



ECONOMIC PROSPERITY INITIATIVE (EPI) ANNUAL REPORT

Year 2

October 1, 2011 – September 30, 2012

Tuesday, October 30, 2012

Deloitte Consulting LLP produced this publication for review by the United States Agency for International Development.

ECONOMIC PROSPERITY INITIATIVE (EPI) ANNUAL REPORT

YEAR 2

OCTOBER 1, 2011 – SEPTEMBER 30, 2012

USAID ECONOMIC PROSPERITY INITIATIVE

CONTRACT NUMBER: AID-114-C-10-00004

DELOITTE CONSULTING, LLP

USAID/CAUCASUS

TUESDAY, OCTOBER 30, 2012

DISCLAIMER

The report made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of Deloitte Consulting LLP and do not necessarily reflect the views of USAID or the United States Government.

CONTENTS

1.0	EXECUTIVE SUMMARY	1
2.0	INTRODUCTION	4
3.0	CHALLENGES	4
4.0	PROGRESS OF ACTIVITIES BY COMPONENT	4
4.1	BUSINESS ENABLING ENVIRONMENT COMPONENT (BEE) (GANTT CHART LEVEL 40000)	4
4.1.1	Improve Regulatory Environment and Licensing (Gantt Chart Level 42300)	6
4.1.2	Property Rights (Gantt Chart Level 42400)	8
4.1.3	Investment Sector Economic Governance (Gantt Chart Level 42500)	9
4.1.3.1	Investment management services (ims) (Gantt Chart Level 42530)	9
4.1.4	International Trade and Customs (Gantt Chart Level 42600)	11
4.1.5	Tax Systems (Gantt Chart Level 42700)	13
4.1.6	Procurement and Privatization Systems (Gantt Chart Level 42800)	15
4.1.7	Agricultural Policy Environment (Gantt Chart Level 42900)	17
4.1.8	Core Team of Reform Specialists (Gantt Chart Level 43000)	17
4.1.9	E-Governance Activities (Gantt Chart Level 47100)	18
4.2	AGRICULTURE SECTORS COMPONENT (AG) (GANTT CHART LEVEL 20000)	18
4.2.1	AG Value Chain Action Plan Implementation (Gantt Chart Level 24000)	18
4.2.2	Improve Access to AG Information (Gantt Chart Level 25000)	24
4.2.3	Improve Sustainable Access to Support Services (Gantt Chart Level 26000)	25
4.2.4	Model Small Holder Groups (MSHG) (Gantt Chart Level 27000)	25
4.2.5	AG investment promotion (Gantt Chart Level 29000)	26
4.3	MANUFACTURING & SERVICE SECTORS COMPONENT (M&S) (GANTT CHART LEVEL 30000)	27
4.3.1	M&S Value Chain Action Plan Development (Gantt Chart Level 33000)	27
4.3.2	M&S Value Chain Action Plan Implementation (Gantt Chart Level 34000)	27
4.3.3	Improve Competitiveness of Tourism Sector (Gantt Chart Level 35000)	35
4.3.4	Improve Competitiveness of ICT Sector (Gantt Chart Level 36000)	38
4.4	CROSSCUTTING ACTIVITIES COMPONENT (CC) (GANTT CHART LEVEL 16000)	40
4.4.1	Gender and Youth Integration (Gantt Chart Level 16100)	40
4.4.2	Increasing Economic Knowledge (Gantt Chart Level 16200)	42
4.4.3	Establish Public-Private Partnerships (Gantt Chart Level 16400)	46
4.4.4	Access to Finance (Gantt Chart Level 16600)	49
4.5	MANAGEMENT AND OPERATIONS COMPONENT (M&O) (GANTT CHART LEVEL 1000)	54
4.5.1	Work Planning (Gantt Chart Level 12000)	54
4.5.2	Communications (Gantt Chart Level 13000)	54
4.5.3	Grants (Gantt Chart Level 14000)	54
4.5.4	Procurement (Gantt Chart Level 15000)	55
4.5.5	Performance Monitoring (Gantt Chart Level 17000)	55
4.5.6	Environmental Evaluation (Gantt Chart Level 18000)	55

4.5.7 EPI Staff Development (Gantt Chart Level 19000)	56
ANNEX 1: PMP REPORT	57
ANNEX 2: UTILIZATION OF USG PERSONNEL	73
ANNEX 3: UTILIZATION OF LOCAL PARTNERS	75
ANNEX 4: SUCCESS STORIES	82

TABLE OF TABLES

Table 1: BDS Consulting Projects Undertaken to Date	28
Table 2: Financial Advisory Program Results to Date	50
Table 3. Employment Data in EPI Targeted Sectors and Value Chains	67
Table 4. EPI Productivity Results.....	68
Table 5: WEF GCR & EPI Business Perception Survey.....	71

TABLE OF FIGURES

Figure 1: EPI Results Dashboard	3
Figure 2. Foreign Investment: Progress Towards the EPI Targets.....	59
Figure 3. Contribution of EPI Value Chains and Sectors in Current Foreign Investment Results	60
Figure 4. Foreign Investment, Commitments and Pipeline.....	60
Figure 5. Domestic Finance: Progress Towards EPI Target	62
Figure 6. Contribution of EPI Value Chains and Sectors in Current Domestic Finance Result.....	63
Figure 7. Exports: Already Exceeded EPI Target of USD 150 Million	65
Figure 8. Contribution of EPI Value Chains and Sectors in Current Export Result	65

ACRONYMS

ACT	Azerbaijan Competitiveness and Trade
ADB	Asian Development Bank
AG	Agriculture Sectors Component
ANSI	American National Standards Institute
BAS	Business Advisory Services
BDS	Business Development Services
BEE	Business Enabling Environment Component
BPR	Business Process Reengineering
BSP	Business Service Provider
CAB	Conformity Assessment Body
CC	Cross Cutting Component
CCID	Community Colleges for International Development
CRA	Civil Registry Agency
CSPA	Competition and Stage Procurement Agency
CTC	Caucasus Transit Corridor
DEA	Data Exchange Agency
EBRD	European Bank for Reconstruction and Development
EJD	Economic Journalism Development
ELFA	Equipment Leasing and Finance Association
EPI	Economic Prosperity Initiative
EU	European Union
FAP	Financial Advisory Program
FHC	Frontline Hospitality Course
FIZ	Free Industrial Zone
FSC	Farm Service Center
GAC	Georgian Accreditation Center
GCR	Global Competitiveness Report of the World Economic Forum
GDA	Global Development Alliance
GEOSTM	Georgian Agency for Standards, Technical Regulations and Metrology
GIPP	Georgia Investment Promotion Partnership
GITOA	Georgian Incoming Tour Operators Association
GNIA	Georgian National Investment Agency
GNTA	Georgian National Tourism Administration

GoG	Government of Georgia
G-PAC	Policy, Advocacy and Civil Society Development in Georgia
GSP+	Generalized System of Preferences
GWA	Georgian Wine Association
IBC	International Building Codes
ICC	International Codes Commission
IFC	International Finance Corporation
IMS	Investment Management Services
IPM	Integrated Pest Management
IPR	Intellectual Property Rights
KC	Knowledge Center
KMS	Key Management Solutions
KP	Knowledge Plot
M&S	Manufacturing & Services Sectors Component
M&O	Management & Operations Component
MFN	Most Favored Nation
MICE	Meetings Incentives Conferences and Exhibitions
MoES	Ministry of Education and Science
MoESD	Ministry of Economy and Sustainable Development
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MSHG	Model Small Holder Groups
NEO	New Economic Opportunities
PERSUAP	Pesticide Evaluation Report and Safer Use Action Plan
PMCG	Policy and Management Consulting Group
PMP	Performance Monitoring Plan
PPP	Public Private Partnership
RS	Revenue Service
SCC	Supply Chain Council
SPMIS	State Property Management Information System
SVVP	Software Verification and Validation Plan
T&L	Transport & Logistics
TFS	Trade Facilitation System
TLC	Tbilisi Logistics Center
ToT	Training of Trainers
USG	U.S. Government

WCO	World Customs Organization
WEF	World Economic Forum
WFD	Workforce Development
WRAP	Worldwide Responsible Accredited Production
WSET	Wine and Spirit Education Trust

1.0 EXECUTIVE SUMMARY

*“Man's mind, once stretched by a new idea,
never regains its original dimensions.”*

Oliver Wendell Holmes

Economic Prosperity Initiative (EPI) project has reached its mid-point. The due diligence activities of conducting over eighty assessments at the project start, followed by targeted action plans, have paid off. EPI was able to identify opportunities for catalytic policy reforms and activities in key leverage points within its value chains and sectors where EPI's assistance was applied during Year 2 of the project. As a result, several EPI supported policy reforms have been implemented in a broad consultative process, such as financial leasing, risk-based audit, customs warehousing, tax simplification, and e-Governance initiatives, which are already creating a positive impact for the Georgian economy. Similarly, sectors that barely existed when EPI commenced its activities, with very limited knowledge of their potential, such as corrugated paper packaging, heated greenhouse industry, Meetings, Incentives, Congresses, and Exhibitions (MICE) tourism and crop insurance, are truly starting to take off. EPI connected Georgian businesses to the market and helped them adopt the right technology, standards or practices; after which, these businesses saw the potential and made their own investments to seize on these opportunities.

EPI's targeted approach supported by rigorous impact analysis of all our activities, including policy reforms, enabled the project to made significant progress towards meeting or even exceeding its life of project targets already at this half-way point. EPI was able to achieve this by building partnerships, promoting public private dialogue and facilitating fact-based policy making, as well as by building the capacity of local businesses and employees to adopt international best practices and standards. EPI's efforts secured USD 109 million in foreign investment and commitments, with an additional pipeline of investment opportunities of USD 559 million. EPI also facilitated USD 155 million in exports, mostly through its efforts in the wine and MICE tourism, hazelnut and apparel sectors, already exceeding its life of project export target of USD 150 million.

The financial leasing reform that EPI implemented through a consultative process with private and public sector stakeholders, the promotion of investments in the heated greenhouse industry, and the launch of a crop insurance industry, resulted overall in a domestic finance increase of USD 125 million since project start. EPI also achieved consistent increases in productivity (40% average productivity increases for all of its value chains), employment (7,050 new jobs) and revenues (annual revenue increase of 27% or USD 11.8 million for agricultural sector, and 61% increase or USD 47 million for manufacturing and services sectors) for all of its value chains (see Figure 1: EPI Results Dashboard for details).

EPI also ensured that the project activities impact a broad population of farmers and businesses, while building local capacity of Georgian service providers. EPI policy reforms and value chain activities reached 5,666 farmers and 212 agribusinesses, and 588 businesses in the manufacturing and services sectors. EPI also engaged 92 agricultural service providers (in turn reaching another 32,600 farmers and 6,208 agribusinesses), and 42 business service providers (reaching another 877 businesses).

At the same time, EPI created a solid foundation from where additional targeted assistance by EPI can build from during Year 3 of the project. EPI's world-class apparel industry vocational program will be a key factor for attracting new foreign investment and positioning Georgian apparel factories to expand their exports and create much needed jobs. Further investments in workforce to increase customer service skills and wine knowledge have created ripple effects in the tourism sector to offer higher quality services to incoming floods

of tourists. Other trainings, such as large-scale agricultural producer programs created double-digit productivity increases for the agricultural value chains that were previously dismissed as non-commercial sectors as they are dominated by smallholder subsistence farmers. EPI is now working with these farmers to create sustainable commercial linkages between lead farmer groups and higher value markets to generate revenue increases for large communities in Western Georgia.

EPI's targeted investment promotion function has heightened the Georgian government's interest to adopt best practices in investment promotion and thereby create sustainability. Not only that, it has also built up a pipeline of actual and committed investments and new investment leads that will bring the needed know-how, market linkages and finance to Georgian productive industries, creating new jobs and opportunities for Georgians, especially in the rural areas.

EPI was able to achieve such results through its "open-source" approach to development. EPI continues to look for opportunities to partner with others who have similar objectives as EPI. Whether it is transitioning its resources to US Treasury team at the Revenue Service, providing training to beneficiaries of USAID New Economic Opportunities (NEO) and USAID Azerbaijan Competitiveness and Trade (ACT) projects or partnering with GIZ to improve the quality of infrastructure, EPI's top consideration is how to multiply the project impact and effectively use available resources in the country. The focus of EPI activities is first and foremost commercial – the feasibility studies and business plans fully justify any investment that EPI makes in terms of its resources or consulting services. Only when viable, and often tested through small-scale pilots, EPI proceeds with activities, aligning other stakeholders' objectives and securing and leveraging additional funds and resources to achieve common goals.

In the hazelnut sector, EPI helped USAID establish its first Global Development Alliance (GDA) for the USAID Georgia Mission, leveraging around USD 1.5 million of private funds from Ferrero International to improve the competitiveness of the hazelnut industry. EPI also identified an opportunity to facilitate trade and truly position Georgia closer to its aspiration of becoming a regional trade and cargo hub. Specifically, EPI garnered the support and resources of global shipping lines and port operators, Georgian railways, freight forwarders and Customs to jointly implement a port community system similar to those of the most developed ports, such as Rotterdam and Singapore, to achieve further trade efficiencies for the sector. The new GDA is expected to follow in Year 3.

EPI's focus remains the same: living up to its principle of "Georgians for Georgia", building local capacity and ensuring sustainability of all the activities. Starting with trainings and leadership development of its own staff with all the components now fully transitioned to leading Georgian experts, EPI has created a lasting impact for talent development long after EPI ends. EPI's highly coveted internship program is creating buzz among students as it ensures high job placement rates after only a brief yet challenging internship program with EPI. Over 134 business development service providers, financial advisors, and agricultural service providers are all enhancing their capabilities, with EPI assistance, to provide high-value services to its clients. EPI's focus on women entrepreneurs and fully embedded women-focused community outreach specialists in EPI's agricultural sector are creating new opportunities and development impact for women that were often excluded from participating in business or other leadership roles.

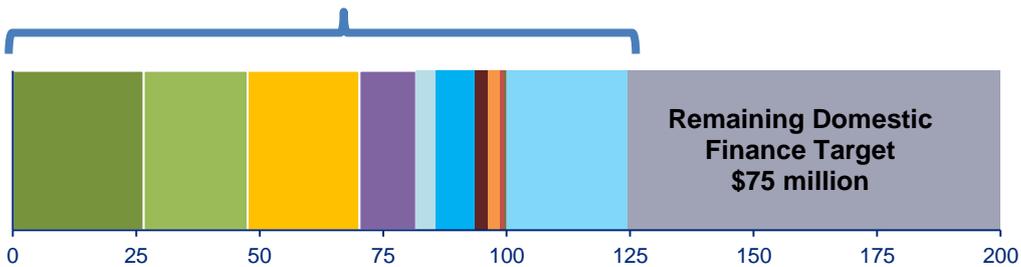
By now, EPI has fully established itself as the connector, bringing diverse audiences to the table to engage in informed debates and promote participatory and transparent policy-making. While not always easy to quantify its immediate impact, such an eco-system of trust and multi-stakeholder engagement will enable Georgia in the long run to achieve the ultimate goal of EPI – increase competitiveness and bring prosperity for Georgians.

Figure 1: EPI Results Dashboard

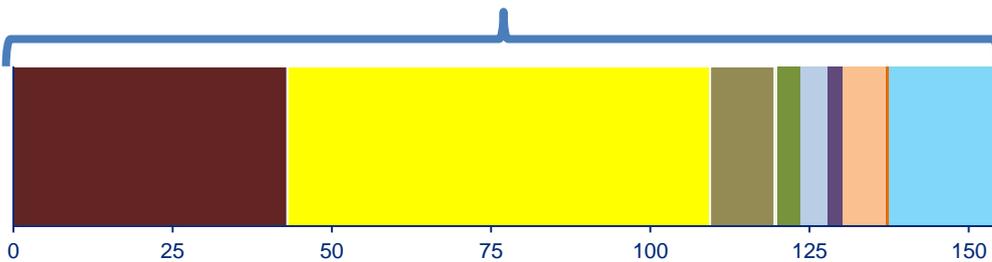
EPI achieved \$109 million in Foreign Investment and Commitments, or 21.8% of its target, including 9 large transactions (target is 10).



EPI achieved \$124.6 million in Domestic Finance, or 62.2% of its target.



EPI achieved \$154 million in Exports, or 107% of its target, and has increased export capacity of 184 firms (target is 100).



EPI generated 7,050 new jobs and increased productivity by 40%.

750 jobs	28% average productivity increase
6,300 jobs	44% average productivity increase

EPI increased annual revenue by 45% for targeted farmers and businesses.

27% annual revenue increase	5,666 farmers 212 agribusinesses
61% annual revenue increase	588 businesses

EPI met its service provider targets and indirect clients served.

93 agricultural service providers	32,600 farmers 6,208 agribusinesses
42 business service providers	877 businesses

Color Legend

- Agriculture sector
- M&S Sector
- Hazelnuts
- ICT Sector
- Greenhouses
- Wine Tourism
- Leasing
- Packaging
- Insurance
- Transport and Logistics
- Policy Impact
- MICE Tourism
- Remaining Amount to meet EPI Targets
- Apparel

2.0 INTRODUCTION

This annual report documents the results and progress made in the Economic Prosperity Initiative (EPI) in Georgia, covering the second year of operations, from October 1, 2011 to September 30, 2012. It starts by documenting EPI's progress and results during the year and since project start, including a summary of completion of outputs and progress against the Year 2. Annexes include a detailed presentation of EPI's achievements toward high-level result targets and targets against selected indicators included in the latest World Economic Forum's Global Competitiveness Report 2012-2013 (Annex 1); the utilization of resources and cooperation with other U.S. government (USG) agencies (Annex 2) and local partners (Annex 3) and success stories (Annex 4). A separate MS Excel document provides detailed results and Year 3 targets for all EPI's Performance Management Plan (PMP) indicators.

3.0 CHALLENGES

EPI's success requires a close collaboration with the Government of Georgia (GoG) to support relevant business enabling environment reforms. EPI recognizes that this collaboration will be further strengthened in close partnership with USAID and other U.S. Government agencies. EPI has been serving as an expert advisor to the GoG, engaging numerous mid-level officials across ministries and agencies to offer international best practice advice, while building strong partnerships with interested private sector stakeholders to participate and contribute to such policy reform initiatives. This approach allowed EPI to continue smoothly its critical reform initiatives in the after-math of the parliamentary election results and despite a complete change-over of all high-level policy decision-makers.

