is a very structural problem linked to land tenure and the distribution of land after the collapse of the Soviet Union, there are no technological nor structural problems that should impede a steady increase of the yield per hectare in the coming years.

Together with improved extension advice provided to farmers, that would lead towards improved agronomic techniques, the quality of seeds and seedlings is probably the key underperforming factor where more advance can be done with a relatively small effort in terms of policies and investments.

This is why the seed certification has been a priority for the Ministry of Environmental Protection and Agriculture of Georgia (MEPA) since 2012. As a result of the support provided through the ENPARD Programme by the EU as well as the Austrian Development Agency (ADA), FAO provided technical support to develop a seed certification scheme for cereals in 2014, that led to the voluntary certification of wheat and barley seed production since 2016, that will be obligatory as of October 2018, and the laboratory for seed certification was fully equipped and the staff trained. Another big step ahead was the approval of the seed law in 2017, that provided the right basis to give legal stability to the seed sector and assurances for the big seed producers worldwide to include Georgia as a market for their premium genetics. The law provides main principles for the seed and seedling sector regulation in Georgia and currently SRCA has finalized drafting of the bylaws and technical regulations for the seed production and certification and will be followed by bylaws and technical regulations for the seedling sector including fruit trees, berries and grape vines.

The figure 2 below, with data from GEOSTAT, shows the increase in the yield per hectare in wheat production, and the significant increase in the wheat yield produced as of 2015, coinciding with the voluntary certification. While the yield per hectare of maize (through non-certified seed) followed a very unstable tendency, the yield of wheat has followed a much more stable pattern, and with a less dependency on the climatic conditions.



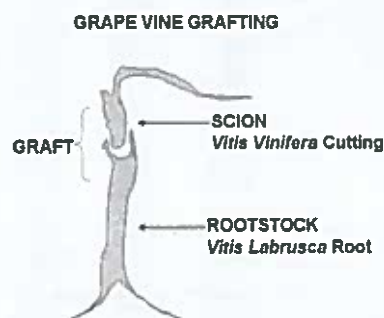
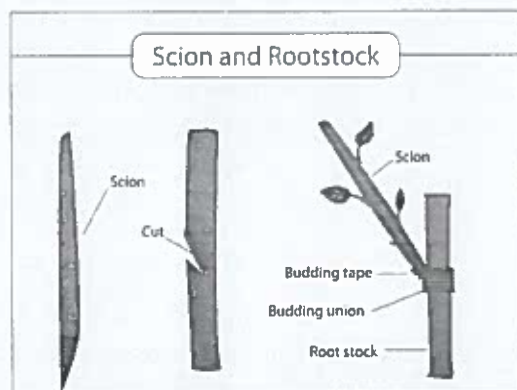
The figure above, although only focused on the wheat seed, shows the clear opportunity to significantly increase the yield per hectare in a relatively short period of time, and this very low yield can be applied to most of the commodities produced in Georgia. The seed certification of wheat and barley shows, therefore, the appropriate path towards an improved agriculture in Georgia, and the MEPA is moving forward with the certification of potato seed and planting materials (rootstocks and seedlings).

In this endeavour, several partners are joining forces in supporting the efforts in the policy, regulatory and technical framework, including the International Centre for Potato (CIP) with ADA funding, as well as the ENPARD programme through FAO technical support, and some other initiatives, such as the ongoing TAIEX support provided through Italian experts to the Scientific Research Centre for Agriculture, dependant on the MEPA, that is also the seed authority for Georgia.

This project comes as a perfect complement of the efforts already being implemented at the policy level to support the private sector (seed cereal producers and nurseries) to consolidate the efforts already being made by the seed companies to adjust to the obligatory certification as of October 2018, but also to accompany the nurseries in the ongoing process of development of the voluntary certification for seedlings, focusing in orchards and grape vines. This project would also provide a very significant improvement for seed and seedling producers, if a seed/seedling association can be created in Georgia, that will act as the private representative of the seed sector towards national and international fora.

Unlike annual crops like cereals or potatoes, the certification of seedlings and grape vines have a transcendental importance for farmers. Indeed, in Georgia it is not unusual that, only after several years taking care of their orchards or vines to grow and start production (and at a cost), farmers will realise that their orchards or vines are from a different variety than the one they had paid for and planted, or that the genetic purity of their plantation is far from what the nursery producer had praised when the seedlings were bought.