New government in Georgia may request additional or different policy priorities be supported by EPI that may not have been anticipated during the original EPI proposal, initial assessments in Year 1 or subsequent work plans and budget. EPI proposes to engage in a dialogue with USAID to agree on any relevant course corrections, including potential contract modification, to ensure that the reform momentum of the new government receives appropriate support, through EPI experts and EPI facilitated public private dialog, to generate further improvements in the business environment and increase capacity of public sector institutions.

As discussed several times with USAID, Deloitte anticipates that USAID will proceed with modification of the contract scope to incorporate the upcoming scope change recommendations of USAID IG Audit team and Deloitte's outline of proposed changes submitted to USAID in July, as a response to the IG Audit Team request. The PMP documentation in this report further proposes for USAID consideration the indicators to be removed, especially since USAID Mission does not track or report on them anymore.

4.0 PROGRESS OF ACTIVITIES BY COMPONENT

4.1 BUSINESS ENABLING ENVIRONMENT COMPONENT (BEE)

(GANTT CHART LEVEL 40000)

In comparison to other countries in the region, Georgia has made strides in removing obstacles in the business environment. Over the past few years it has lowered trade barriers, significantly reduced petty corruption and embraced e-Government solutions to provide efficient public services to its businesses and citizens, including innovative "one-stop shop" Public Service Halls that are sprouting up across the country. Most recently, it has focused on improving tax and customs administration, working to build institutional capacity and address implementation issues under the new Tax Code. For several initiatives supported by EPI, the GoG also embraced a consultative process in reform dialog that EPI supports and expects to continue expanding.

Despite these improvements, EPI identified several areas within the business environment that hindered increased competitiveness and economic growth in Georgia:

- The lack of an internationally recognized accreditation system in quality infrastructure;
- Inconsistencies in building codes and standards, which draw from a wide and sometimes conflicting range of Soviet-era and other international sources;
- Poor and inconsistent enforcement of building codes;
- Very low levels of awareness on and enforcement of the intellectual property rights (IPR);
- Wide range of other business environment issues revealed by surveys of investors, such as land issues and extraction licenses;
- Strong need to institutionalize modern customs procedures and practices;
- A tax collection system that suffered in recent years from a public perception of heavy-handedness and overreaching in conducting tax audits, despite having nominally adopted a risk-based approach to tax collection;
- Very low levels of public land registration in the cadastral register;
- A tax rule that bio-asset investments must be depreciated in the first year of acquisition, which stands as a substantial obstacle to horticultural investments;
- An existing legal framework that is not conducive to farmers' cooperation: it neither creates attractive tax environment, nor provides simple mechanisms for registration and operation of farmers groups; and
- A current food safety regulatory framework that does not provide sufficient mechanisms for effective control of food safety in the country.

EPI worked closely with the GoG to address these issues through policy recommendations, reforms, capacity building and public outreach. Highlights of EPI's results are included in the box above.

Year 2 Highlights in the Agricultural Sectors Component

- Supported testing laboratories in two key value chains to gain ANSI accreditation, boosting the credibility and long-term quality standards of Georgia wine, fruits and vegetables and other food producers. Estimated impact on hazelnut exports alone ranges from USD 7.5 million to USD 18.8 million per year
- Drafted model building code regulations that would bring Georgia into line with 21st century, international best practice, enhancing the safety and credibility of Georgian building codes in the eyes of international investors. If adopted, the savings to businesses are estimated at USD 11.5 million per year and USD 40 million of savings for consumers over the period of building exploitation due to energy savings
- Directly contributed to a sharp and sustained increase in trademark applications and at least USD 2.4 million in annual savings for public and private sector stakeholders through development of an e-filing system IPR applications
- Provided assistance to the Georgian RS on a number of fronts to implement a risk-based approach to tax audit and administration and a streamlined tax payments system. EPI's ongoing support will result in a lower risk, more efficient tax environment for Georgian and international businesses. Estimated benefits for business include USD 14.6 million in cost savings, USD 9.6 million in exports, USD 12.5 million in investment and USD 27 million in GDP growth.
- Developed a state procurement supplier guide to improve the rate of private sector participation in public procurement and trained over 181 participants from private and public sector on state procurements.
- Facilitated more than USD 18.9 million in new foreign investment among logistics and cold storage companies after streamlining regulatory issues for bonded warehouses.
- Number of days required to trade good across borders (exports): 9 (according to World Bank Doing Business)
- Number of days required to trade good across borders (imports): 10 (according to World Bank Doing Business)

4.1.1 IMPROVE REGULATORY ENVIRONMENT AND LICENSING (GANTT CHART LEVEL 42300)

ANSI ACCREDITATION OF CONFORMITY ASSESSMENT BODIES (CAB)

EPI identified the lack of a competitive field of CABs in Georgia, including labs and certification bodies that complied with appropriate international standards and were accredited under multilateral and mutual recognition agreements under leading international accreditation bodies.¹ Georgia's own accreditation body, the Georgian Accreditation Center (GAC) was not a signatory of these agreements, so Georgian CABs needed to be accredited by another body. EPI established a partnership through a Memorandum of Understanding (MoU) between GAC and the American National Standards Institute (ANSI) to achieve internationally recognized accreditation for Georgian CABs.

EPI and ANSI narrowed focus on specific, manageable areas where improvement would have the most tangible results. To help Georgia achieve competitiveness as an exporter and boost its overall economic development, they focused on the largest sector in Georgia – agriculture. Therefore, EPI and ANSI focused on addressing production certification bodies and laboratories that certify and test food products.



Photo 1: Multitest and Wine Laboratory Receive Internationally-Recognized ANSI Accreditation

During Year 2, EPI and ANSI worked closely with two food product testing laboratories. These included the Wine Laboratory, which tests wine and Multitest, which tests wine, mineral water, hazelnuts and fresh and processed fruits and vegetables. At the beginning of 2012, the laboratories began to introduce a quality management system and started to improve the technical aspects of quality management in accordance with ISO/IEC 17025 “General requirements for the competence of testing and calibration laboratories.” The accreditation assessment of laboratories took place in June 2012 and, in September 2012, after addressing the findings of the assessment and gradually closing nonconformities in the following months, both

laboratories were granted ANSI accreditation.

EPI and ANSI also worked with GAC to build the center's understanding of the U.S. accreditation system, schemes and practices through meetings with ANSI staff, direct observation of ANSI assessments and training of GAC staff.

Given these achievements, EPI assessed the economic impact of international accreditation of laboratories, based on a case study in the hazelnut industry. The estimated monetary impact ranges from USD 7.5 million to USD 18.8 million in an annual increase in the value of hazelnut exports.

BUILDING CODES

In 2011, EPI assessed Georgian building codes and found an obvious inconsistency in application of building codes and standards, including a mix of Soviet construction rules (SNIPs) and rules from other countries (U.S., UK, Germany, etc.). Some of the basic codes, like fire safety, were either non-existent or based on outdated SNIPs. This deficient regulation coupled with ineffective enforcement compromised the quality of buildings, the safety of occupants and the reputation of Georgian construction industry. Addressing the

¹ The International Accreditation Forum (IAF) and the International Laboratory Accreditation Cooperation (ILAC).

GoG's urgent need to streamline technical regulations, EPI considered building codes a high priority.

In response, EPI developed draft building code according to the international model regulations International Building Code (IBC) of the International Code Council (ICC). EPI drafted and advocated new Building Codes in collaboration with the Prime Minister's Office, the Ministry of Economy and Sustainable Development (MoESD) and private sector stakeholders. EPI carried out the codes development process in two phases:

- During Phase I, EPI translated and adapted Non-Structural Building Codes and drafted the relevant Government Resolutions. The new regulation introduces modern and up-to-date approaches to building planning and design. It covers such important issues as area and height limits, fire safety, requirements for accessibility, requirements for exterior walls and roof assemblies. EPI successfully ran public-private consultations and advocacy of the Non-Structural Code among government institutions and actively involved private sector stakeholders as well as academia throughout the process of codes adaptation. EPI also developed tailor-made training materials on the Non-Structural Building Code and delivered a series of trainings to public officials responsible for construction permitting and inspection and to representatives of construction companies in Tbilisi and other regions. The adoption of the Government Resolution on Non-Structural Building Code was projected to take place by the end of 2012.
- During Phase II, EPI translated and reviewed the Structural Building Code and ASCE/SEI Standard on Minimum Design Loads. EPI also completed the first round of public-private consultations on the Structural Code. The adoption of a Structural Building Code was anticipated to take place by the end of 2013.

According to quantitative impact assessment conducted by EPI, application of new building code will result in savings for businesses in amount of USD 11.5 million per year. The major source of saving is reduced external wall thickness affecting building area and materials used for building structure. New insulation requirements will reduce energy consumption which in monetary terms would amount to approximately USD 40 million of saving for consumers over the period of building exploitation.

OUTPUTS	STATUS
At least 1 Georgian CAB accredited by ANSI	Completed – Accreditation of two laboratories Postponed – Accreditation of a product certification body postponed to Year 3 or Year 4
At least 15 persons from laboratories trained in Proficiency Testing and Measurement of Uncertainty	Completed
At least 10 persons from GAC trained on ISO/IEC Guide 65 on Standards for Product Certification Bodies	Completed
Georgia's conformity assessment system representatives trained on certification procedures	Completed
At least 3 persons from GAC trained on ISO 17025 on Quality Management of Laboratories	Completed
Best practice Building Code (Non-Structural and Structural parts) developed and submitted for the GoG's approval	In Progress – Government Resolution draft for Non-Structural Building Code developed; initial draft for Structural Building Code developed

Trainings to central and local government and private sector representatives on new Building Code delivered	Completed
Level playing field for construction business created	Delayed until actual implementation of the IBC
Regulatory impact assessment	Completed – For ANSI accreditation Completed – For building codes

4.1.2 PROPERTY RIGHTS (GANTT CHART LEVEL 42400)

During Year 1, EPI conducted an assessment of Georgia's IPR environment which found very low levels of awareness and reliance on the IPR system among Georgian businesses and professionals. Based on this assessment EPI developed targeted interventions to raise awareness among businesses and to improve accessibility to IPR registration. EPI supported the development of an electronic register for IPR applications at Sakpatenti, Georgia's IPR registration body.

During Year 2, EPI conducted a competitive tender to choose local software company UGT to develop an e-filing system for Sakpatenti to streamline the registration process for IPR applications. Software development will be completed by January 2013. According to EPI's impact assessment of Sakpatenti's e-filing system, completed in May 2012, the total annual savings for both public and private sector stakeholders will be approximately USD 2.4 million.



Photo 2: EPI and Sakpatenti Celebrate World IP Day on April 26

EPI also conducted awareness campaigns through business outreach events and media coverage that resulted in increase of IPR registrations. From September 30, 2011 to October 1, 2012, the number of trademark applications submitted to Sakpatenti increased by 28% from 637 (baseline) to 816. EPI also assisted with customs enforcement of IPR through training and implementation of legislation and procedures for IPR enforcement at borders.

OUTPUTS	STATUS
Completion of the system's requirements for the Sakpatenti e-filing system	Completed
Procurement to develop an e-filing software system, including quality assurance of the software development process	In Progress – Anticipated in January 2013
Assessment of the IPR enforcement processes by customs offices of the Revenue Service (RS)	Completed
IPR enforcement reform strategy	Completed
Linkage established between the Customs' IPR registration and the Sakpatenti's e-filing system	Completed
Increased number of IPR registrations	28% increase over the baseline.
Investors Guide: How to Buy Land in Georgia	In Progress – To be finalized in Year 3

4.1.3 INVESTMENT SECTOR ECONOMIC GOVERNANCE (GANTT CHART LEVEL 42500)

Despite reforms reflected in Georgia’s high ranking in the World Bank’s 2011 Doing Business Index, the World Economic Forum’s (WEF) Global Competitiveness Index and other international indices suggested an environment of pessimism and uncertainty among investors. Businesses and investors express concerns over property rights protection, investor rights, accounting standards, audit practices, corporate governance, and competition policy, among others. Early in Year 1, EPI conducted assessments of Georgia’s investment sector economic governance to pinpoint areas where the project could yield results.

That assessment identified Georgia’s corporate governance framework, accounting and auditing standards, protection of investors’ rights, and competition policies as priority areas to be addressed by EPI. As a result, EPI formulated a plan to develop a draft investment law.

In close collaboration with the Parliamentary Committee for Economic Policy and Sector Economy and relevant stakeholders, EPI revised the draft law on Investment Activities to conform with international best practices. The draft law incorporated the provisions of existing laws.²

While existing protections and guarantees were largely aligned with international practices, the new draft gave special consideration to (1) strengthening provisions related to dispute settlement to guarantee State commitment to international arbitration, irrespective of individual investment contracts and treaties; (2) providing clear criteria for expropriation and compensation; and (3) creating a more level playing field by extending an explicit guarantee of fair and equitable treatment to foreign investors, as well as Most-Favored Nation (MFN) treatment. The revised draft was submitted to Parliament in June, 2012.

OUTPUTS	STATUS
Recommendations to streamline the AAL that envisions simplified reporting standards for SMEs	Completed
New GNIA Charter adopted	Postponed – Due to other GoG priorities
Draft Law on Investment passed	Postponed – Due to other GoG priorities

4.1.3.1 INVESTMENT MANAGEMENT SERVICES (IMS) (GANTT CHART LEVEL 42530)³

Investment promotion has long been a strategic priority for the Georgian government; however, at project start, EPI found there was no unified approach to proactive targeted investment promotion. Therefore, EPI developed recommendations to support a “Georgian Investment Promotion Partnership” (GIPP) to coordinate the investment promotion activities through a network of key partners, including the Georgian National Investment Agency (GNIA), major municipalities, regional investment promotion agencies, business associations, government ministries and the international donor community.

The underlying theme in EPI’s investment promotion activities has been to proactively promote export-platform FDI in a strategic and systematic manner, with its efforts targeting investors in Turkey across several industrial sectors. To this end, EPI established an Investment Management Services (IMS) team, which includes a core team of investment consultants in Tbilisi and investment promoters in Istanbul, Turkey. IMS has two primary mandates: sustainable capacity building and supporting investment promotion activities.

² Law on Promotion of Investment Activities and Guarantees, as well as two related laws, the Law on Georgian National Investment Agency (GNIA) and the Law on State Support of Investments.

³ IMS has been moved from CC to BEE and will be reported under BEE going forward.

As such, EPI has focused on supporting GNIA as a partner in its investment promotion activities, and has also focused on enhancing the ability of GNIA and other GIPP members to more effectively promote Georgia as a destination for investment. This has included the development of industry-specific investment promotion strategies and five trainings designed to introduce and enable 18 organizations to promote new FDI throughout Georgia's regions. Additionally, EPI has mentored these organizations on strategy development, conducting and supporting investor site visits and promotional materials development.

As a key component of EPI's annual action plan with GNIA, EPI provided support in developing information management tools to assist investors in conducting feasibility studies. To address a lack of available, easily accessible and updated information for investors to consider during the decision process, EPI and GNIA developed the Investor Information System (IIS). The system includes sector and market-specific information, as well as information about the Georgian business environment and links to key GoG agencies and private sector organizations that can address investors' queries or concerns. IIS includes more than 60 fact sheets covering virtually every aspect of the decision-making process.

In order to remove obstacles in investment climate, EPI conducted an assessment of Poti Free Industrial Zone (FIZ) and the Georgian underlying legal and regulatory framework for special regimes. EPI identified specific opportunities for the GoG to address the weaknesses in the current legal and regulatory environment and made specific recommendations to Poti FIZ on how to increase its occupancy, attract investment and create jobs for the regional workforce.

Since establishing IMS team in late March 2012, EPI has made investment presentations to 135 investors, resulting in site visits for 30 investors this year. Jointly with GNIA, EPI facilitated these site visits in Georgia across agricultural, textile/apparel, paper packaging, and transport and logistics sectors. Additionally, EPI conducted four demand-driven outreach missions to Turkey and two investment forums in Tbilisi, as well as participated in 7 investment conferences and 5 investor events.

OUTPUTS	STATUS
Develop and distribute 7 EPI sector brochures	Completed –The total number of EPI sector brochures developed in 2012 has been reduced from 7 to 1 (apparel sector) to avoid redundancy with brochures already printed by GNIA, GNTA and MoA.
Provide ongoing investment promotional trainings to 15-20 Georgian Investment Promotion Partnership (GIPP) member organizations (including investment promotion agencies, municipalities, government ministries, business associations and private firms) and 12-16 interns	Completed – EPI has delivered 5 trainings to more than 50 participants from 18 organizations, and IMS team has trained 12 interns.
Implement an internal EPI system to (1) identify potential investors and (2) manage the investment facilitation process for each investor	Completed – The investor pipeline tool has been developed and is updated on a regular basis. IMS consultants also customized this pipeline tool for GNIA and provided it to their entire staff for managing their pipelines.
Develop specific investment promotion strategy for Develop apparel, agriculture, packaging, and transport and logistics sector investment promotion strategies	Completed – Investment promotion strategies were developed for all 4 sectors.

OUTPUTS	STATUS
Execution of 10-15 investment promotion events in apparel, agricultural, packaging, and transport and logistics sectors	Completed – 5 events completed and additional events anticipated in Year 3
Attend and promote investment opportunities at 5-6 VC-specific shows, fairs and conferences	Completed – 7 events completed
Travel to Turkey for 5 investment outreach missions to meet with potential investors and investor groups	Completed – 4 outreach missions completed (demand-driven mission)
Support 10-15 investment transactions within the AG and M&S VCs and GNIA	Completed - 10 investment transactions completed, 9 investments have been committed, and 40 are in progress.
Coordinate site visits for 50 investors	In Progress – Site visits for 30 investors
Provide 7 pre-feasibility studies to high-probability investors	In Progress – Pre-feasibility study for leveraged leasing facility is completed Additional studies to be developed, if needed.
Develop an initial GoG investment promotion action plan	Completed

4.1.4 INTERNATIONAL TRADE AND CUSTOMS (GANTT CHART LEVEL 42600)

In addition to addressing specific, cross-value chain customs and trade issues, EPI focused during Year 1 on identification and prioritization of assistance needs in Georgia’s customs administration practice and regulatory environment. This was especially critical on the heels of serious staff reduction reforms of Georgia customs administration, which resulted in the lay-off most of its line customs officials. While seriously reducing perceptions of corruption, this major staff change also gave rise to a need for significant assistance to develop modern customs procedures and practices.

During Year 1, EPI conducted a diagnostic assessment of Georgia’s customs administration and developed a post-clearance audit action plan to support implementation of a risk-based approach to customs. EPI also facilitated a public-private dialog process between the Georgian RS and members of the trade and transport sector, leading to stakeholder-driven improvements of customs procedures. EPI developed an automated Trade Facilitation System (TFS) implementation plan in close cooperation with the Data Exchange Agency (DEA).

TRADE FACILITATION SYSTEM

In Year 2, EPI focused on developing a TFS, an electronic gateway that facilitates exchange of information among multiple agencies and private sector transport and logistics stakeholders in international trade. The system aims to harmonize the electronic flow of information among public- and private-sector participants in the Georgian logistics, shipping, and transport industries.⁴

⁴ Similar systems are largely experienced worldwide under various brand names. These refer to single window or port-community systems. Some of the most successful ones are: TradNet in Singapore; Rotterdam’s port community system and South Korean customs single window.

TFS would enable traders, customs brokers, freight forwarders, shipping lines, and others participating in international trade to submit information through a single entry point. TFS will process and transmit trade-related information electronically to government and private stakeholders in a standardized format. Via TFS, companies can benefit from a multitude of intelligent services for simple and efficient information exchange, both between the public and private sector. This enables all participants to optimize their logistics processes, improving their competitive position. EPI anticipates that the establishment of the TFS would reduce both time and costs per transaction, simplify trade in Georgia and create incentives to further increase trade and cargo flows through Georgia. This in turn will contribute significantly to Georgia's goal to position itself as a regional logistics hub and trade corridor.



Photo 3: USAID Mission Director Haykin Signs the MoU for Trade Facilitation System Development

EPI has been supporting the development and implementation of the TFS in collaboration with the DEA, Georgia's RS, and key private sector representatives in trade. These include shipping lines, seaport operators, terminal operators, customs, freight forwarders and Georgian Railway. A MoU was signed between all parties in February 2012, and EPI is currently leading the development of a GDA.

EPI has already documented current "as is" business processes for the movement of the containerized cargo and validated the "to be" processes with all the relevant TFS stakeholders. Based on the validated "to be" processes, EPI

developed detailed business requirements to be used for the software development. Currently DEA, with the assistance of EPI's system developers, is working with stakeholders over technical issues to enable them to connect to, and design interfaces for, the system.

EPI also conducted two focus groups with some 25 freight forwarders to understand policy constraints and operational issues hampering their business development. EPI communicated the identified issues to the RS. The issues included perceived ambiguity regarding types of goods subject to the postal carriage and related formalities, which EPI communicated to the RS. Also, due to high interest in the TFS, EPI separately delivered a presentation on TFS to focus group participants.

CUSTOMS WAREHOUSE REGULATION

The Parliament of Georgia passed legislation on October 13 that streamlines customs supervision over customs warehouses providing temporary storage of imported goods. Facilitated by EPI recommendations, the new law provisions allow for simplified technical and security requirements for customs warehouses, creating a favorable logistics environment for traded goods. According to the impact assessment, EPI facilitated more than USD 18.9 million in new foreign investment among logistics and cold storage companies after streamlining regulatory issues for bonded warehouses and produced USD 12 million cost savings. The regulatory reform on bonded warehouses impacted also 9 places improvement of Doing Business Rank of Trade Across Border Category.

CUSTOMS CARGO TIME RELEASE STUDY

EPI subcontractor Policy and Management Consulting Group (PMCG) developed the customs cargo release time measurement methodology based on the World Customs Organization (WCO) guidelines and principles. EPI assisted the RS in preparation for conducting a pilot customs time measurement exercise using the methodology. The pilot

exercise will allow identifying problem areas and taking corrective actions to improve border crossing efficiency. This will help Georgia to better meet the needs of effective transport planning, tight production schedules, and inventory management systems that all cross-border trading systems require.

OUTPUTS	STATUS
Customs cargo release time measurement institutionalized at the RS	In Progress
Tax code commentary provisions on Customs drafted in coordination with JILEP	Completed
TFS implementation plan adopted by the GoG	Completed
TFS-related business processes documented and reengineered	Completed
CTC's public outreach campaign implemented	Completed – EPI helped co-organize a regional Trade Facilitation Conference where specific competitiveness issues of the corridor were discussed. Next steps depend on the interest and ability of the GoG and Georgian transport and logistics (T&L) sector to engage with countries along the corridor to increase its competitiveness.
Study tour on the TFS	Completed

4.1.5 TAX SYSTEMS (GANTT CHART LEVEL 42700)

EPI activities addressed two key objectives in tax administration. First, EPI aimed to improve the RS's tax audit administration to incorporate a risk-based approach that relies on voluntary taxpayer compliance rather than enforced collections from taxpayers. To achieve this, EPI established an effective partnership with the RS and has assisted the RS in the implementation of a risk-based audit system:

- EPI assessed taxpayer audit processes at the RS, developed and submitted recommendations to the RS to implement risk-based audit system and to enhance the automation of existing business processes.
- EPI organized a study tour of RS Tax Audit Department senior officials to the US Internal Revenue Service to observe first hand best practices on advanced risk-based audit processes and techniques. As a result of the study tour, the RS has incorporated into its 2012 Action Plan activities to develop risk-based audit processes, such as effective pre-audit planning and quality assurance controls.
- EPI provided technical assistance to improve the RS's audit selection methodology by providing trainings to the Revenue Service's Risk Management Division.
- EPI developed the Tax Audit Methodology Manual, including drafting the content and advocating for its adoption in discussions with private stakeholders and government officials, as well as educating relevant RS tax auditors on the manual's key principles. The Tax Audit Methodology Manual was adopted on April 2, 2012.

The U.S. Treasury will continue support in implementation of the risk-based audit and capacity building of the tax auditors and technical assistance on quality assurance.

Another area of focus was tax payment system simplification. In Georgia, taxpayers must make tax payments to various specific accounts at the RS and separately apply for the transfer of tax amounts from one account to another. This is a time-consuming process and

places unnecessary risks on taxpayers, as minor mistakes may lead to financial penalties and even criminal liability. Businesses have identified this as a significant risk that could be ameliorated with a single-payment system.

A streamlined tax payments system would allow taxpayers to pay taxes to a general account and the system would automatically allocate appropriate amounts to the specific destinations following the sequence set by the Tax Code. Such a system would contribute to the accuracy of the information on tax liabilities and tax payments required for the well-functioning tax audit selection system. It would simplify the tax refund process and the process of maintenance of taxpayers' personal cards.

To this end, EPI supported the development of a simplified tax payment system in collaboration with the RS. EPI conducted an assessment of the current tax payment system and subsequently designed a new system and worked with the RS to develop software specifications for the new system. EPI presented a proposed concept on simplified tax payment system to the Head of the RS, the Prime Minister's Office, and representatives of the Ministry of Finance (MoF) who provided positive feedback regarding the proposed concept. Depending on the GoG's continuous priorities, as a next step, EPI plans to assist the RS in drafting changes to the Tax Code, modifying tax return forms and drafting amendments to the rules on maintenance of taxpayers' personal cards. The proposed system is anticipated to come into place by the first quarter of 2013.



Photo 4: Guidebook “Commentaries to the Tax Code” Produced by EPI and JILEP

To further facilitate practical application of the Tax Code to Georgia’s private sector, EPI partnered with USAID’s Judicial Independence and Legal Empowerment (JILEP) to develop a guidebook – Commentaries to the Tax Code. Presented publicly in July 2012, the guidebook targets a wide range of readers from professionals to beginners and students with basic knowledge in tax administration. The guidebook includes discussions around case studies and practical applications of Tax Code provisions, as well as potential risks taxpayers may face and how to mitigate these risks. In particular, it highlights ambiguities in legislation, where dual interpretation is possible and provides clarification.

OUTPUTS	STATUS
Risk-based tax audit procedure manual developed	Completed
10 RS Tax Audit Department personnel trained in Transfer Pricing Rules	Completed
10 RS Tax Audit Department personnel trained in Audit Procedure Methodology	Completed
30 RS Tax Audit Department personnel trained in advanced auditing and accounting techniques	Postponed
Tax penalty regulatory framework developed and proportional tax penalty system introduced	Planned – Depends on GoG priority
Automated system based on risk selection criteria methodology adopted	Completed

Improved perception of taxpayers on tax system, measured by the taxpayer/household perception survey	Completed – Via business perception surveys only. 61% of businesses perceived the process as efficient. This indicator is in the range of already high baseline of 62%.
Streamlined tax audit operations and procedures in place supporting voluntary compliance for the RS	Completed – The risk-based audit system implementation started on April 1, 2012
Increased independence of a tax dispute resolution system	Planned – Depends on GoG priority
Simplified tax payment system	In Progress

4.1.6 PROCUREMENT AND PRIVATIZATION SYSTEMS (GANTT CHART LEVEL 42800)

PROCUREMENT

During 2010, Georgia's state procurement system underwent significant changes, transitioning to a mandatory e-tendering system. During Year 1, EPI assessed Georgia's state procurement system and identified ways in which the legal framework can be improved and identified priority issues for procedures and practices to maximize quality and value. The assessment also identified steps to increase business participation in procurements.

To improve the rate of business participation in state procurement, EPI supported the development of a supplier guide. The guide offers potential suppliers simple and practical insights into the Competition and State Procurement Agency's (CSPA) supplier qualification criteria and guidelines to identify government procurement needs and opportunities, as well as how to access and use the CSPA's online procurement system and other information to comply with procurement law and policies. The guide was drafted in Year 2, but due to additional changes in the procurement process during the last quarter of Year 2, the supplier guide needed to be updated and the translation into Georgian, Armenian, Russian and Azerbaijani was delayed to Year 3. Together with the original English version, all these guides will be available for publication on private and public sector websites, such as CSPA, Georgian Small and Medium Enterprise Association, American Chamber of Commerce in Georgia, and Business Association of Georgia.



Photo 5: EPI Electronic Procurement System Training in Batumi

To further raise the level of participation among small and medium enterprises in state procurements, EPI also delivered one-day practical trainings on the electronic procurement system in 12 different municipalities throughout Georgia. In total, EPI has delivered trainings to 185 participants (60 public sector representatives, 121 agricultural producers and agribusinesses and 4 apparel sector representatives). The training educated businesses regarding state procurement opportunities and has built participants' practical skills in using an automated state procurement system.

During Year 2, EPI also conducted a focus group with 15 apparel sector representatives to understand policy constraints and operational issues hampering their business development, which found several procurement issues including the following:

- Procuring entities are setting out unreasonably short periods for delivery of goods, which prevents interested suppliers from participating in tenders;

- Advance payment, that is crucial for apparel businesses, and has been provided in the past has recently been eliminated; and
- Required testing of the samples of the procurement object in designated laboratory is either time consuming or (if accelerated testing is required) very costly.

The findings of the focus groups, along with respective recommendations were subsequently communicated to the CSPA.

OUTPUTS	STATUS
Develop business supplier guide to the CSPA	Completed
Trainer-based sessions implemented in 12 different municipalities for a total of 120 persons trained	Completed

PRIVATIZATION

Despite two decades of privatization, Georgia still had significant assets, particularly land, available for privatization. Privatization would undoubtedly spur investment in Georgian economy, but because there was no comprehensive registry of state-owned assets subject to privatization available for investors, the role of investor-driven transactions was limited. During Year 1, EPI conducted an assessment of the GoG's privatization process, including the regulatory environment, and proposed to GoG recommendations for improvements of the legal and regulatory framework. The MoESD also requested EPI support in developing an inventory of state property for privatization and in developing an automated State Property Management system for the Ministry.

In early April, EPI subcontractor GEC Development prepared a Software Verification and Validation Plan (SVVP) for the State Property Management Information System (SPMIS) development project, based on a software implementation approach selected by the MoESD. At the initial stage of the project, the MoESD decided to develop a full-scale information system in-house by the MoESD's IT Department. EPI continued to assist the MoESD by providing quality assurance during the development process.

EPI conducted due diligence field trips to the Sagarejo Municipality to evaluate the viability of planned assistance for developing land privatization inventory. EPI discovered that large and viable state-owned land plots are no longer available in this region. EPI also learned that the GoG has already started implementing land inventories in different parts of Georgia, negating the need for assistance in developing a comprehensive methodology. As a result, EPI and USAID, in coordination with the MoESD, agreed to remove this activity from EPI's work plan.

OUTPUTS	STATUS
Pilot inventory project action plan for MoESD	Removed
Inventory of state property for privatization in target (pilot) municipality	Removed
An automated State Property Management system for the MoESD	In Progress – Only quality assurance process
Methodology for state property inventory developed	Removed

4.1.7 AGRICULTURAL POLICY ENVIRONMENT (GANTT CHART LEVEL 42900)

Prior to EPI intervention, several policy, regulatory and institutional constraints limited the growth and development of the agricultural sector in Georgia. EPI identified a number of drags on Georgia’s competitiveness related to its agricultural policy environment:

- Very low levels of public land registration in the cadastral register
- A tax rule that bio-asset investments must be depreciated in the first year of acquisition, which stands as a substantial obstacle to horticultural investments
- The existing legal framework is not conducive to farmers’ cooperation: it neither creates attractive tax environment, nor provides simple mechanisms for registration and operation of farmers groups
- Current food safety regulatory framework does not provide the sufficient mechanisms for effective control of food safety in the country
- Lack of effective leasing regulatory framework
- Underdeveloped crop insurance system limiting income stabilization of rural communities and their access to agri-finance
- Unclear policies and management structure of the amelioration system
- Shortage of mechanization, input supply and extension creviced to rural communities

EPI supported improvement of the agricultural policy environment by targeting the areas and issues identified as priorities for AG value chains, identified in part through focus groups with farmers. EPI communicated these issues to the GoG and plans to promote the discussion between hazelnut processors and the RS to revise the existing rules on loss deduction for taxation purposes in the hazelnut industry. EPI will facilitate the adjustment of the deduction rules to local circumstances to ensure fair and justified tax treatment.

EPI also provided support to agricultural sectors with the adoption of international standards, such as GlobalGAP. Together with the Ministry of Agriculture of Adjara, EPI launched a pilot project of GlobalGAP implementation in mandarin value chain (see [3.2.1 AG Value Chain Action Plan Implementation: Mandarin Value Chain](#)).

EPI also promoted small holders unification into groups through various legal instruments (cooperative, partnership, association) provided for by Georgian legislation. EPI started raising awareness of farmer organizations in hazelnut and mandarin value chains to develop organizational structures, guidelines and rules clearly specifying the roles, responsibilities, rewards and penalties for those involved in the cooperation (see [3.2.1 AG Value Chain Action Plan Implementation: Mandarin Value Chain](#)).

OUTPUTS	STATUS
Legislative amendments to the Tax Code bio asset regime	Planned
Three focus group meetings with farmers	Completed
Concept on collaboration of smallholder farmers	Completed – developed by AG component

4.1.8 CORE TEAM OF REFORM SPECIALISTS (GANTT CHART LEVEL 43000)

EPI continued to increase capacity of EPI reform specialists through on-the-job training and participation at relevant conferences and workshops for EPI staff. Subject areas of expertise include trade facilitation, construction legislation, tax, quality infrastructure, procurement and land reform.

4.1.9 E-GOVERNANCE ACTIVITIES (GANTT CHART LEVEL 47100)

Referenced under the BEE sub-component areas above.

4.2 AGRICULTURE SECTORS COMPONENT (AG) (GANTT CHART LEVEL 20000)

EPI's Year 2 activities in agriculture built upon the solid foundation established in Year 1 even as they reflected a narrowing focus on value chains with higher potential for growth and developmental impact. In designing Year 2 Work Plan activities, EPI realigned its agricultural sector strategy to concentrate on the hazelnut, mandarin, and greenhouse and open field vegetables value chains. Within these value chains, Year 2 activities established partnerships with international and local organizations, leveraging joint resources and contributing to the sustainability of EPI's activities. EPI continued to strengthen its support to value chains, including activities to improve access to finance, widen producers' access to market information, upgrade support services and institutionalize farmer groups.

To address the low level of foundational business management skills EPI practitioners identified among farmers, EPI also conducted business management training. In a context where most farmers are small-scale family operations, trainings were primarily aimed at women as the family member who typically manages the operational and financial side of a farm's business. In partnership with subcontractor Making Cents and selected NGOs, EPI conducted trainings to more than 200 women farmers in the open field vegetable, hazelnut and mandarin value chains in Kvemo Kartli, Samtskhe-Javakheti, Guria, Samegrelo and Adjara regions. These focused on basic business skills, including income allocation, business cycles, the importance of growing a business, adding value to inputs and raw material, costing and pricing, division of labor and expanding product range through diversification.

Year 2 Highlights in the Agricultural Sectors Component

- Delivered training to around 5,878 farmers and agribusinesses across 10 value chains (mandarin, hazelnuts, potatoes, onions, garlic, carrots, tomatoes, cucumbers, bell peppers and eggplants) at EPI Knowledge Plots with an average increase productivity of 28.25%.
- Increased overall sales, including exports, by 27% or USD 12 million during this year.
- Created 750 new jobs in agricultural sector
- Engaged 92 agricultural service providers that provided services and training to 32,600 farmers and 6,208 agribusinesses
- USAID Georgia's first GDA, with a global confectionary company Ferrero to upgrade hazelnut quality and yields
- Identified opportunities for trial shipments of Georgian mandarins to Europe through a GlobalGAP pilot project
- Facilitation of more than USD 47.5 million in domestic investments to establish or expand heated greenhouses and cold storage facilities.
- USD 51.9 million in foreign investments currently being facilitated by EPI to establish heated greenhouses for this and the upcoming off-season vegetable production

4.2.1 AG VALUE CHAIN ACTION PLAN IMPLEMENTATION (GANTT CHART LEVEL 24000)

HAZELNUT VALUE CHAIN ACTION PLAN IMPLEMENTATION

During Year 1, EPI identified the hazelnut value chain as a high potential, priority area in the agricultural sector. With a product that represented 24% of Georgia's agricultural export value and a position among the top six global producers and exporters of shelled and in-shell hazelnuts, Georgia clearly had a strong market position to build upon, yet significant constraints still remained (see Box to the right). EPI identified several approaches to address these constraints and meet opportunities head on, including the introduction of simple, low-

cost improvements based on modern best practices in production. These supported farmers to improve the quality and yields throughout the sector, resulting in more consistent product and addressing quality standard issues to expand exports to new markets.

During Year 2, EPI helped to connect hazelnut processors to new, growing and more lucrative markets where Georgia did not have presence, including Canada, Singapore and Germany. EPI also facilitated local companies to attend the International Nut and Dried Fruit Congress to meet with potential buyers, which resulted in initial sales to new markets.

In January 2012, EPI and Ferrero International, the global confectionary company with local subsidiary AgriGeorgia, jointly launched a comprehensive Hazelnut Production Training Program at five EPI Knowledge Plots established on Ferrero's 4,000 hectare plantation in Zugdidi. The training program demonstrated simple, low-cost best practice production techniques to around 900 farmers throughout the annual crop cycle, including pruning, orchard management, integrated pest management (IPM) and harvesting and post-harvest handling issues.