To complicate things further, seedlings for orchards and grape vines are composed of two different parts, the rootstock, in which it is grafted the scion (aerial seedling that will produce the selected variety). For a seedling to be certified, both components, the rootstock and the scion, need to be certified, not only in terms of varietal purity, but also in terms of virus free.



Without an appropriate certification system for seeds and seedlings and the regulatory and inspection role of the Seed Authority, the farmers cannot be sure of the genetic purity of the seeds and seedlings that they are buying, leading to mistrust between providers and buyers, and often to the recycling and reuse of seeds, with the risk of genetic erosion and underperformance in the field.

Certification is necessary to ensure that the farmers can rely on the declared description of the seeds and seedlings they procure, which in turn is one of the elements needed to increase productivity.

Agriculture can be a significant driver of growth, export improvement and poverty reduction. In terms of growth, the low levels of current yield offer an opportunity for productivity gains to be a large net contributor to economic growth generally. In trade, agricultural products remain Georgia's largest productive category of tradable goods and so offer one of the clearest paths to increase exports. Finally, as the biggest 'employer' of the poorest class of people in the country, upgrading agricultural productivity is the surest way to generate pro-poor growth.

#### Size of the Seed and Seedling Sector

Nevertheless, there is a significant increase in number and size of the nurseries following the demand on seedlings triggered by the GoG programme "plant the future". Similar increase is expected within the seed sector as soon as the mandatory certification of wheat and barley seeds will be enforced in 2018.

The main Georgian seed producers for wheat are able to produce and market around 500 tonnes for wheat seed out of a market need evaluated to 7 000 tons (estimation based on planted area), which is roughly a 7% of the market needs. Assuming that the wheat producers would renew the seed only every three years, as it is an Open Pollinated Variety (OPV), the production would not go further than the 21% of the market needs for this crop. The situation is more drastic for the hybrid seeds, which needs to be procured every year from foreign markets, leading to higher costs to the farmers as a result of the fluctuations of local currency.

According to the National Wine Agency, estimated demand for the grape vine seedlings per annum is around ten million vines, without taking into consideration the vines for table grape production. Today the grape vine nurseries active in Georgia are not able to satisfy the demand, to a point where there are imports of seedlings of Georgian varieties coming from several European countries. Taking into consideration the increasing trend of the wine production in Georgia and exports, that has led to a planted area of vineyards in a continuous growing trend, grape vine nurseries are under an increasing pressure to be able to meet the market demand.

While the demand for scions for Georgian varieties could be met to a certain degree, there is a worrying lack of mother rootstocks of American varieties resistant to *Phloxera*.



A similar situation in terms of the demand for the fruit tree and berry seedlings are estimated by Scientific Research Centre of Agriculture. More than five thousand hectares of the new orchards were planted under the government programme "Plant the Future" since its inception, with a subsidy of a 75% of the price of seedlings, leading to a significant pressure to meet demand on the 62 nurseries in Georgia authorised by APMA to deliver seedlings to this programme.

Production numbers below give some idea of the scale of the sector in terms of production.

Figure 15: Annual and perennial crop production, '000 tons

<i>Crop</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<b>Annual crops</b>							
<i>Grains</i>	214.8	397.4	370.0	483.3	434.5	420.1	424
<i>Beans</i>	5.8	8.9	9.6	10.5	7.6	5.5	5.8
<i>Potato</i>	228.8	273.9	252.0	296.6	216.2	184.6	249
<i>Melons</i>	40.9	42.8	36.7	66.4	85.9	72.6	72.8
<i>Vegetables</i>	175.7	185.8	198.5	204.8	153.6	152.3	141.7
<i>Fodder crop</i>	37.1	66.6	36.9	41.1	41.5	61.2	55.1
<b>Perennial crops</b>							
<i>Fruits</i>	124.1	187.3	157.9	217.6	210	144.3	186.4
<i>Grapes</i>	120.7	159.6	144.0	222.8	172.6	214.5	159.2
<i>Citrus crops</i>	52.1	54.9	77.0	110.4	69.8	77.6	66.5
<i>Tea</i>	3.5	2.9	2.6	3.3	1.8	2.1	3.0

As an alternative mechanism for collecting aggregate data, the GEOSTAT Business Registry includes a category of "horticulture, decorative gardening, and nursery products". This category has 106 registered businesses. In order to add to this data, particularly verifying the type of business and location, all of these companies were contacted. Only 71 representatives were responsive. Out of these 71 registered businesses, 26 responded that they were operating in seed/seedling sector and two of these 26 were currently not functioning. 25 out of the 26 companies were small companies and one was medium.<sup>17</sup>

It is worth noting for the purpose of cluster consideration that, from the list of businesses that were interviewed, while Tbilisi was the most common location for registration, the place of operation was different.