EPI's "Knowledge Plot" approach, replicated throughout its other agricultural value chain training programs, allowed farmers to not only receive theoretical information on best practices, but also to practice these techniques with guidance and feedback from EPI and Ferrero-trained agronomists. USAID's NEO program in Georgia helped to mobilize 200 farmers to the training and provided small tools and sprayers during the 4 series of the training sessions.



Photo 6: Hazelnut Farmer Training at EPI-Ferrero Knowledge Plot in Zugdidi

agronomists ensure that the knowledge and practices can continue to be used and developed by local partners in the future. In addition, agronomists from USAID's Azerbaijan Competitiveness and Trade (ACT) project attended EPI's training-of-trainers (ToT) sessions and farmer trainings in Zugdidi to replicate techniques and knowledge in Azerbaijan. In fact, EPI is facilitating a GDA between USAID ACT and Ferrero to continue cooperation between the two.

The Hazelnut Sector Before EPI

Prior to EPI implementation:

- Yields significantly lower than international averages,
- Low net income for farmers, low volume available for processing and export underperformance
- Fragmentation of producers, with different varieties harvested at different times and using inefficient production and post-harvest handling techniques
- Lack of quality standards, affecting export capability, and instead focus within value chain on quantity
- Limited knowledge of any best practices in terms of hazelnut cultivation

EPI and Ferrero/AgriGeorgia's partnership was formalized in July 2012 through GDA between USAID and Ferrero/AgriGeorgia. This marked the first GDA for the USAID Georgia Mission allowing it to leverage an additional USD 1.5 million in private sector funds. Additional activities are planned to support the development of the hazelnut sector through this alliance, as outlined in the Year 3 Work Plan.

EPI's approach to improving techniques in the hazelnut sector to increase quality and yields relies on a sustainable development methodologies. The alliance with Ferrero/AgriGeorgia and the training of local

EPI also partnered with GIZ's Private Sector Development Programme South Caucasus in Georgia during Year 2 to address quality standards. EPI and GIZ launched a pilot project to improve hazelnut quality systems and infrastructure through the CALIDENA methodology. The methodology, developed by Germany's National Metrology Institute "PTB," identifies and promotes practical activities that strengthen quality services for a value chain and includes a variety of value chain stakeholders, including quality infrastructure providers, such as laboratories, accreditation and standards agencies.

Pilot project activities will link quality infrastructure institutions such as laboratories, Georgian Accreditation Center, or the Georgian National Agency for Standards, Technical Regulations and Metrology (GEOSTM) to strengthen their services to the hazelnut industry. For more information regarding EPI's assistance in related laboratory accreditation activities, please refer to [3.1.1 Improve Regulatory Environment and Licensing](#).

OUTPUTS	STATUS
4 KPs established providing assistance to 680 farms and 15 hazelnuts processors	Completed – EPI established 5 KPs Completed – EPI trained approximately 897 farmers In Progress – in Year 3, EPI will be working with hazelnut processors to introduce product quality guidelines
MoUs signed with approximately 680 farmers	Completed – EPI signed the "Agreement with a Farmer" with 914 farmers
Detailed production, post-harvest handling (PHH), and training guides and materials developed and delivered to the farmers	Completed
Formalized alliance with Ferrero	Completed

MANDARIN VALUE CHAIN ACTION PLAN IMPLEMENTATION

At the end of Year 1, EPI redesigned its strategy for agricultural sector assistance. One result was a narrowed focus from the broadly defined fresh fruits value chain to the mandarin value chain. EPI identified several strengths in the mandarin sector that established enormous potential for growth, including strong domestic market demand and high global demand for the varieties found in Georgia. However, numerous constraints still existed (see Box to the right).

EPI's Year 2 activities focused heavily on addressing the first two constraints listed in the Box. Consistent with its overall agricultural training approach, EPI established four Knowledge Plots in partnership with the farm service center (FSC) in the mandarin-producing regions of Adjara and Guria. At these Knowledge Plots, EPI trained local agronomists to demonstrate simple, modern production and post-

The Mandarin Sector Before EPI

Constraints prior to EPI implementation:

- Outdated production techniques from the Soviet era
- Low quality, poor yields and orchards in poor condition
- Poor harvest and post-harvest handling techniques, resulting in 30-40% loss
- Lack of international food safety standards, preventing access to higher value export markets and resulting in currently limited export markets
- Low level of knowledge in business management

production practices to 1,030 farmers during three sessions across the crop cycle. These sessions were dedicated to pruning, orchard management and IPM systems. A fourth session on harvesting and post-harvest handling issues will be conducted in mid to late November during Year 3.

EPI brought mandarin expert Cindy Fake to Georgia in early 2012 to develop a ToT program for local agronomists, who then delivered training to farmers. Throughout subsequent visits to Georgia during the training program cycle, Ms. Fake saw significant improvement in the condition of Knowledge Plot orchards and the size and quantity of fruit resulting directly from the practices adopted by farmers from EPI trainings.

Parallel to improving production quality and quantity, EPI focused on the introduction of international food and safety standards to the Georgian mandarin value chain, a requirement for the entry of Georgian exports into higher-end international markets. During the second half of Year 2, EPI identified the potential to initiate trial shipments of Georgian mandarins to Europe through a GlobalGAP pilot project.

“Already within the first year of the EPI program, these Knowledge Plots are in much better shape than all the rest of the orchards: the fruit is bigger, the quantity is more and no Scab and Rust mites are found there. The farmers not only practically learn mandarin pruning or pest management; they can also observe the difference.”

- Cindy Fake, EPI Mandarin Expert

EPI’s GlobalGAP consultants have been working with the Subtropic Mandarin Association and Agroexport packing house to prepare them to meet GlobalGAP requirements and receive certification, which will occur in Year 3, as well as to meet the specific requirements of EPI-identified European buyers for the trial shipments estimated to take place in November/December 2012. This will be the first time in Georgian mandarin history that mandarin producers, through the association, will adopt these standards and meet quality requirements of European buyers.

OUTPUTS	STATUS
4 KPs established to provide assistance to approximately 720 farms	Completed – EPI established 4 KPs Completed – Overall EPI trained 1,030 farmers
Provide targeted assistance to at least 1 agribusiness on market linkages, grading/sorting/packing or quality standards	Completed
GlobalGAP assessment developed for a select group of mandarin producers	Completed
MoU’s signed with approximately 720 farmers and four service providers	Completed – EPI signed the “Agreement with a Farmer” with 982 farmers Planned – 4 MoUs with a service provider (FSC) and 4 KP owners will likely be signed by the grantee under the upcoming grant program in Year 3

OUTPUTS	STATUS
Detailed production, PHH, and training guides and materials developed and delivered to the farmers	Completed – Training materials for Mandarin Pruning and Orchard Floor Management and Integrated Pest Management are developed, materials for the harvesting and post-harvest handling technologies to be delivered during harvest in November 2012 are in progress

GREENHOUSE VEGETABLES ACTION PLAN IMPLEMENTATION

While Georgia had a thriving greenhouse industry during the Soviet era, greenhouse operations decreased dramatically after the collapse of the Soviet Union due to rising energy costs. To address constraints in the sector, EPI launched a Greenhouse Training Program in January 2012 at its Knowledge Center on the Shabo-Georgia Ltd. premises in Misaktsieli. The program trained 150 representatives from 38 greenhouse operators, educational institutions investors and other stakeholders on fertility, climate control, IPM and tomato grafting issues, which are expected to increase the quality of crops and increase yields by 10-50%, offsetting imports during the winter months. In Year 3, this training program will be transferred to interested education providers, such as Agrarian University, to incorporate it as part of their curricula.

Greenhouse Vegetables Before EPI

Prior to EPI implementation, the sector was characterized by:

- Small operators with outdated knowledge of greenhouse operation and technologies
- Low yields and poor quality of crops



Photo 7: EPI Greenhouse Production Training at EPI Knowledge Center

In addition to leading the training program, EPI's greenhouse expert David Dumaresq also visited and assessed 38 greenhouses to share his overall findings of the status of the industry, both its challenges and opportunities, at EPI's two Greenhouse Industry Forums, the first such large industry-gatherings in Georgia.

Throughout Years 1 and 2, EPI also developed feasibility and financial models for investors and financial institutions to better understand the returns, investment requirements, etc. of modern greenhouse operations in Georgia. EPI's investment facilitation to interested investors generated over USD 26.5 million in domestic investments to establish or expand heated greenhouses, significantly increasing the industry's capacity. EPI's foreign investment outreach generated additional results, with USD 51.9 million in foreign investments and commitments to establish heated greenhouses for this and the upcoming off-season vegetable production.

OUTPUTS	STATUS
1-3 KCs established providing assistance to 150 producers	Completed – EPI established 1 KC, providing training to 150 representatives from 38 greenhouse operators, educational institutions,

OUTPUTS	STATUS
	investors and other stakeholders
MoU's signed with 15 agribusinesses, 150 farmers and 5 service providers	Completed – MoU signed with 150 representatives from 38 greenhouse operators, educational institutions, investors and other stakeholders Completed – Given the nature of the greenhouse training program, EPI signed an agreement with 1 service provider to lease its greenhouse as a training facility (FSC agronomists have signed MoUs as trainees only)
Detailed greenhouse production, PHH, and training guides and materials developed and delivered to the farmers	Completed – Detailed training materials on fertility, climate control, integrated pest management, and grafting tomatoes have been developed and used at training sessions

OPEN FIELD VEGETABLE VALUE CHAIN ACTION PLAN IMPLEMENTATION

Prior to EPI's open field vegetable activity implementation, the value chain faced several critical constraints. During Year 2, EPI's activities in root vegetables, including onions, garlic, carrots and potatoes, focused on addressing production constraints to increase the quantity and quality of yields.

In line with EPI's agricultural training methodology, EPI established three open field vegetable (onions, garlic and carrots) Knowledge Plots near the Bolnisi farm service center in Kvemo Kartli and trained 969 farmers in soil preparation/fertility, IPM and harvest and post-harvest handling issues. Prior to launching the training program to farmers, EPI trained 35 participants in a ToT program that included representatives of EPI subcontractor ABCO and farm service center agronomists, as well as lecturers and graduates of the Agrarian University. EPI chose 12 of the most suitable trainers to conduct the farmer trainings launched in April 2012.



Photo 8: EPI Potato Production Training at EPI Knowledge Plot in Samtskhe-Javakheti

EPI also launched potato production trainings in April at 6 Knowledge Plots (3 plots in Akhaltsikhe, 3 plots in Akhalkalaki) in Samtskhe Javakheti to 2,228 farmers in soil preparation, fertility, seed selection, IPM and harvest and post-harvest handling issues. Due to the high volume of trainees, EPI organized participants into groups of 20 farmers, with designated agronomist trainers who were themselves trained through EPI's ToT program. In addition, given the ethnic make-up of the region, EPI

The Open Field Vegetable Value Chain Before EPI

Prior to EPI implementation:

- Farmers lacked knowledge in proper production and post-production techniques, resulting in stagnant to low production outputs and low quality products
- Farmers faced significant challenges in accessing finance to upgrade supplies and machinery

emphasized effective communications to Armenian-speaking farmers by hiring Armenian facilitators and translators.

Potato farmers were also able to participate in EPI’s crop insurance initiative and sought relief under the co-shared crop insurance pilot project between EPI, Bank of Georgia and insurance company Aldagi BCI. For more information, please refer to [4.4.4 Access to Finance: Crop Insurance](#).

OUTPUTS	STATUS
8 KPs established delivering assistance to 1,680 farms and 30 agribusinesses	Completed – EPI has established 9 KPs in Samtskhe-Javakheti and Kvemo Kartli Regions Completed – EPI has trained a total of 3,093 farmers and 104 agribusinesses
MoUs signed with 12 service providers, 1,680 farmers, and 30 agribusinesses	Completed – EPI signed the “Agreement with a Farmer” with 3,093 farmers and 104 agribusinesses Removed – EPI partnered with 2 service providers who provided 9 KPs for training. Given the potential transfer of the training program to a grantee or the SDC program, EPI did not anticipate the need to sign the MoUs
Open field vegetable production, PHH, and training guides and materials developed and delivered to the farmers	Completed – The training materials for onions, garlic, carrots, and potatoes production covering seed selection, fertility, soil preparation, integrated pest management and pre- and post-harvest handling issues were developed

4.2.2 IMPROVE ACCESS TO AG INFORMATION (GANTT CHART LEVEL 25000)

One of the initial constraints that existed in Georgia is the lack of reliable daily commodity price data across the agricultural sector. However, initial research during Year 1 showed that the current market was unable to support an economically sustainable system to provide accurate daily prices to farmers, without an explicit subsidy by the public sector. As such, EPI and USAID agreed at the time to postpone the establishment of an agricultural market system.

With the foundation and progress established through EPI’s partnership with Ferrero/AgriGeorgia, EPI is now developing a simple system to share price and basic extension information among producers and hazelnut producer groups. Building on the technology already invested by Ferrero, EPI estimates approximately 10,000 farmers will be recipients of SMS messages. Preliminary discussions with farmers indicate their interest in using such a system to learn about prices, as well as basic extension information, such as timing for application of fertilizers or relevant pesticides. This simple system will provide farmers with up-to-date price information in their community to improve understanding of the market trends and application of fertilizers and pesticides, thereby facilitating their decision-making related to production and sale practices. These activities will be reported during Year 3 as they occur.

4.2.3 IMPROVE SUSTAINABLE ACCESS TO SUPPORT SERVICES (GANTT CHART LEVEL 26000)

At the beginning of EPI implementation, gaps existed in the supply and demand of Georgian agricultural services, which if addressed could contribute significantly to sustainable and future development of various value chains in the agricultural sector beyond EPI project end. To date, EPI has engaged 92 service providers and is transferring training programs to providers, including relevant training materials. As part of the KP training sessions, EPI trained and engaged 52 agronomists. These agronomists have already delivered training to farmers. EPI also designed a program with four local NGOs, as part of its crosscutting activities, to deliver value chain-specific financial management training curricula targeting 200 women farmers.

OUTPUTS	STATUS
8 agronomists trained at KCs and KPs	Completed – 52 agronomists were trained and 7 field coordinators have been hired by EPI to participate in KP training
4 Training films developed	In Progress – During project implementation, EPI recorded footage of the greenhouse and open-field vegetable training. As part of the discussions with educational institutions and service providers to take over the training programs to ensure sustainability, EPI will discuss their interest to develop such training films to use for their educational purposes. Mandarin and Hazelnut Training films will be developed by the grantee
Agricultural service providers trained in marketing topics	Completed – As part of KP training, partner farm service centers were trained in securing appropriate inputs and better marketing their inputs to producers
Agricultural services providers, farmers and agribusinesses professionals are trained in financial management	Completed – 200 women farmers trained in financial management Postponed to Year 3 – Agricultural service providers and agribusinesses training
Agricultural service providers delivering assistance and training to 8,000 farmers ⁵	In Completed – 92 service providers reached indirectly 32,600 farmers and 6,208 agri-businesses

4.2.4 MODEL SMALL HOLDER GROUPS (MSHG) (GANTT CHART LEVEL 27000)

The lack of unified groups within the agricultural sector to improve the marketability of produce and implement other initiatives to benefit agricultural value chains has hindered the overall growth of the Georgian agricultural sector. To address existing legal and regulatory

⁵ This is a Year 2 target towards meeting the overall target of 30,000 farmers and 300 agribusinesses within 30 months of the project.

constraints, EPI has providing its expert opinion and advice to EU-led working group tasked to develop a new law on cooperation, anticipated to be adopted by end of 2012.

During trainings and focus group meetings with farmers during Year 2, EPI determined that some farmers in targeted value chains are interested to institutionalize groups. In the hazelnut sector, EPI has worked and will continue to work with Ferrero/AgriGeorgia to develop a framework for such groups. In the mandarin sector, EPI has been working with the Subtropic Mandarin Association to adopt GlobalGAP standards across the mandarin value chain, which will continue into Year 3.

OUTPUTS	STATUS
Potential for establishment and support of small holder groups is identified and recommendations are developed for their support	Completed – Preliminary demand by hazelnut growers to establish a small holder group has been identified
Focus group of farmers on small holder groups conducted jointly with the BEE team	Completed – For hazelnut groups and planned to continue in Year 3
Small holder unified group model to be developed in collaboration with the MoA (legally recognized farmers associations, cooperatives, producer organizations)	In progress

4.2.5 AG INVESTMENT PROMOTION (GANTT CHART LEVEL 29000)

The AG and IMS teams have been providing guidance and support to several foreign investors and potential investors. (See details under [3.1.3.1 Investment Management Services](#)).

4.3 MANUFACTURING & SERVICE SECTORS COMPONENT (M&S) (GANTT CHART LEVEL 30000)

EPI's activities in the M&S sectors have three main objectives: enhancing productivity, promoting investment and strengthening market linkages – all of which will ultimately increase competitiveness, employment and exports. EPI aimed to achieve this by connecting Georgian value chains to the global market – to investors, buyers and tourists – and by increasing skills and private sector capacity to meet market needs. Year 2 Highlights are presented in the box on the following page.

4.3.1 M&S VALUE CHAIN ACTION PLAN DEVELOPMENT (GANTT CHART LEVEL 33000)

In Year 2, EPI completed its final action plan for MICE tourism.

OUTPUTS	STATUS
MICE Tourism Action Plan	Completed

4.3.2 M&S VALUE CHAIN ACTION PLAN IMPLEMENTATION (GANTT CHART LEVEL 34000)

BUSINESS DEVELOPMENT SERVICES (BDS)

In addition to technical assistance and capacity building of value chain beneficiaries, at the end of Year 1, EPI designed a BDS program to better connect Georgian business service providers (BSPs) and their potential clients. The program aimed to support business development, improve management practices and enhance the competitiveness of Georgian companies in EPI-targeted value chains. At the same time, the program was designed to stimulate demand and improve the market for business consulting services.

The pilot started with MoUs between five BSPs and seven value chain companies. Over the course of the pilot, the BSPs conducted organizational diagnostics on a pro bono basis, examining company structure, key systems and processes. The goal was to identify strengths and weaknesses, thus helping companies to prioritize problems, identify opportunities and develop action plans to improve their performance, profitability and competitiveness.

BSPs completed a total of 7 organizational diagnostics projects during Year 2. Through this process, value chain companies recognized the value of management and consulting services to the growth of their business, and they continued to work with the BSPs for their consulting needs.

Year 2 Highlights in the Manufacturing and Service Sectors Component

- Directly contributed to six apparel companies receiving outsourcing orders from international companies to commence their exports and facilitated USD 5.6 million in export increase for the whole apparel sector through investment facilitation services, and creating linkages among apparel companies in Georgia.
- Significantly boosted the quality and volume of four Georgian paper producers through targeted support and achieved 47% revenue increases or first six months of 2012.
- Supported the development of a multimodal logistics hub near Tbilisi, supporting investment promotion, development of linkages between Georgian and international logistics companies
- Directly contributed to 170% in revenue increases for T&L companies by strengthening their capacity and connecting them to international markets through rigorous trade and cargo market analysis
- Supported wine tourism international promotion, service improvement and wine etiquette training, resulting in USD 43 million in tourism receipts;
- MICE tourism public and private sector stakeholders presented themselves jointly in front of international audiences in Europe resulting, among other achievements, in increased flight frequencies from Ukraine and an increase of USD 66 million in MICE tourism receipts
- Contributed to 5,470 new jobs as a result of increases in international tourism receipts in wine and MICE tourism sectors
- Supported Georgian ICT companies to establish domestic and international market linkages and adopt new technologies, resulting in 78% revenue increases for EPI beneficiaries

Building on this successful foundation, EPI shifted its focus to taking BDS work to the next level. By cost-sharing consulting projects with firms in EPI-targeted sectors and value chains, and particularly where the opportunity existed for a dynamic impact in employment, investment, export and revenue growth, EPI directly contributed to its high-level results. In some cases, EPI used BSPs to provide sector-level assistance instead of using its own staff or contractors in line with USAID Forward initiative, and has also sought innovative partnerships with other organizations to provide needed services to its value chain firms, for example:

- Six EPI companies benefited from EPI's partnership with the Caucasus University for business plan development;
- 29 EPI companies were trained on organizational issues facing Georgian companies based on EPI's partnership with Synergy Group
- 19 companies and 89 farmers were trained on Electronic State Procurement by Free University in order to better leverage other donor resources,
- EPI also established a partnership with European Bank of Reconstruction and Development's (EBRD) Business Advisory Services Program (BAS) to embed the EBRD program within EPI and be able to leverage EBRD funds for EPI value chain companies.

Table 1: BDS Consulting Projects Undertaken to Date

B4B Program Activity	Beneficiary	Business Service Provider	Sector/Value Chain	Topic	Status
Organizational Diagnostics Projects	BPG	GFC	Construction Materials		Completed
	KTW	Innova	Wine Tourism		Completed
	Legi Group	Synergy Group	Packaging		Completed
	Georgian Railway Transcontainer Company	GEC Developments	T&L		Completed
	Singular Group	Synergy Group	ICT		Completed
	ITNovations	AGH	ICT		Completed
	Azry	GEC Developments	ICT		Completed
Sector-Specific Projects	10 apparel companies	GEC Developments	Apparel		Completed
Enterprise-Specific Projects	Expo Georgia	TBD	MICE Tourism	Marketing Strategy	In Process
	Herbia	TBD	Greenhouse Ag	Business Plan	Planned
Caucasus University Business Plan Project	Schuchmann Wines and Hotel	n/a	Wine Tourism	Feasibility study for new hotel building and expansion of wine tourism facilities	Completed

B4B Program Activity	Beneficiary	Business Service Provider	Sector/Value Chain	Topic	Status
	Telavi Technical Supply Facility	n/a	Wine Tourism	Business Plan for company's investment in wine tourism facilities	Completed
	Saluka Packaging	n/a	Packaging	Feasibility study for company's vertical integration	Completed
	Singular Group	n/a	ICT	Business Plan for new online product	Completed
	UGT/IT Invest	n/a	ICT	Business Plan for new online product	Completed
	Sula Greenhouse	n/a	Greenhouse Ag	Business Plan for tomato and cucumber production	Completed
Training	Various – 11 Companies	Synergy Group	All	2 x Prevalent Organizational Issues Affecting Georgian Enterprises (Feb - Mar 2012)	Completed
	Various - 18 companies	Synergy Group	All	2 x Effective Organizational Structures (Apr – May, 2012)	Completed
	Various - 19 companies & 89 farmers	Free University	All	10xElectronic Procurement	Completed
	Various	Free University	ICT, BEE	ICT Project Management	In Progress

OUTPUTS	STATUS
At least 6 BSPs selected	Completed – 13 BSPs selected
25 consulting/training projects performed with 25 VC firms	Completed – Projects (25 completed, 2 in progress) Completed – VC firms (excluding training) (23 completed, 2 in process), in addition 48 companies and 89 farmers were trained. (Additional details in Table 1: BDS Consulting Projects Undertaken to Date above)

PERLITE PRODUCTS VALUE CHAIN

PERLITE VALUE CHAIN

During Year 1 assessments EPI determined that, while relatively small, Georgian perlite products had significant potential to attract investment and increase exports and domestic sales. EPI helped to link perlite companies with international buyers through participation at international trade fairs, which resulted in sales of 20 thousand units of perlite-concrete blocks.

At the beginning of Year 2, EPI shifted its focus to help perlite processors to double exports of perlite blocks to a more targeted market in Azerbaijan and increase domestic perlite sales (concrete blocks and higher value added products). EPI completed a comprehensive analysis of the costs and benefits, in terms of thermal performance and structure, of using perlite and basalt products in construction. This study was shared with construction industry and government agency representatives. EPI also provided guidance on specific areas including equipment upgrading options and sources of finance to fund purchase of perlite processing equipment. Upon providing this assistance, EPI felt confident that the perlite companies had sufficient knowledge and capacity to continue activities on their own and therefore, ceased further activities in the perlite value chain.

OUTPUTS	STATUS
Construction Materials Costs and Thermal Performance Assessment Study	Completed
Assistance with access to finance to purchase equipment	Completed
Recommendations on perlite equipment to support establishment of a joint venture	Completed

APPAREL VALUE CHAIN

At the beginning of EPI implementation, the Georgian apparel sector was struggling to grow. During the Soviet era, it was the most profitable sector in Georgia's economy, but in recent years, several issues prevented the sector from experiencing further development and successfully competing in the global market (see box).

A strategic entry point for EPI was to support an increase in export capacity by working with Georgian apparel manufacturers to facilitate new export and investment market linkages. EPI supported manufacturers' attendance at four international conferences and trade fairs, which directly contributed to these companies' receipt of outsourcing orders from international companies or establishment of linkages with higher quality or less expensive input suppliers for production. Through EPI's BDS program, 10 apparel companies developed their corporate marketing profiles and a consolidated apparel industry brochure to present

The Apparel Value Chain Before EPI

The apparel sector in Georgia was faced with a number of constraints:

- Outdated sewing equipment and practices meeting traditional needs, not current market needs
- Limited compliance with international standards such as WRAP and health, safety and environment standards
- No access to skilled apparel workforce
- Lack of collaboration between apparel companies and vocational colleges
- Low awareness among apparel companies of export markets and outsourcing opportunities
- Business enabling environment issues, including customs and VAT issues

their qualifications jointly to buyers at international fairs. EPI's work also built the apparel companies' knowledge of export promotion and global trends.

During Year 2, EPI advisors supported investment promotion to potential investors in Turkey (see [3.1.3.1 Investment Management Services](#)), Georgian firms' attainment of certification and standards, and development of the apparel workforce (see).

Certification and standards have become a requirement to successfully compete in the global apparel industry, and attendance at international trade fairs demonstrated this fact to the apparel company representatives, who learned that serious buyers are unwilling to



Photo 9: Interkek WRAP Training to Apparel Industry

contract with an apparel manufacturer if these requirements are not met. Although many standards exist in the apparel industry, EPI identified Worldwide Responsible Accredited Production (WRAP) as an initial but important step toward introducing standards in an acceptable and affordable manner for local apparel companies.

EPI supported Intertek Consumer Goods to deliver training on WRAP standards to representatives from apparel companies, vocational colleges, business consulting firms, and the public sector. EPI also organized a WRAP pre-audit of two apparel companies who expressed interest and readiness to

apply for WRAP certification – Miller & Company and Imeri, both of which made significant progress toward achieving certification anticipated to occur during EPI's Year 3. Acknowledgement of the importance of international health, safety, environmental and social compliance and the intention to adopt international standards has increased the profile of Georgian apparel companies as viable international partners.

While initially EPI focused on Georgian-owned apparel companies that had no prior experience in exporting or outsourcing, during this year, EPI also engaged the rest of the apparel sector, such as Turkish-owned apparel companies based in Adjara that are part of the global apparel supply chain through their Turkish parent companies. For example, EPI offered targeted training to all apparel companies on "Apparel Company of the Future" that focused on introduction of lean manufacturing and just-in-time techniques. EPI also strengthened dialogue and linkages between local designers and apparel manufacturers to expand domestic brands in the local market by organizing the first Fashion and Apparel Conference in Georgia. As a result of these joint activities, Turkish-owned and Georgian-owned companies are now in the process of establishing commercial linkages.

EPI's BEE component worked through public-private dialogue and guidance to the GoG to resolve tax and customs issues affecting the apparel sector, including certificates of origin under the EU GSP+ program and inward processing regulations for apparel manufacturers. Similarly, EPI provided investment facilitation advice to existing Turkish-owned companies in Adjara that resulted in the expansion of their operations.

By the end of Year 2, the apparel sector transformed itself completely by changing its focus from low-cost domestic uniform business toward higher-end international markets. The companies reported their first exports and outsourcing orders, progress towards adoption of international standards and a better understanding of the requirements of global markets. While initially the companies in the sector saw each other as competitors, initial cooperation was demonstrated through joint fulfillment of outsourcing orders. These companies also learnt from EPI trainings and the Adjara-based apparel companies about the importance of productivity management and efficiencies and the opportunities for creation of local mass production labels. Complemented by the EPI workforce education program and investment

promotion activities during Year 3 and Year 4 of EPI project, the apparel sector is truly positioned to take off and serve as a key source of exports and employment in Georgia.

OUTPUTS	STATUS
VC groups workshops and electronic mail/newsletters	Completed – Direct distribution via e-mails and regular meetings with EPI staff members
Trade shows	Completed – Kiev, Munich and Paris. EPI's Apparel Consultant participated with promotional and organizational support.
Familiarization trips/visits by potential buyers and investors	Completed – See 3.1.3.1 Investment Management Services
Compliance standards workshops and follow-up audits	Completed
Awareness event for Georgian fashion designers	Completed
Regional Labor and Investment Study completed	Completed
Apparel Sector Investment Environment Survey completed	Completed
WRAP Certification Obtained by two Local Apparel Companies	In Progress – Certification audit planned during Year 3

PAPER/PAPERBOARD/CORRUGATED VALUE CHAIN

The underperformance of the packaging sector (see box below) contributed to Georgia's manufacturing companies ineffectual marketing, both domestically and to neighboring countries. Unacceptable paper quality and unpredictable service from domestic paper also forced corrugated box converters to rely on paper imports from neighboring countries, primarily Turkey, for their paper supply.

To address these issues, EPI designed activities to increase the quality, product and variety of



Photo 10: Minister of Agriculture of Adjara and Director of Legi Group Discussing New Packaging

The Packaging Value Chain Before EPI

The corrugated packaging sector in Georgia was an under developed industry, falling short of industry standards in terms of:

- Industry penetration and usage
- Technology
- Quality performance
- Regulatory control
- Process and product consistency
- Sales and marketing effectiveness
- Overall management practices

available packaging types, and to establish market linkages. EPI worked with Georgian box plants to improve manufacturing processes, introduce international packaging standards and quality control mechanisms, conduct on-site product testing and increase the efficiency of existing machinery. Four of EPI's beneficiary box plants received individual programs to implement EPI recommendations to better serve market demands.

EPI also worked with box plants to begin production of moisture-resistant corrugated boxes for local agricultural products, including fresh fruits, vegetables, fresh meat, fish and frozen food. The improved packaging will

increase the quality of exported produce, which was suffering from improper packaging. EPI also partnered with IFC to assist packaging companies to establish international food safety standards for distributors and processing companies. By reducing produce damage during transportation and handling, these efforts will directly contribute to significant growth for Georgia’s agricultural sector.

To improve market linkages, EPI assisted packaging companies to attend international packaging exhibitions in target countries like Turkey and Ukraine to promote Georgian packaging products. EPI linked paper packaging companies with local greenhouse operators, who are now using corrugated containers for their produce for the first time in Georgia. Packaging companies also established a linkage between international hypermarket chain Carrefour and local producers to meet the packaging requirements of the grocer’s Georgian operations.

OUTPUTS	STATUS
Participation in Ukraine Paper in Kiev	Completed
Agricultural Packaging Needs and Demand Assessment completed	Postponed to Year 3
High quality packaging paper grades and new varieties developed, followed by Paper Grades, Box Specifications and Standards Quality Programs, and paper sorting methods reviewed	Postponed to Year 3
Box plant equipment, operations, procedures and quality standards	Completed
Market links established between packaging VC players and domestic produce growers/exporters	Completed – Market linkages with Adjara produce growers/ exporters and Georgian Greenhouse operators established; additional market linkage activities will continue in Year 3

TRANSPORT & LOGISTICS SECTOR

From project start, EPI identified the T&L sector as a priority. The GoG planned to develop Georgia as a regional transit corridor, but one of the challenges EPI faced in assessing the sector was the lack of trade and transit data. During Year 1, EPI and subcontractor ACT Research conducted fundamental research, unprecedented in Georgia, on the volume and value of regional trade and transit flows over the past five years. This served as a solid foundation for EPI’s T&L action plan development. In addition, the freight forwarders used the data provided by EPI’s study to target their business operations and identification of business partners in those markets where goods originated.

Despite the enormous potential to establish Georgia as a transit corridor and logistics regional hub, the country was in very early stages of doing so prior to EPI intervention. EPI conducted a competitive analysis of Georgia and the Caucasus Transit Corridor (CTC), providing recommendations to the GoG to position the country as a key regional player and attract additional cargo through the CTC.

The T&L Sector Before EPI

The T&L sector in Georgia was struggling to develop despite significant potential:

- Limited awareness of international best practices in supply change management, cargo fleet management, warehouse management
- Lack of logistics centers meeting international standards
- Lack of efficient customs regimes for warehousing
- Limited understanding of actual opportunities in the T&L sector and the CTC
- Limited adoption of IT systems to more effectively manage cargo

Early on, EPI identified a trade facilitation system (TFS) as one of the elements that will strengthen Georgia's position in the CTC.



Photo 11: Presenting Georgia's TFS and the Caucasus Transit Corridor at the RCI Regional Trade Facilitation Conference

Based on experience in other countries, a TFS in Georgia will create efficiencies for cargo flows, facilitate trade by reducing both time and costs per transaction and allow T&L companies to more effectively plan and manage their cargo flows to or through Georgia. With the full support of government and private sector stakeholders, EPI identified the opportunity to establish a TFS and then garnered critical support of key stakeholders to commence the establishment of a TFS in Georgia in Year 2. For more information about the TFS, please refer to [3.1.4 International](#)

Trade & Customs.

EPI also assisted the Ministry of Economy and Sustainable Development (MoESD) in the development of a national air transportation strategy. Following a competitiveness study of Georgia's air transportation, EPI worked with the MoESD to develop a policy paper to ensure Georgia's liberalized policy is institutionalized, attracts investment in the sector, increases the presence of international airlines, increases passenger and cargo turnover and bolsters safety and security measures in Georgia's airports.

"We are conducting substantial reforms in the transport sector, and therefore cooperation with representatives of [EPI] is essential and critical and is highly appreciated by the Ministry of Economy and Sustainable Development of Georgia. The elaboration of the strategic master plan for Georgian Civil Aviation is a priority for further development of the entire sector, which will have a major influence on the Transport Policy Department and consequently will promote the development of the Civil Aviation sector in Georgia."

- George Karbelashvili, Deputy Minister, MoESD

A lack of international awareness and misperceptions of the CTC challenged Georgia's ability to become a regional T&L hub. During Year 2, at the request of the GoG, EPI developed a full feasibility study on agricultural products and food logistic centers in Tbilisi and Batumi. Despite an initially lukewarm reception for the Tbilisi center, the government selected the site proposed by EPI for a phased development of the center, and EPI commenced targeted investment promotion activities with renowned international developers and operators and potential investors, including Asian Development Bank (ADB). In Adjara, the Adjara Government expressed significant interest in the feasibility study and EPI facilitated the initial negotiations and preparation of an MoU with the ADB with regards to possible financing options and the commencement of a due diligence process. Due to post-election changes, the ADB will re-engage with the new Adjara Government to confirm their continued interest in proceeding with establishment of the center.

EPI also helped to promote the multimodal Tbilisi Logistics Center (TLC) investment project with TLC Property Management at international investor conferences and by EPI investment promoters in Turkey. In Georgia, EPI looked for innovative ways to attract the interest of companies to use the TLC for their operations, in order to increase the occupancy rate and therefore the appeal for additional investors. EPI organized a conference to attract equity investment and helped TLC negotiate with international financial institutions and private companies interested in investing. International food chain McDonald's signed a memorandum of cooperation with TLC to establish a warehouse and office at the center.

Another significant activity aimed at enhancing Georgia's T&L sector was EPI's assistance to establish a Supply Chain Council (SCC) chapter in Georgia, which will make dramatic and rapid improvements in supply chain management, including the application of Supply Chain Operations Reference (SCOR) model to Georgia. EPI organized discussions between stakeholders and additional activities regarding SCC will take place in Year 2.

OUTPUTS	STATUS
Agricultural Products and Food Logistics Hub Feasibility Study, including attraction of investors	Completed – Feasibility Study has been finished In Progress – Providing support to government of Adjara to find operators and investors
Supply Chain Council Chapter establishment in Georgia	In Progress – SCC Chapter to be established in Year 3
Competitiveness Analysis of the CTC	Completed
Air transport strategy developed	Completed – The strategy document has been provided to the GoG and EPI will provide support to the GoG to draft relevant policy/regulatory
Participation at International Logistics Exhibition in Istanbul, IRU Conference, and Transportation, Trade and Customs Conference in Batumi	Completed
Modern technologies in T&L sector established – TFP and Cargo Terminal Operator Software	In Progress – Details on TFP are reported in the BEE section of the report Completed – Cargo Terminal Operator Action Plan developed and will be submitted at the beginning of Year 3
Associations capacity improved – Georgian Logistics Association (GLA) and Freight-Forwarders Association	Postponed to Year 3 or 4
Assist TLC Company in finding an investor for the Intermodal Logistics Center project	In Progress – EPI facilitates networking of Georgian transportation companies and cargo owners on the permanent basis.