Figure 16: Regions of registration and operation of the sector representatives interviewed

<b>Region</b>	<b>Location of Registration (from the database)</b>	<b>location of operation (from interviews)</b>	<b>Types of products produced in each region</b>
Kakheti	3	7	Seeds (potato) and saplings (different fruit trees, different nuts, olives, decorative plants)

<sup>17</sup> Geostat 2017. Small enterprises have an average yearly employee number less than 50 or yearly turnover less than GEL 12 million. Medium enterprises have an average yearly employee number between 50-250, or yearly turnover between GEL 12-60 million and large enterprises have an average yearly employee number more than 250 or yearly turnover more than 60 million.

Shida Kartli	3	4	Saplings (different fruits, fruits and berries, different nuts, decorative)
Mtskheta-Mtianeti	2	3	Saplings (grapes, walnuts, decorative)
Ajara	2	2	Saplings (citrus, berries, decorative)
Imereti	1	2	Seedlings (strawberries, melons, lettuce)
Kvemo Kartli	1	2	Seeds (cucumbers, tomatoes), seedlings (grass)
Samegrelo Zemo-Svaneti	2	2	Saplings (fruits and berries, different nuts)
Guria	1	1	Saplings (decorative)
Tbilisi	11	1	Seedlings (decorative-flowers)
missing	0	2	Seeds (strawberry, lettuce, and other vegetables)
<b>Total</b>	<b>26</b>	<b>26</b>	

To supplement this information in-depth interviews were conducted with 6 companies. 4 respondents were located in Shida Kartli (2 in Kareli, one in Gori municipality, one did not specify municipality), one was producing in Tbilisi and one in Kakheti. All the respondents were producing fruit saplings; one was additionally growing seedlings for 1-year-old plants.

This suggested some particular dynamics to the business. The first dynamic is that the business is currently marked by under-utilisation. The production numbers of the producers being interviewed are listed below.

**Figure 17: Production numbers and main types of products of interviewees**

Output per year		
Company Name	Thousand saplings	Comment
LTD Georgian Agrarian Union	600-700	Both seedlings and saplings
SE Gogita Shermadini	30-50	fruit saplings
LTD Agronet	10	mainly walnut saplings, small number of other plants
LTD Complex Agro	200	fruit saplings more than half apples
SE Tornike Barbakadze	7-10	fruit saplings mainly apples
Cooperative Nikozi	160	walnut saplings 90 thousand, almond saplings 70 thousand

The interviews included companies with a wide range of sizes. All the larger producers suggested that they were currently producing at significant under-capacity. Representative of LTD Georgian Agrarian Union mentioned that they can produce up to 1 million seedlings/saplings per year; LTD Complex Agro representative said that they use only 25% of their production capacity and representative of Cooperative Nikozi noted that the cooperative can grow up to 500 thousand nut saplings per year if they had access to funds/buyers.

Another characteristic is that most of the production is for local users. Small producers generally sold within their region and larger producers sold across the country, in line with the Government efforts since 2012 to

promote orchard and grape vine production, that led to a significant co-investment in seedlings, mainly through the Plant the Future APMA programme, but also the Preferential Agro-Credit Programme and more recently the Tea Rehabilitation programme for the tea seedling production. In spite of this significant efforts to facilitate the sector, a part of the market opportunity was covered with imports of seedlings from Turkey or European countries. This gives a sign of the weakness of the Georgian nurseries, as well as an indication that an improved regulation of the sector, driven by the certification process, should be a priority in the coming years.