4.3.3 IMPROVE COMPETITIVENESS OF TOURISM SECTOR (GANTT CHART LEVEL 35000)

At the project start, EPI identified a lack of tourism data as one of critical constraints for the sector as this prevented businesses to understand tourist preferences while the GoG was not able to adopt a targeted approach to tourism product development and promotion. In order to strengthen their understanding of tourism demand, EPI, in partnership with GNTA, conducted a year-long study (4 quarterly surveys plus one pilot survey, covering the period from July 2011 to June 2012) of international and domestic tourist profiles, expenditures, satisfaction and perceptions. This information will be used to formulate targeted policies and will help measure the real contribution of the tourism sector to the overall Georgian economy.

EPI also ensured the sustainability of the survey. The survey process, in line with EU and UN World Tourism Organization recommendations, will now be undertaken by GNTA going forward. During Year 3, EPI will provide guidance on survey quality and analysis of the results, while GNTA is engaging a market research company to conduct surveys and post results for further analysis on the newly developed GNTA statistical website.

WINE TOURISM VALUE CHAIN

Georgia’s wine history, culture and quality offer enormous potential to provide a unique tourism experience to domestic and international tourists. However, several challenges existed regarding Georgia’s wine tourism (see box). EPI has worked closely with the Georgian National Tourism Administration (GNTA), Georgian Wine Association (GWA) and Georgian Incoming Tour Operator Association (GITOA) to tackle some of these constraints.

EPI supported GWA to increase its ability to conduct detailed wine tourism market research and develop a promotional plan to improve Georgia’s wine tourism products and promote the wine tourism experience internationally.

The Wine Tourism Value Chain Before EPI

Georgia’s wine tourism faced several challenges at the outset of EPI.

- Low awareness, interest and motivation among tourists
- Lack of infrastructure and quality of wine tourism products
- Low level of wine knowledge and etiquette



Photo 12: Promoting Georgia’s wine tourism sector through the unique Qvevri wine-making tradition

The Kakheti region in Georgia is the hub for wine tourism activities. Improving the infrastructure and quality of this area has become a priority, not only for EPI but for other major stakeholders as well. EPI and its stakeholders developed a working group on wine tourism involving wineries, guide associations, World Bank, GNTA, Samtrest, Strategic Development Agency, GWA, GITOA and other relevant stakeholders. The working group established a wine tourism strategy focused on workforce skills development and training, public awareness campaigns, and Kakheti infrastructure and tourism product development. The strategy also outlines target markets and profiles the type of

tourists Kakheti should aim to attract.

EPI also designed activities to directly increase awareness of Georgia’s wine tourism sector, including organizing the First Qvevri Symposium in Georgia to demonstrate Georgia’s traditional Qvevri wine-making method, sponsorship at the International Wine Tourism Conference and Workshop in Italy, a visit by wine opinion shapers to Georgia to experience Georgian wine and engaging an expert, Tim Clarke, to shape an action plan for the wine tourism sector. As a result of these activities, Georgia’s wine tourism sector received increased attention in international media and Tim Clarke’s global wine tour company added Georgia to its wine route.

For more on EPI’s workforce development activities in wine tourism, please refer to [4.4.3 Establish Public Partnerships: Workforce Development](#).

OUTPUTS	STATUS
A promotional campaign undertaken in Tbilisi	Postponed – Depending on priorities of wine tourism public and private stakeholders
Wine tourism brochure prepared	Postponed – Depending on priorities of wine tourism public and private stakeholders
Participation in International Wine Tourism Conference and Workshop in Italy and in International Qvevri Club Symposium in Slovenia	Completed

Inventory of Kakheti wine tourism attractions completed, three wine tourism routes and cultural heritage and wine tourism attraction signage prepared	Cancelled - Inventory was undertaken by Solimar International, consulting firm to the WB
One winery open seven days a week for tasting without an appointment	Completed – 8 wineries open for tourists without appointment
Wine Association capacity building activities completed	Completed
Wine, Tourism and Wine Tourism Portal Developed by GWA & GITOA	Postponed – Depending on priorities of wine tourism public and private stakeholders

MICE TOURISM VALUE CHAIN

The main challenge to development of Georgia’s MICE tourism value chain was that it was not treated as an area for development, despite its enormous potential. During early stages of implementation, EPI defined and named the “MICE” as a specific tourism value chain, which was then soon embraced as a targeted sector by the GoG and private sector stakeholders. During Year 2, EPI focused on effective and targeted MICE tourism promotion. Working closely with GNTA and the hospitality industry, EPI developed a MICE tourism action plan and helped stakeholders to participate in several large international MICE tourism conferences to promote Georgia in Europe resulting, among other achievements, in increased flight frequencies from Ukraine.



Photo 13: Georgia participates at the MICE exhibition in Barcelona resulting in increased MICE visitors to Georgia in 2012

All these activities saw a rapid increase of MICE visitors to Georgia, starting at 32,711 tourists in 2010, 104,629 in 2011 and 103,475 for the first eight months in 2012, resulting overall in USD 66 million of new international receipts since 2010.

OUTPUTS	STATUS
MICE tourism action plan development	Completed
MICE Tourism Workshop in Global MICE Industry, Business, Sales and Marketing in Tbilisi by Harry Fine	Completed
MICE Tourism Workshop in Global MICE Industry, Business, Sales and Marketing in Batumi by Harry Fine	Completed
Participation by Georgia’s public and private sectors together for the first time at an international MICE Tourism exhibitions: EIBTM Barcelona in November 2011	Completed
Promotion of Georgia’s MICE industry in Ukraine	Completed
First MICE tourism industry conference	Completed
First MICE tourism focused Caucasus International Fair to be held in Tbilisi	Completed

IMEX Frankfurt International MICE Tourism Fair, May 2012	Completed
Georgian MICE Tourism Brochure Updating and Printing	Completed
One-day online workshop for effective exhibiting at IMEX Frankfurt by Harry Fine	Completed
Familiarization Trip of International DMCs to Georgia	Commenced in Year 2 and continued through Year 3

4.3.4 IMPROVE COMPETITIVENESS OF ICT SECTOR (GANTT CHART LEVEL 36000)

When EPI initially assessed the potential of ICT sector, it was challenging to identify entry points for intervention or support. The fact that the government emphasized e-Government initiatives demonstrated domestic market demand, but it was unclear how the project could facilitate sustainable private sector engagement. It was also difficult to identify specific crosscutting value chain initiatives. Once it became clear that the sector had systemic challenges (see Box on following page), EPI’s challenge was determining how to have an impact on issues that would be difficult to address in a short timeframe.

The ICT Sector Before EPI

Several challenges faced EPI in its engagement with the ICT sector:

- There was little even basic data or information about the sector, including how many firms there were, employment, target markets, sales and exports
- A lack of qualified workers and poor quality management

EPI decided on an opportunistic approach to developing the ICT sector. Shortly after completing its ICT sector assessment, EPI successfully established a partnership with the Ministry of Justice and Civil Registry Agency (CRA), bringing private sector stakeholders to the table to discuss E-ID application development. EPI supported the first conference on this topic and, through ICT Business Council, launched application development training to 6 ICT companies. They have already developed several applications such as eID Login Applet to use eID card on Internet websites for access control, Citizen’s Social Status Viewer application and others. EPI also closed the information gap by conducting a detailed assessment of software development companies.

As in other value chains, EPI helped to establish market linkages for local ICT companies through participation at international trade fairs, conferences and events to establish contacts, become more aware of new trends and technologies, increase their market knowledge and identify market niches.



Photo 14: Microsoft and USAID Mission Director Haykin award the winner of the 1st Microsoft Imagine Cup student technology competition in Georgia

Based on EPI’s ICT Workforce Education assessment that identified lack of skilled IT workforce and IT training and educational providers, EPI conducted a feasibility study on the establishment of an IT Innovation Center in Georgia. EPI identified a partnership with the ICT Business Council, international vendors and local universities to promote an establishment of the first ICT Innovation Center in Georgia. Additional activities related to this activity will take place in Year 3.

During Year 2, EPI also partnered with Microsoft, as well as other private and public sector stakeholders, to implement the first Microsoft Imagine Cup student technology competition in Georgia, the winner of which traveled to the global final competition in Australia.

OUTPUTS	STATUS
ICT Action Plan	Completed
Development of 30 E-ID applications	In Progress – 5 new applications developed, 3 in progress Due to the delay of hiring IT professionals for ICT Business Council, this target will be moved to Year 3.
Participation in various events: CEBIT Istanbul, GITEC Dubai, DigiTec Exhibition in Armenia, GITI Conference B2B in Tbilisi, Cartes & Identification in Paris, National E-ID & E-Passport in Istanbul and MASIT in Macedonia	Completed
E-ID applications promotion web page developed – http://www.id.ge	Completed
Established partnership between Jordanian and Georgian ICT companies	Postponed to Year 3
ICT education capacity and expertise study completed	Completed
Innovation Center feasibility study completed and Innovation Center established	Completed –Innovation Center feasibility study developed and establishment of the Innovation Center postponed to Year 3
20 companies trained in E-ID application development, PMP and Business Process Reengineering (BPR)	In Progress – for E-ID application - application – 6 new organizations/companies trained. Cancelled – PMP and BPR training to be offered as part of the Innovation Center training programs. As part of the BDS program, 1 PMP training session will be offered for GoG staff participating in EPI-funded e-Governance system development.
100 companies receiving services and products through the Innovation Center	Postponed to Year 3 and 4 – Once Innovation Center is established
Microsoft Imagine Cup competition	Completed

4.4 CROSSCUTTING ACTIVITIES COMPONENT (CC) (GANTT CHART LEVEL 16000)

EPI's CC activities enable and support results by EPI AG, M&S and BEE teams to ensure efficient and effective program delivery. In support of its apparel and tourism sector development work, EPI delivered much needed, industry-driven programs to develop the skills and knowledge of workforce in these sectors. EPI also implemented activities to increase access to finance for its value chain companies and overall Georgian business community, which is a critical prerequisite for value chain and sector growth. EPI also strengthened economic knowledge in Georgia and promoted effective public and private dialogue on competitiveness topics. EPI also designed and implemented women- and youth-focused activities across its value chains.

Year 2 Highlights in the Crosscutting Activities Sectors Component

- Implementation of a world-class, industry-driven apparel vocational training program
- Introduction of internationally certified wine tourism and customer service training programs for hospitality sector
- Catalyzed Georgia's crop insurance industry development to grow loans facilitated through crop insurance by USD 7.3 million since 2010
- Increase of USD 22.7 million in Georgia's leasing portfolio since EPI facilitated financial leasing reform

During Year 2, EPI established the IMS function within CC to manage investment promotion activities in coordination with GNIA. The IMS function has been moved under the BEE component in Year 3 – for consistency please refer to [3.1.3.1 Investment Management Services](#).

4.4.1 GENDER AND YOUTH INTEGRATION (GANTT CHART LEVEL 16100)

YOUTH

Increased employment across the sectors and value chains of Georgia's economy is one of EPI's key priorities. EPI designed strategies in Year 1 to target assistance specifically toward developing the skills of women and youth to improve their employment prospects.

In Year 2, EPI formalized its internship program, which to date has employed 70 interns, including part time facilitators at EPI regional agricultural trainings. EPI recruited interns from leading Georgian universities⁶ EPI also built a partnership with USDA to provide a summer



Photo 15: USAID Mission Director Haykin meets EPI interns

internship opportunity to three Georgian students who are attending the American Agrarian University in Yerevan.

These interns worked directly with EPI's value chains managers assisting them with data collection and analysis, planning and organizing of trainings and events, communicating with stakeholders, and preparing technical programming materials. The internship program also tracks alumni, and it has recently

introduced a mentorship program that will allow interns to link with EPI value chain

⁶ University interns included Free University, Black Sea University, Georgian American University, Caucasus University, American University for Humanities, Georgian Technical University, Agrarian University, Batumi State University, Zugdidi University and Akhaltsikhe State University.

managers to obtain career guidance and assistance to prepare them for employment upon graduation. This year, nine interns graduated and found employment at EPI and EPI beneficiary and counterpart organizations.

GENDER

Early in the project, EPI promoted networking among successful women entrepreneurs to discuss their successes and challenges they face in business community. EPI also launched a Women Entrepreneurs focus group and network event, consisting of 10 businesswomen. The participants expressed interest to continue similar networking events and work with EPI to identify opportunities to increase the profile of successful women entrepreneurs in the society.



Photo 16: EPI Women Entrepreneurs Event at Betsy's

EPI also focused on developing programs to better integrate women in project agricultural activities. EPI's gender assessment confirmed that women play an important role on the largely family-run farms in managing the business side of farming.

In Year 2, EPI, through its contractor Making Cents, delivered series of trainings to more than 42 NGOs and service providers, focusing on youth and gender issues, in NGO Audit Tool and Curriculum Design Instrument. These trainings aimed at internal capacity building of the NGOs and service providers as well as helping them to design and upgrade curriculum based on the training needs of their constituencies. Furthermore, EPI, in partnership with Making Cents and five local NGOs,⁷ developed a customized, six-hour curriculum to improve business skills among women farmers in the hazelnut, open field vegetable and mandarin value chains. Trainings using the customized curriculum were delivered to 200 women farmers throughout a series of training sessions across Georgia in August 2012.

OUTPUTS	STATUS
EPI Internship Program Implemented	Completed – The program was established and the hiring and training of interns will continue for the life of the project
Women Entrepreneurs networking events	Completed
40+ service providers trained	Completed
100+ women entrepreneurs trained	Removed – 10 women entrepreneurs attended Leadership and Mentoring focus group, however EPI shifted its focus to business skills trainings for women farmers
40+ interns engaged	Completed –70 in total in total during the reporting period
NGOs trained on delivering agricultural business development training and 200 women farmers trained	Completed – NGO training completed, 200 women farmers trained in basic business skills

⁷ Including the Association of Young Economists of Georgia (AYEG), Georgian Business Development Center (GBDC)/Sense Selection, Civil Development Agency (CIDA) and the Georgian Association of Women in Business (GAWB).

4.4.2 INCREASING ECONOMIC KNOWLEDGE (GANTT CHART LEVEL 16200)

ECONOMIC JOURNALISM DEVELOPMENT

During the early stages of the project, EPI assessed economic journalism in Georgia and found the quality of business writing poor due to inexperience and lack of knowledge about economic and competitiveness topics. In response, EPI designed several activities to enhance economic and business writing to improve quality and frequency of reporting. By building its relationship with the media, EPI engaged journalists in its activities through involvement in EPI events and providing its experts as sources for economic reporting.



Photo 17: Journalists complete EPI's EJD Training Program

EPI also conducted informal “Coffee and Conversation” sessions, bringing together interested economic reporters and subject matter experts to discuss specific economic issues, including Risk Based Audit, Intellectual Property Rights, and Apparel Sector Potential in Georgia. The informal nature of these sessions allowed economic journalists to learn more about economic issues in a comfortable and interactive setting, often resulting in coverage of these issues by participating journalists.

In parallel to these sessions, EPI designed a more formal economic journalist development training program with subcontractor PMCG. Twenty-three journalists attended four training sessions led by economic experts from PMCG, who covered a variety of economic and competitiveness topics. These journalists also attended four site visits throughout Georgia to observe EPI’s value chain activities first hand. EPI also selected 10 journalists to participate in “office hours” over the course of six months with PMCG experts. These journalists received additional guidance to improve their overall data collection skills and upgrade their knowledge and coverage of economic issues. During the course of the training program, journalists participated in a competition for the best economic journalism article. After evaluating the analytical depth, the level of consultations involved and the topicality of more than 70 entries, EPI selected journalist Nana Mgebrishvili’s article “Highest Salaries in Georgia Found in the Financial Sector.” As an award, Ms. Mgebrishvili accompanied EPI apparel beneficiaries to the Paris Apparel Trade Fair to cover the value chain in a global context. The resulting article by Ms. Mgebrishvili on Georgia’s apparel industry was published by *The Financialist*⁸ and is available at the link in the footnote below and on the EPI website. The Year 2 EJD program concluded in September with the awarding of certificates to graduating journalists. The economic journalism training program will continue with another round in Year 3.

OUTPUTS	STATUS
180 media products supported by EPI assistance	Completed – 194 in total
At least 10 journalists trained	Completed – 23 in total
4 media visits and retreats conducted to increase	Completed – 2 retreats and 2 site visits to the

⁸ The article can be viewed at http://finchannel.com/Main_News/Business/117716_Georgian_Apparel_Companies_on_the_Global_Market/

knowledge about the EPI VCs and the associated BEE reforms	mandarin and apparel (Imeri, Adjara Textile) VCs completed
6 large-scale trainings conducted together with G-Media and PMCG	In Progress – 4 trainings in total, additional training to be provided in Year 3
12 “Coffee and Conversation” sessions conducted	In Progress – 8 sessions in total

IMPROVING BUSINESS ACUMEN AND ECONOMIC KNOWLEDGE

In addition to the lack of quality economic reporting Georgia has faced a general lack of basic, reliable economic data. In addition to disseminating its own assessments and reports, EPI turned to local think tanks and research institutions to develop and disseminate enhanced economic and business analysis, such as:

- International and Domestic Visitor Survey, Business Perception Survey, Apparel Investment Environment & Labor Force Survey and Transport & Logistics Time Motion and Cost Study Survey with ACT Research
- WEF Global Competitiveness Report (GCR) analysis with PMCG
- Round table forums on Georgia’s competitiveness with the Economic Policy Research Center and the Atlantic Council of Georgia
- Pension reform modeling with PMCG.

During Year 2, EPI partnered with USAID’s Policy, Advocacy, and Civil Society Development in Georgia (G-PAC) project to select a Georgian think tank to receive grant funding to analyze several competitiveness topics. The overall goal of this partnership was for EPI to provide mentorship to develop the capacity of the think tank to research, analyze, communicate and advocate on economic issues. The grant evaluation committee selected an independent think-tank founded by the International School of Economics at Tbilisi State University (ISET), to develop Georgia’s first Competitiveness Report and conduct an analysis of Georgia’s potential as a regional hub economy. These activities will be implemented in Year 3.

During the first quarter of Year 2 EPI also conducted a Stakeholder Forum to more effectively engage with stakeholders at the value chain level. EPI practitioners also participated as round table speakers in several conference events to share the latest sector and policy analysis and best practices, such as:

- Presentation by the Chief of Party on EPI sector and policy approach to AmCham members at the November 2011 roundtable;
- Presentation on best practice in public private partnership and competitiveness at the USAID G-PAC “Policy in Action” conference in Batumi in March 2012;
- Presentation on MICE tourism sector analysis at Intourist Palace in Batumi and in Tbilisi at MICE Tourism Expo by Zviad Kvlividze in May 2012;
- Presentation of competitiveness analysis of the CTC by the T&L consultant, Mr. Thomas Kennedy, at the Trade Facilitation Conference in June 2012;
- Presentations on Georgia’s competitiveness at the Tbilisi Local Economic Development Forum in May 2012 by Alan Saffery; and at two workshops organized by the Atlantic Council of Georgia and EPRC in Batumi and Tbilisi in June 2012;

- Presentation to apparel sector stakeholders on best practices in apparel industry and manufacturing (by EPI's subcontractor TC2) in Kutaisi in June 2012;
- Presentation on competitive sectoral opportunities in Georgia by Luc Caltrider at Georgia-Turkey Trade and Investment Bridge in June 2012.