This underperformance of the Georgian nurseries to deliver verified quality products in fruit and berry seedlings and grape vines, in a context where the demand clearly exceeds the supply, is clearly stated by both involved agencies from the MEPA with competencies in grape vines and orchard seedlings, the National Wine Agency(NWA) and the SRCA. The main reason for the under delivery of the nurseries operating in Georgia is weak and non-reliable rootstock production for both fruit seedlings and grape vines.

The reasoning of this lack of mother rootstock is the technical complexity for the correct maintenance of the elite mother root stocks to be used for vegetative propagation purposes, and inappropriate agronomic activities may lead to the contamination of viruses or nematodes. In Georgia, only the Jigaura facility under the SRCA can be considered as a well-maintained nursery for mother root stock, providing a valuable service for the genetic conservation, but only able to cover a very small fraction of the country demand for root stocks.

As a result, most of the nurseries are obliged every year to research in foreign country markets, identify proper mother rootstock and import it to Georgia and conduct grafting in the country. This means a significant constraint for the development of the sector, and at a cost. Indeed, the cost of the imported certified mother root cost is roughly half of the market price for the final seedling or vine. This not only increases the price of the final product but requires additional administration expenses from nursery and higher operating costs in terms of identification of foreign suppliers, ensure the certification of these imported root stocks and finalise the import within the appropriate time frame to allow for the grafting locally in due time.

This bottleneck for the sector is proving to be a major threat for the economic viability of many nurseries, to a point that Georgian farmers are importing directly grape vines already grafted with Georgian varieties in European countries. The fact that a Georgian farmer is importing certified grape vines of endemic famous varieties such as Saperavi from a European producer is symptomatic of a critical problem in the local supply. The fact that this problem is mainly technical and regulatory (through an appropriate certification process) provides good grounds for a possible correction of this bottleneck if the State and the private sector join forces.

The nursery producers have stated the general problems that they face on their activity, such as access to finance, availability of technology, size of market and unpredictable changing demand, but also and more importantly the lack of available staff with technical horticultural skills, particularly grafting and, as the need of a general certification process the ensures the quality of their production and allows to access to foreign markets.

Also, in most instances, there was an understanding that the inclusion of trainings on production standards, new products and identifying foreign markets would all be valuable, this was particularly the case for the larger producers.





Item	Category	Unit	Month	Year	Quarter	Half	Full	Other	Subtotal	Grand Total	Remarks	
3.3	Vehicle turning costs	Item	month	340.00	12	2,880.00	12	2,880.00	0	1,440.00	0	7,200.00
3.4	Non Expendable Procurement (Component 1)	FAO	year	20,000.00	1	20,000.00	1	20,000.00	0	0	0	40,000.00
3.5	Non Expendable Procurement (Component 2)	FAO	year	10,354.33	1	10,354.33	1	10,354.33	0	10,354.33	0	41,417.33
<b>4.0 Consultant Services</b>												
4.1	Facilitate formation of packaging CMO (Study, operating rules) and Packaging CMO Strategy and its revision. To be selected through competitive tender	UNDP	days	730.00	40	29,200.00	40	29,200.00	26	18,250.00	26	96,650.00
4.2	Facilitate formation of packaging CMO (Study and its revision) (National Consultant)	UNDP	days	305.00	20	6,100.00	20	6,100.00	20	6,100.00	20	24,400.00
4.3	Support to CMO and cluster members in developing an implementing Business Model and services (National Consultant)	UNDP	month	2,200.00	10	22,000.00	12	26,400.00	12	26,400.00	12	101,200.00
4.4	Capacity Development of CMO and its members (training)	UNDP	training	10,000.00	4	40,000.00	2	20,000.00	2	20,000.00	2	100,000.00
4.5	Support CMO's role as a sector coordinator	UNDP	component/year			40,000.00		30,000.00		20,000.00		130,000.00
4.6	Support to capacity development for CMOs as Service Providers (Business Development Services) (contracting companies to provide technical assistance)	UNDP	component/year	35,000.00		35,000.00		35,000.00		17,500.00		122,500.00
4.7	Support to CMO as sector coordinator for events, travel, meetings and miscellaneous networking activities	UNDP	network event	4,000.00	4	16,000.00	5	20,000.00	4	16,000.00	4	72,000.00
4.8	Workshop exchange and networking for packaging cluster (European Centre for Cluster Excellence and other)	UNDP	exchange study mission	10,000.00	1	10,000.00	2	20,000.00	1	10,000.00	1	60,000.00
4.9	CMO and cluster members' skills needs identification (including VET)	UNDP	study	17,000.00	1	17,000.00	0		0	17,000.00	0	34,000.00
4.10	Skills development (trainings elaboration and delivery)	UNDP	training	5,000.00	0	5,000.00	2	10,000.00	2	11,000.00	2	27,000.00
4.11	Supporting EPR in packaging sector (studies, trainings, piloting, PRD formation support)	UNDP	year	33,500.00	1	33,500.00	1	33,500.00	1	33,500.00	1	134,000.00
4.12	Environmental scan of packaging companies (studies, diagnostics, competitiveness, market studies, quality management systems, technology transfer) for company support	UNDP	company study	15,000.00	1	15,000.00	2	30,000.00	1	15,000.00	1	90,000.00
4.13	Diagnoses mapping, surveying and profiling	IQM	component	24,340.00	3	73,020.00	1	24,340.00	0	0	0	97,360.00
4.14	Diagnoses consultancy and assignments	IQM	assignment	2,000.00	4	8,000.00	6	12,000.00	2	4,000.00	0	24,000.00
4.15	CMO capacity building on SME development (Diagnoses opportunities to Georgia, fee)	IQM	event	3,315.00	2	6,630.00	6	13,650.00	7	4,635.00	0	21,150.00
4.16	Cluster mapping and studies	UNDP	subcontracted study	20,000.00	2	40,000.00	0		0		0	80,000.00
4.17	Assessment visits on clusters	UNDP	training	10,000.00	4	40,000.00	1	10,000.00	1	10,000.00	1	30,000.00
4.18	Assessment missions on clusters	UNDP	subcontracted	6,000.00	0		1	6,000.00	1	6,000.00	1	18,000.00