Photo 18: Luc Caltrider speaks at the Georgia-Turkey Trade and Investment Bridge

As part of EPI's ongoing business perception surveys, the March/April 2012 Business Perception Survey revealed that the main source of information for surveyed enterprises is television (66.4%) and Internet (28.6%). The same survey indicates that other information channels, such as think tank, association and university publications, are not yet serving as data sources for businesses. So while building the capacity of these institutions to collect, analyze and eventually effectively distribute this information, EPI's activities in economic journalism enhancement are helping to supplement the dissemination of valuable economic and competitiveness information to broad audiences.

OUTPUTS	STATUS
At least 4 areas of EPI focus addressed in publications by at least 3 think-tanks, universities or associations	Completed – With EPI support, 6 organizations (PMCG, ACT, Free University, BIRG, Atlantic Council, EPRC) issued publications on relevant EPI topics
Think tank bidders conference and concept for collaboration between USAID G-PAC/EPI, think tanks and GoG informal group established	Completed – In collaboration with USAID G-PAC, a think tank has been selected Removed – Given the timeframe needed to produce the report and the change of government, an informal group will not be needed
An increased percentage of citizens knowledgeable about key reforms and policies based on baseline survey and survey completed in March 2012	Completed – 59.9% of citizens knowledgeable about reforms (a target – 55%)
24 public events/outreach campaigns on key economic issues	Completed – 11 events/campaigns carried out during this reporting period, 30 in total
Professional relationships formed between Georgian economic analysis institutions and international organizations	Completed – As part of EPI/USAID G-PAC mentorship program, G-PAC and EPI will provide mentorship to ISET
1 EPI Stakeholder Forum held	Completed – In total 1 Forum held up to date; nine other forums /workshops held to share information
4 “EPI Impact Fund” grants issued to think tanks, research centers, universities and associations to conduct business and economic analysis	Completed – USAID G-PAC issued one large grant (USD 80,000) to one think tank to conduct economic analysis about country competitiveness Since grant program was not approved by USAID until June 2012, EPI issued four procurements to conduct business and economic analysis (two to PMCG, ACT, Free University)

WORLD ECONOMIC FORUM (WEF)

Georgia's Global Competitiveness Index (GCI) rank improved by five ranks between 2010 and 2011, going up from 93 to 88. This improvement was seen across all three components: Basic Requirements; Efficiency Enhancers; and Innovation and Sophistication Factors. The



Photo 19: U.S. Ambassador John Bass at AGBC Conference

main issue in Georgia was the lack of awareness of WEF's GCR and the importance of participating in the survey process. EPI assisted WEF's partner organization in Georgia, Business Initiative for Reforms in Georgia (BIRG), to obtain a more accurate sample of active businesses for BIRG-administered WEF annual executive opinion survey, which provides data for WEF's GCR. EPI also facilitated BIRG's presentation at the annual American-Georgian Business Council (AGBC) conference.

In order to remove discrepancies in the hard data reported in the WEF GCR and national statistical sources, EPI analyzed the process of data collection and dissemination by the national statistical agencies to international organizations and assisted two entities, the Ministry of Health and Communication Union, to coordinate with the relevant international organizations to improve the quality and accuracy of the data. In WEF GCR 2012-2013, Georgia transitioned in country classification to Stage 2: Efficiency Driven Economies given the increases in the country's GDP. The overall ranking also improved from 88th to 77th place out of 144 countries. By the end of Year 2, EPI had helped to analyze data sources and developed a detailed action plan for a GCR public outreach campaign to raise awareness of the importance of the report among businesses. The activities outlined in this action plan will be conducted in Year 3.

In order to remove discrepancies in the hard data reported in the WEF GCR

OUTPUTS	STATUS
GCI rank monitored and analyzed	Completed
BIRG website created	Postponed to Year 3
Assessment and recommendations regarding national supply of the WEF's GCR hard data sources	Completed
Participation of BIRG at the annual American-Georgian Business Council (AGBC) conference	Completed
Business perception survey data analysis	Completed
Presentations to business associations on WEF GCR 2011-2012	Completed – 4 presentations to business associations made up to date; BIRG shared information with over 2000 enterprises; EPI conducted interview with WEF and shared the article as part of its Monthly Newsletter to over 1800 stakeholders
“Coffee and Conversation” event to discuss Georgian business perceptions	Completed – As part of economic journalism training initiative, EPI, jointly with BIRG, conducted a workshop on competitiveness

A continuous public awareness initiative designed and implemented to leverage EPI activities, including think tanks' publications to promote public discourse on competitiveness topics	In Progress – Draft action plan has been developed and public outreach activities will continue into Year 3.
---	--

4.4.3 ESTABLISH PUBLIC-PRIVATE PARTNERSHIPS (GANTT CHART LEVEL 16400)

PUBLIC-PRIVATE PARTNERSHIPS (PPP) ALLIANCES

EPI established partnerships with other relevant organizations to effectively leverage their resources and expertise to achieve a common objective. During Year 2, EPI formalized several significant partnerships across various assistance areas, including 4 MoUs and 1 GDA.

Most notably, in July 2012, EPI finalized a GDA between USAID and Ferrero International, as well as its local subsidiary AgriGeorgia, and Deloitte Consulting LLP, to formalize their partnership in hazelnut sector development. This marked the first GDA established by the USAID Georgia Mission. For more information on the details of this alliance, please refer to [3.2.1 AG Value Chain Action Plan Implementation: Hazelnut Value Chain](#).

EPI has also developed an effective partnership with public and private sector in the T&L industry to establish the TFS in Georgia. While the parties have already been implementing programs jointly, as confirmed by an early signing of an MoUs in February, the formal signing of an official GDA MoU is anticipated to take place in early 2013.

OUTPUTS	STATUS
Four GDAs established	<p>Completed – Hazelnut Program GDA signed with Ferrero</p> <p>In Progress – EPI is working on establishing a GDA for trade facilitation system</p> <p>EPI is providing technical assistance to two other USAID projects to establish GDAs/alliances (USAID G-MEDIA and USAID ACT) with anticipated timing in Year 3.</p>
Establish additional alliances and partnerships to leverage or cost-share funds	Completed – 4 alliances established for apparel training program (vocational colleges), crop insurance pilot project (Bank of Georgia and Aldagi BCI), BDS providers (13 companies) and 1 University (business plan development competition)

WORKFORCE DEVELOPMENT

EPI's sector and value chain assessments highlighted, among other issues, the lack of a sufficiently qualified workforce in several value chains, including apparel, wine tourism and general hospitality sectors. EPI further identified a lack of dialogue between these industries and educational institutions. Without effective communication between the two, it was not surprising that workforce issues existed.

EPI partnered with leading organizations to design tailored training programs to deliver necessary skills identified by the apparel and tourism industries.

APPAREL INDUSTRY SUPPORT

EPI in close cooperation with the apparel industry, identified an urgent need to improve skills in three vocations: sewing machine operators, sewing machine mechanics, and quality control inspectors.

Based on the information gathered during Year 1, EPI established sustainable workforce education training models in partnership with vocational colleges to eliminate the shortage in the workforce of specialized skills. The models implied development of industry-driven curricula, vocational programs, and professional standards for the above listed new vocations, as well as elaboration of training manuals for vocational college instructors and students. To support skills development, EPI also provided JUKI sewing machines and other equipment to vocational colleges in Batumi (*Black Sea*), Tbilisi (*Mermisi*), Ozurgeti (*Horizonti*), and Kutaisi (*Iberia*). EPI then partnered with TC², a worldwide provider of educational programs in sewing, to deliver ToT courses for 27 instructors representing 6 vocational colleges specialized in apparel programs in Sewing Machine Operator, Sewing Machine Mechanic, and 100% Inspection and Quality Audit programs. At the same time, EPI worked with Community Colleges for International Development (CCID), the Ministry of Education and Science (MoES), and National Center for Educational Quality Enhancement to facilitate accreditation of the new programs, including professional standards, curricula and course materials.



Photo 20: Practicing sewing techniques on modern equipment during EPI's Apparel Training Program

To strengthen linkages between vocational colleges and the industry, EPI conducted a survey on workforce needs among apparel companies to estimate the number of employees they planned to recruit in the near future. The survey results help colleges to customize the training to better suit the needs of the industry. EPI also assists vocational colleges to create effective partnerships with businesses to ensure direct job placement of graduates. Three such partnerships have been established already, between Adjara Textile and Batumi vocational college, Ozurgeti vocational college and BTM Textile, and between Imeri apparel factory and Kutaisi vocational college. In early April, the Adjara Textile Company signed an agreement with Batumi vocational college to train 60 sewing machine operators. Adjara Textile has already signed contracts with 20 graduate and plans to hire the remaining 40 upon graduation.

OUTPUTS	STATUS
3 new vocational programs introduced/accredited	Completed – 3 vocational programs obtained accreditation and authorization. The programs are being offered by the vocational colleges
4 vocational colleges' technical capacity upgraded	Completed – JUKI machinery and other equipment installed at four vocational colleges
20 apparel trainers trained in apparel best practices	Completed– 10 apparel trainers in Sewing Machine Operators course and 7 trainers in Sewing Machine Mechanics course completed the ToT on August 29, and 9 trainers in 100% Inspection and Quality Audit course completed

	course on October 19.
3 vocational education programs accredited by MoES	Completed – Accreditation was obtained in August
100 apparel students trained by 4 vocational colleges	Completed – 135 apparel students trained by vocational colleges
60 apparel students hired by apparel companies	In progress – 20 apparel students hired by Adjara Textile, with plans to hire additional 40 students upon graduation
3 partnerships established between Georgia education institutions and businesses or business sector	Completed – 3 partnerships established (Ozurgeti vocational college and BTM Textile, Batumi vocational college and Adjara Textile; Kutaisi vocational college and Imeri apparel factory)

TOURISM SECTOR SUPPORT

Identifying gaps in service in Georgia’s fast-growing tourism industry, EPI designed two programs: a wine education certification program and a customer service certification program. During Year 2, EPI contracted My Wine School, a U.S.-based approved provider of the Wine and Spirit Education Trust (WSET) to deliver ToT courses to wine educators and members of the hospitality industry. The goal was to increase the institutional capacity of hotels and other organizations to deliver wine etiquette courses to the industry.

“Through this training, I had a chance to learn more about food and wine pairing. I also increased my knowledge about international wines. Now it is easier to offer Georgian wines to international customers through comparison of Georgian wines with international ones.”

- Alex Baduashvili, Red Café Service Consultant, WSET Level 1 Participant

By the end of July:



Photo 21: EPI WSET wine education training

- 15 wine educators representing Wine School, Wine Club, Telavi Wine Cellar, Redix, New Kaz, and Icarus vocational college completed WSET Level II course. Fourteen wine educators passed the exam.

- 23 representatives of various Georgian hotels, restaurants, wine shops and GNTA completed WSET Level I course. All 23 participants passed the exam.

My Wine School also developed the Frontline Hospitality Course (FHC), an entry-level exploratory

course on international and Georgian wines. In late June 2012, EPI organized the first FHC course for 22 frontline catering and hospitality professionals to introduce them to Georgian and international wine styles, table service and Georgian food and wine pairing. Wine educators trained in WSET Level II co-facilitated the FHC training. Recording of the training and all training material were provided to WSET Level II participants and GNTA so that they continue to implement this program in the future. Furthermore, to expand the FHC program, ensure its sustainability, and build on the skills of newly certified WSET Level II trainers, EPI

partnered with Wine Club, one of the leading Georgian wine education institutions, to support delivery of 3 FHC courses to front-line staff of Kakheti and Tbilisi-based hospitality companies, as well as journalists and bloggers covering wine related issues in the various media outlets. In total, 55 catering and hospitality professionals participated in these trainings held in September 2012.

At the same time, EPI subcontractor Key Management Solutions (KMS), a certified representative of the US-based RMG Training Group, conducted a series of Service PLUS trainings for hospitality staff (mid-class hotels, restaurants, wine shops, tourism agencies and tourism information centers) in Tbilisi, Batumi, and Telavi to improve the service level in the hospitality sector. Overall, 205 representatives from 70 companies involved in the tourism industry attended the Service PLUS training course. KMS also delivered a ToT to 15 participants, identified as potential Service PLUS instructors during the previous trainings. The ToT course participants received Service PLUS accreditation and became Service PLUS program certified instructors.

OUTPUTS	STATUS
12 +WSET certified wine educators	Completed – 14 WSET Level II certified trainers.
50+ SMEs receiving training from service providers	Completed – A total of 80 SMEs trained: 70 SMEs received Service PLUS training; and 10 SMEs trained in wine etiquette
5+ service providers to have enhanced training delivery capacity	Completed – 7 service providers in wine etiquette
100 + hospitality staff trained in wine education	Completed – A total of 115 staff trained in wine education (15 WSET Level II, 23 WSET Level I and 77 FHC on Georgian and International wines
200 + hospitality staff certified Service PLUS	Completed – 205 hospitality staff from 70 hospitality businesses certified

4.4.4 ACCESS TO FINANCE (GANTT CHART LEVEL 16600)

FINANCIAL ADVISORY PROGRAM

One of the issues hindering improved access to finance in Georgia was the gap between the supply and demand for access to finance. EPI designed a Financial Advisory Program (FAP) at the end of Year 1 to bridge this gap and support mutually beneficial collaboration between Georgian companies, financial advisory firms and financial institutions, where Georgian companies could finance their business expansion, financial institutions could increase their portfolios and financial advisory companies could expand their activities and customer outreach. EPI selected financial advisory firms to provide assistance to the project's beneficiary companies to obtain loans, leasing products or equity investments.



Photo 22: EPI's Financial Advisory Program Matchmaking Event in Tbilisi

In February 2012, EPI initiated a series of matchmaking events and awareness campaigns in Tbilisi and the regions to bring together financial advisors, financial institutions and

Georgian companies and farmers to promote cooperation among the three groups. Within the framework of FAP, EPI also facilitated the establishment of linkages between banks and advisors. As a result, financial advisors established alliances and signed MoUs with Basis Bank, Bank Republic, KSB and TBC Bank. Table 2: Financial Advisory Program Results to Date below summarizes key results to date:

Table 2: Financial Advisory Program Results to Date

Number of firms from pipeline that failed to access finance:	None
Number of projects in the pipeline (companies currently being assisted by FAs):	2 projects
Funds to be attracted for pipeline projects:	USD 175,000
Total transaction amount facilitated to date:	USD 149,000
Number of companies that accessed finance as part of FAP:	3 companies
Total number of companies that received assistance under FAP (as of Sep 30):	7 companies received assistance: 3 companies obtained finance 4 received assistance from EPI, however, decided not to go through with the loans
Total finance/investment mobilized (total transaction amount and any additional finance or investment):	USD157,656

OUTPUTS	STATUS
15 financial advisors trained	Completed
25+ loan officers trained on VCs in January	Completed – 25 officers from financial institutions trained
8 trainings on AG and M&S trainings delivered to FIs and financial advisors	Completed
3 matchmaking events involving 10 financial institutions and 100 companies	Completed – 2 matchmaking events in Tbilisi and Telavi, involving 16 FIs and 230 companies completed, and 1 event in Batumi cancelled.
40+ businesses receive assistance from financial advisors	In Progress – 7 business received assistance in total. Due to the new and undeveloped nature of the financial advisory sector in Georgia, the introduction of the FAP services to the businesses is taking a longer time than anticipated. Additional businesses will receive assistance in Year 3.
30 businesses have successfully accessed finance from FIs with the amount around USD 1.5 million	In Progress – 3 businesses obtained USD 149,000 from FIs. Based on MoUs between the banks and FAs are signed, the number of clients/businesses will grow rapidly in Year 3..
Total facilitated investment for 30 companies of around USD 3 million	In Progress – 3 companies with total investment of USD 157,656, with additional investment to be facilitated in Year 3.

FINANCIAL LEASING

Over the years, Georgia's leasing sector experienced very little growth due to a restrictive regulatory environment. Prior to EPI project start in 2010, Georgia's leasing industry's portfolio did not exceed GEL 27.8 million (USD 15.7 million, representing only 0.13% of GDP). During first year of the project, EPI's experts worked diligently with the GoG, the Business Association of Georgia and the leasing industry to draft a legal framework conducive to leasing and aligned to international best practices. The necessary amendments to the Tax Code and Civil Code were adopted by the Parliament of Georgia and went into effect on November 1, 2011. EPI experts also worked with leasing industry stakeholders to ensure their understanding of best practice.

Building on this achievement, in Year 2 EPI focused on building the dialogue among private sector, government and media representatives on changes to leasing regulations, and conducted targeted events and disseminated brochures with businesses, farmers and agribusinesses to increase their awareness and promote their interest in financial leasing.

In parallel, EPI provided targeted assistance to the leasing companies to help them adopt best practices and international standards, also exposing them to international leasing markets through participation at the Equipment Leasing and Finance Association's (ELFA) 50th Convention in Texas.

Through these concerted efforts, EPI has supported a cumulative increase of more than 145 percent in Georgia's leasing portfolio since project start, or USD 22.7 million.

OUTPUTS	STATUS
4 leasing related laws amended	Completed
2 leasing related law amendments adopted	Completed
Training on funding solutions to Alliance Leasing	Completed
Training on internal legal processes to Georgian Leasing	Completed
Training on strategic adjustment to TBC Leasing	Completed
Workshop on new legal environment to National Bank of Georgia (NBG), the MoF and to audit companies	Completed – In addition, EPI trained civil judges
Investment promotion concept developed	Completed – Pre-feasibility study for leveraged leasing facility completed
50+ individuals from relevant institutions trained on leasing	Completed – 95 individuals trained
Cost-share for a corporate GEL-denominated bond placement	Planned for Year 3
Training and presentations to 500 farmers on leasing instrument	Completed – 450 farmers received training and presentations material on leasing instruments. Additional farmers will receive training in Year 3 as part of AG training programs.