ID	Description	UNDO	Category	Quantity	Unit Price	Total Value	Start Date	End Date	Notes
4.21	Local and national institutions capacity building (trainings and action planning)	UNDO	training	10	10,000.00	100,000.00			Trainings to receive capacities of the public and private stakeholders in diagnostic studies
4.22	Plan outline strengthening and workshop definition	UNDO	training	3	3,000.00	9,000.00			Trainings to define workplans of the clusters to be identified
4.23	Plant clusters collective activities	UNDO	subcontract	10,000	10,000.00	1,000,000.00			Subcontracts and activities for strengthening collective efficacy of two clusters to be identified
4.24	International Expert in Seedling Certification	FAO	day	360	97.40	35,064.00			International Part time Consultant responsible for the provision of technical support on the Certification of seedlings
4.25	Other national and international consultants	FAO	day	243	24,350.00	5,917.05			International and National part time Consultants responsible for the provision of technical support (under Component 1)
4.26	Nursery Development Expert	FAO	day	282	28,220.00	7,958.04			Part time Consultant responsible for the provision of technical support in the Development of Nurseries
4.27	Other national and international consultants	FAO	day	146	21,915.00	3,200.00			International and National part time Consultants responsible for the provision of technical support (under Component 2)
4.28	Local promotion of locally produced seeds and seedlings	FAO	year	15,000	15,000.00	225,000.00			Contract for the provision of Services related to the external promotion of locally produced seeds and seedlings
4.29	Local promotion of locally produced seeds and seedlings	FAO	year	15,000	15,000.00	225,000.00			Contract for the provision of Services related to the external promotion of locally produced seeds and seedlings
5.1	Travel (Project staff local travel for field visits and monitoring)	UNDP	days	155	8,525.00	1,320,375.00			This line includes the DSA costs for local travel of the staff in response regions for project related activities, including the staff retreat and other regional events
5.2	Desktop mapping and surveying	IOIM	component	26,700	26,700.00	716,910.00			Average costs of international return travel from country of destination, based on economic rates and average per diem for participants, based on the standard IOIM rate for the indicated destination and in line with IOIM's travel rules and directly related to Travel as regards the implementation of activities envisaged by IOIM for the project
5.3	Desktop mapping and surveying	IOIM	assignment	830	2,490.00	2,066,700.00			Average costs of international return travel from country of destination, based on economic rates and average per diem for participants, based on the standard IOIM rate for the indicated destination and in line with IOIM's travel rules and directly related to Travel as regards the implementation of activities envisaged by IOIM for the project
5.4	Desktop mapping and surveying	IOIM	event	3,200	9,600.00	30,720.00			Average costs of international return travel from country of destination, based on economic rates and average per diem for participants, based on the standard IOIM rate for the indicated destination and in line with IOIM's travel rules and directly related to Travel as regards the implementation of activities envisaged by IOIM for the project
5.5	Travel (Project management international staff/consultants/field visits)	UNDO	mileage	500	1,500.00	750,000.00			Daily Subsidized Absences of international project management/international staff/consultants within DSA
5.6	Travel (Local level national project coordinator)	UNDO	day	180	5,700.00	1,026,000.00			Daily Subsidized Absences of National project coordinator within Georgia to monitor project progress
5.7	Travel (Local level national project coordinator)	UNDO	day	142	4,402.00	625,084.00			Daily Subsidized Absences of National project coordinator within Georgia to monitor project progress
5.8	Travel (Local level national experts on clusters)	UNDO	day	142	142.00	20,264.00			Daily Subsidized Absences of National experts within Georgia for project activities on the ground
5.9	Travel (International Experts, technical officers) plane tickets	FAO	mileage	650	2,600.00	1,690,000.00			Daily Subsidized Absences of international staff within Georgia
5.10	Travel (International Experts, technical officers) plane tickets	FAO	day	180	5,700.00	1,026,000.00			Daily Subsidized Absences of international staff within Georgia
5.11	Travel (Local level technical work to nurseries)	FAO	day	142	2,640.00	374,880.00			Daily Subsidized Absences of international and National staff within Georgia
5.12	Travel (Local level monitoring and evaluation)	FAO	day	142	2,640.00	374,880.00			Daily Subsidized Absences of international and National staff within Georgia
5.13	Travel (Study tours of nurseries staff abroad)	FAO	day	750	11,250.00	8,437,500.00			Daily Subsidized Absences of international and National staff within Georgia
5.14	Travel (Study tours of nurseries staff abroad)	FAO	day	220	2,640.00	580,800.00			Daily Subsidized Absences of international and National staff within Georgia
5.15	Travel (Nursery staff for in country trainings)	FAO	day	142	11,300.00	1,605,400.00			Daily Subsidized Absences of international and National staff within Georgia
6.1	Strategic treatment and company level	UNDP	grant/support	58,126	58,126.00	3,378,000.00			The project envisages company level support for 18 companies in Seeds and Seedlings and Planting Cluster
6.2	Costs for field support and other small contracts	FAO	Per year	12,829	12,829.00	164,377.00			Letter of Agreement with Non Profit Organizations for the implementation of project activities
6.3	Costs for field support and other small contracts	FAO	Per year	13,875	13,875.00	186,638.00			Letter of Agreement with Non Profit Organizations for the implementation of project activities
6.4	Costs for field support and other small contracts	FAO	Per year	11,637	11,637.00	147,661.00			Letter of Agreement with Non Profit Organizations for the implementation of project activities
7.1	Office infrastructure	UNDP	month	1,550	18,000.00	279,000.00			Office running costs such as rent (approx. USD 1,200 monthly), security (approx. USD 150 monthly) and cleaning (approx. USD 200 monthly). Budget is based on the number of staff and monthly rent for insurance and other project related office expenses
7.2	Office infrastructure	UNDP	month	150	1,800.00	270,000.00			Monthly rent for insurance and other project related office expenses
7.3	Office infrastructure	UNDP	month	250	3,000.00	750,000.00			This line will be used to cover project office utility costs such as electricity, water, gas
7.4	Office infrastructure	UNDP	month	150	1,800.00	270,000.00			This line will be used to cover project office and staff mobile, internet and telecommunication costs
7.5	Office infrastructure	UNDP	month	379	4,555.75	1,727,627.25			Costs are related to ensuring viability of EU as the funding agency of the project. This would include brochures, leaflets, posters, photographs, documents highlighting project achievements, media events, etc.
7.6	External Evaluation	UNDP	evaluation	22,000	15,000.00	330,000.00			Project Evaluation cost evaluation will be conducted at the end of the project reporting how successful was the implementation, what were the challenges, lessons learnt and what should be followed-up measures. The evaluation will be conducted by independent international and national experts