CROP INSURANCE

At EPI project start, the Georgian agricultural insurance industry was fairly nascent. To facilitate increased access to short- and mid-term finance for EPI agricultural value chains, EPI contributed to significant development of agricultural insurance, which would serve as an effective instrument to absorb certain default risks of borrowers faced by banks and lending

institutions and enhances farmers' access to finance. The two main barriers to the development of agricultural insurance in Georgia included:

- Low awareness of the functions of agricultural insurance from the demand side (farmers and financial institutions)
- Inefficient technical capacity from the supply side (insurance companies)

EPI then promoted the use of agricultural insurance products as an alternative form of collateral to stimulate local borrowing, which in turn would increase the availability of finance and financial products for Georgian farmers. To stimulate the wider application of crop insurance products, strengthen linkages between insurance and lending institutions, and facilitate increased access to agricultural lending, EPI, Bank of Georgia and insurance company Aldagi BCI designed and implemented a three-year, co-shared pilot project. Launched in March 2012, the pilot project offers a cost-shared integrated loan and crop insurance product, where an insurance policy serves as alternative collateral for a loan. Crop insurance provides sufficient income to a farmer to repay the loan if part or all of the crop is lost due to weather disasters, such as frost, hail, or excessive rain. When paired with a loan, crop insurance serves as a risk-mitigating instrument for lending institutions that consider the agricultural sector otherwise too risky to finance. The goal of the pilot project was to develop sustainable models between a commercial bank and insurance company to develop integrated loan and insurance product, the first one in Georgia, and to share their resources when conducting a farmer's risk analysis, thereby reducing the administrative costs and lowering traditionally high premium rates. Another goal was to demonstrate to Georgian agricultural authorities the impact and viability of a potential public sector subsidy to cover partial or full premium cost.

"Thanks to EPI's pilot project my business can grow. Notwithstanding calamity, I know the insurance can cover the damage, and I will not be forced to abandon the business like many farmers had been forced to do before."

- Merujhan Karakhanian, Potato Farmer from village of Diliska

The pilot project is part of a broader EPI initiative to kick-start crop insurance industry with the goal of stabilizing income and increase availability and affordability of finance for smallholder farmers. At the time of EPI project start in 2010, insurers had no experience in agricultural insurance, with very rudimentary product design and quality. Accompanied by a significant information gap between insurers and farmers, insurers prescribed very conservative policy terms and conditions in order to manage their risks. Affordability of crop insurance, especially among smallholder farmers, was a significant issue as premium rates were not based on any historical data but rather on the individual business estimations of the insurer, resulting in prohibitively high administrative costs. In addition, the government policies did not support any form of subsidy in respect of insurance premium. In such environment, the total annual sum insured of only USD 300,000 was recorded for the sector as a whole in 2010.

As EPI began to implement targeted activities for open-field vegetables, hazelnut and mandarin value chains to increase productivity and quality and connect Georgian agribusinesses to high-value markets, the project also saw the opportunity to design interventions for the dormant crop insurance industry to complement its agricultural sector capacity building activities. An intensive crop insurance training program was designed and conducted in partnership with Georgian Insurance Association to strengthen the understanding of mechanics of crop insurance by insurance companies, as well as commercial banks and agricultural producers. Insurance providers received assistance in the design of crop insurance products' policy terms and conditions for specific crops, such as potato, onion or hazelnut crop insurance. EPI also created standardized definition of terms and clauses used in crop insurance that is now being adopted as basic reference by all insurers. Significant public private dialogue between the industry and Georgian public sector has also raised awareness of the role that the government can take to promote the

insurance, especially for smallholder farmers. The targeted assistance created a 17-fold growth in the annual total sum insured from USD 430,000 in 2010 to over USD 7.3 million in 2012, only two years since project start, resulting in an estimated cumulative increase of USD 7.9 million in loans facilitated since 2010.

OUTPUTS	STATUS
Training program developed for agricultural insurance	Completed – Three different draft courses developed for insurance companies, lending institutions and farmers
At least 350 farmers trained on functionalities of crop insurance	Completed – 374 farmers trained.
5 GIA trainers trained	Completed
40 insurance company officers and staff trained by EPI and GIA trainers	In Progress – EPI and GIA staff trained 18 insurance company officers representing seven insurance companies. 22 additional officers will be trained in Y3.
Agro insurer within the pilot project using modern tools in risk assessment and underwriting, such as pre-acceptance worksheets, farming calendars, farms practices monitoring reports, yield report	Completed – Tools to be used for potato insurance completed. Additional tools for onions, garlic hazelnuts, mandarins, carrot, and beetroot insurance will be developed in Y3
Sustainable agro insurance training course established at GIA	Completed
Commonly used clauses, terms and conditions in agro insurance contracts and their standard (uniform) definitions to be adopted by all agro insurers	Completed
New potato insurance product developed	Completed
New onions insurance product developed	Completed
New legal procedures for lending and insurance institutions developed	Completed
2,000 insurance policies issued out of which 300 are linked to agro credit as part of pilot project in EPI AG VCs and upgrading capacity of insurance industry	Completed – 1,963 policies issued out of which 38 are linked to agro credit as part pilot project. Additional policies will be issued in Year 3 and Year 4 of the project.
USD 1.2 million mobilized in agro credit as part of pilot project	In Progress – USD 107,258 was mobilized as part of the outreach activities in Akhalkhalaki. Additional amount is expected to be mobilized as the pilot project is implemented.
Crop insurance policy basic provisions, the declaration and the application forms for the crop insurance contracts for 5 annual and 2 perennial crops developed	Completed – 2 annual crops In Progress - 3 annual crops and 2 perennial crops are being developed and will be completed in Y3
Awareness activities for pilot project of co-shared crop insurance premium conducted	Completed – Adjara and Akhalkalaki Planned in Year 3 - Shida Kartli and Kakheti

PENSION REFORM

At the request of the private sector and Government of Georgia, EPI initiated activities to increase investment capital through pension reform. In cooperation with the Business Association of Georgia and PMCG, EPI developed a set of policy options and models for establishing a mandatory pension scheme in Georgia. These were presented to the Government of Georgia. The Government determined a mandatory savings system was unsuitable for Georgia in the long-run. EPI submitted its final report with recommendations to the Government and other stakeholders, concluding the activity.

OUTPUTS	STATUS
Final report and recommendations to GoG and other stakeholders on pension reform	Completed

4.5 MANAGEMENT AND OPERATIONS COMPONENT (M&O) (GANTT CHART LEVEL 1000)

4.5.1 WORK PLANNING (GANTT CHART LEVEL 12000)

During Year 2, EPI implemented the Year 2 Work Plan and delivered the Year 3 Work Plan to USAID on September 27, 2012. Changes to outputs in the Year 2 Work Plan have been documented in the quarterly reports throughout the year.

OUTPUTS	STATUS
Year 2 Work Plan	Completed
Year 3 Work Plan delivered by September 30, 2012	Completed

4.5.2 COMMUNICATIONS (GANTT CHART LEVEL 13000)

During Year 2, EPI continued to implement on-going activities based on the strategy outlined in its communications plan, including the following: progress reports to USAID, updated EPI website (awaiting USAID HQ approval), press releases to engage the media in EPI's activities, distribution of success stories highlighting EPI's project results, and an ongoing monthly newsletter currently reaching over 1,700 stakeholders. The monthly newsletters can be accessed on EPI's website <http://www.epigeorgia.com>. Success stories submitted to USAID are included in Annex 4 of this report⁹.

OUTPUTS	STATUS
Communications Strategy implemented	Completed – Communication Strategy document submitted to USAID; ongoing implementation
Weekly, monthly, quarterly and annual reporting	In Progress
EPI newsletters, success stories, press releases issued	In Progress

4.5.3 GRANTS (GANTT CHART LEVEL 14000)

USAID approved the EPI Grants Manual on June 11, 2012. EPI's priority grant activities are in the area of the agricultural training program (to support capacity development of Georgian

⁹ The success story in Annex 4 on crop insurance was submitting to USAID and is currently pending approval for publication.

agricultural service providers) and wine tourism activities. EPI posted Request for Applications (RFAs) for hazelnut and mandarin value chain activities in September and received proposals in each area that are currently under evaluation.

OUTPUTS	STATUS
USAID-compliant grants manual "EPI Fund" submitted for approval	Completed
Grants issued to EPI beneficiaries (per Work Plan Gantt Chart in Annex A)	In Progress – Grants to be issued in Year 3

4.5.4 PROCUREMENT (GANTT CHART LEVEL 15000)

During the reporting period, EPI continued to procure services from local and international companies in support of implementing its program activities, including its BDS program. EPI engaged 21 local small businesses or organizations to deliver substantive technical assistance as part the project's key objective to build local capacity. In addition, EPI engaged 12 US small business firms to deliver project activities.

OUTPUTS	STATUS
Procurements with BDS providers	In Progress

4.5.5 PERFORMANCE MONITORING (GANTT CHART LEVEL 17000)

EPI submitted the PMP Year 1 Report on November 1, 2011 (per USAID's request to change the deadline) and the PMP Year 2: Mid-Year Report on April 30, 2012. The PMP Year 2 Report can be found in Annex 1 of this report.

OUTPUTS	STATUS
Weekly updates of project indicators including training, events, beneficiaries and component specific indicators	In Progress
PMP Year 1 Report (by October 30, 2011)	Completed – Submitted on November 1, 2011 per USAID's request
PMP Year 2: Mid-Year Report (by April 30, 2012)	Completed
PMP Year 2 Report (by October 30, 2012)	Completed
Annual household and business perception surveys (March 2012)	Completed

4.5.6 ENVIRONMENTAL EVALUATION (GANTT CHART LEVEL 18000)

In Year 2, EPI continued to utilize threshold environmental checklists to ensure that its experts' recommendations are environmentally sound and in compliance with the USAID 22 CFR 216.

OUTPUTS	STATUS
Relevant environmental reports and threshold environmental checklists subject to USAID 22 CFR 216 environmental regulations	Completed – 15 threshold environmental checklists were prepared
Environmental Review Checklist	Completed – 4 environmental review checklists for mandarins, greenhouses,

	open field vegetables and hazelnuts completed
--	---

4.5.7 EPI STAFF DEVELOPMENT (GANTT CHART LEVEL 19000)

As part of EPI staff development activities, EPI provided training cost-sharing support to its staff to enhance their project management skills, ICT management skills, and business English language skills.

OUTPUTS	STATUS
Individualized assessments and leadership development plans for eight Georgian managers	Completed
EPI annual retreat	Completed
Quarterly connectivity events	Completed – 2 quarterly team building events completed to date

ANNEX 1: PMP REPORT

1.0 EPI YEAR 2 ANNUAL PMP REPORT

During Year 2, EPI collected new data and further streamlined the performance management reporting. Based on EPI's role and specific attribution of project activities, EPI has revised the data collection methodology and has reduced the amount of data that is directly collected from its key beneficiaries due to significant issues with data quality and sometimes reluctance on the side of beneficiaries to openly report sensitive financial data about revenue and finance. EPI is now supplementing its beneficiary data with official statistical data for the targeted sectors as provided by the Georgian National Statistical Agency (GEOSTAT), MoESD and GNTA.

EPI introduced new methodology to collect productivity data in the agricultural sector due to significant data quality issues when collecting information directly from around 6,000 farmers. The methodology to evaluate training impact on productivity considers two key factors: (i) the estimated impact on productivity of each agricultural practice that was taught to trainees during each session and (ii) a practice adoption likelihood by trainees. The trainee's adherence to production practices covered during the training sessions has implications on productivity, as does the degree of contribution of every practice to productivity levels. The adoption likelihood of specific practices by trainees depends on a number of factors - with cost of a new practice being one of the main factors. EPI consulted with agricultural experts for each of its value chains, as well as with different farmers groups, to understand and better estimate the adoption levels of different practices. EPI formed an overall perception on trainee resource endowment and the degree of commercialization to derive a final likelihood of adoption of a practice requiring cash and non-cash contributions.

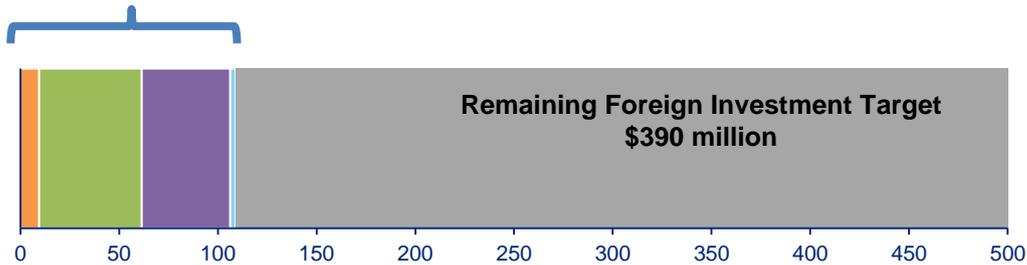
Relying on hectare and yield data collected by EPI through beneficiary forms, EPI was now able to estimate productivity increases, on average assuming between 30-50% adoption rates. By applying a conservative 1:2 diffusion ratio (each farmer shared its knowledge with at least two more farmers who adopted the same practices) and prevailing farm gate prices or export/retail prices, EPI was able to estimate final revenue for farmers as well as additional export values for each value chain due to EPI-supported productivity increases.

This year, EPI also conducted impact assessments of policy and business enabling environment reforms to quantify or monetize the benefits of such reforms. To date, EPI completed assessments for the following policy areas: Georgian laboratories' international accreditation, e-Filing system for Sakpatenti, tax risk based audit, adoption of international building codes and customs warehouse regulatory reform. Additional impact assessments are underway for the trade facilitation system, the state property management system, and the E-ID cards program, as well as the assessment on wine exports as a result of the laboratory accreditations.

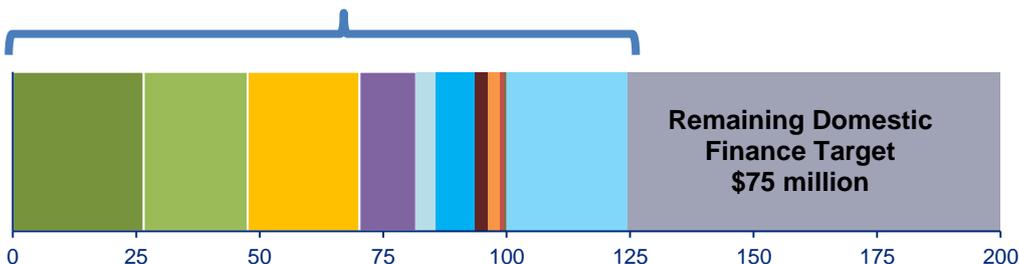
The following page summarizes progress against EPI's high level result targets. Detailed data regarding other PMP indicators are attached to this report in a separate Excel document.

EPI Results Dashboard

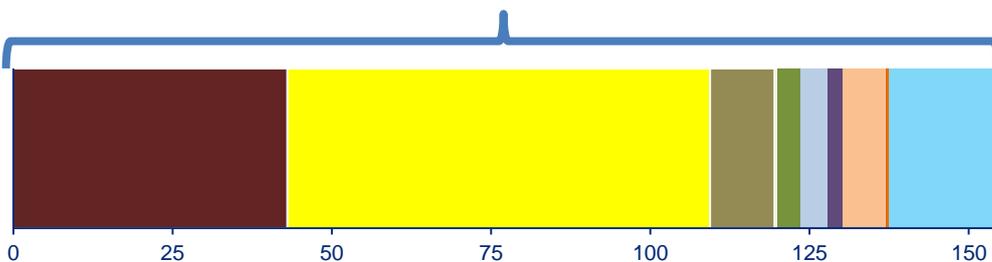
EPI achieved \$109 million in Foreign Investment and Commitments, or 21.8% of its target, including 9 large transactions (target is 10).



EPI achieved \$124.6 million in Domestic Finance, or 62.2% of its target.



EPI achieved \$154 million in Exports, or 107% of its target, and has increased export capacity of 184 firms (target is 100).



EPI generated 7,050 new jobs and increased productivity by 40%.

750 jobs	28% average productivity increase
6,300 jobs	44% average productivity increase

EPI increased annual revenue by 45% for targeted farmers and businesses.

27% annual revenue increase	5,666 farmers 212 agribusinesses
61% annual revenue increase	588 businesses

EPI met its service provider targets and indirect clients served.

93 agricultural service providers	32,600 farmers 6,208 agribusinesses
42 business service providers	877 businesses

Color Legend

■ Agriculture sector	■ M&S Sector
■ Hazelnuts	■ ICT Sector
■ Greenhouses	■ Wine Tourism
■ Leasing	■ Packaging
■ Insurance	■ Transport and Logistics
■ Policy Impact	■ MICE Tourism
■ Remaining Amount to meet EPI Targets	■ Apparel

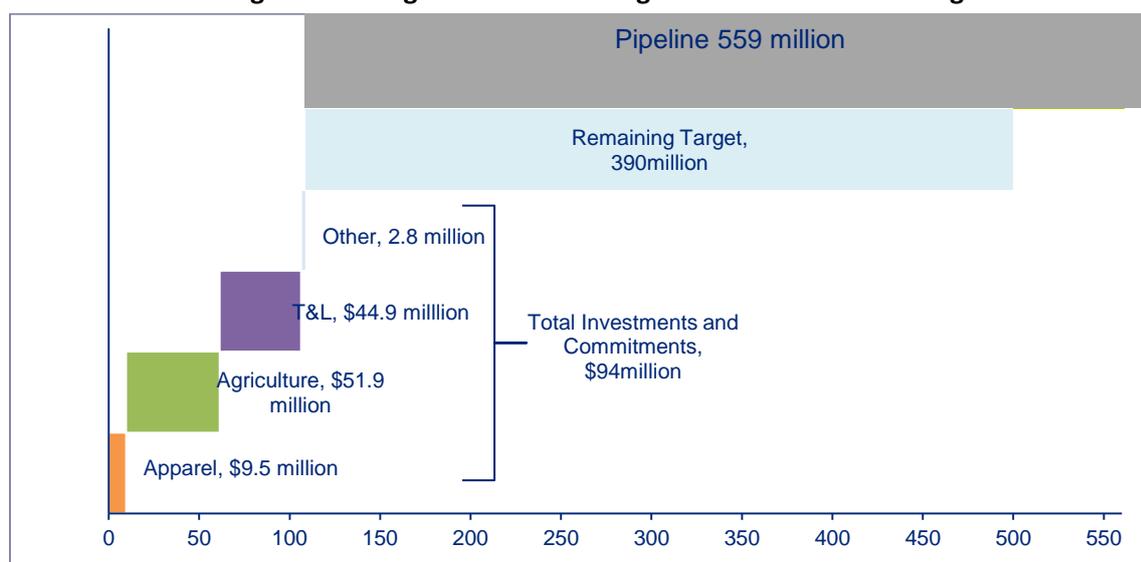
2.0 FOREIGN INVESTMENT

EPI is contributing to an increase of foreign investment both directly and indirectly by improving the overall business-enabling environment and through its engagement with multiple investment promotion stakeholders.

CUMULATIVE RESULTS

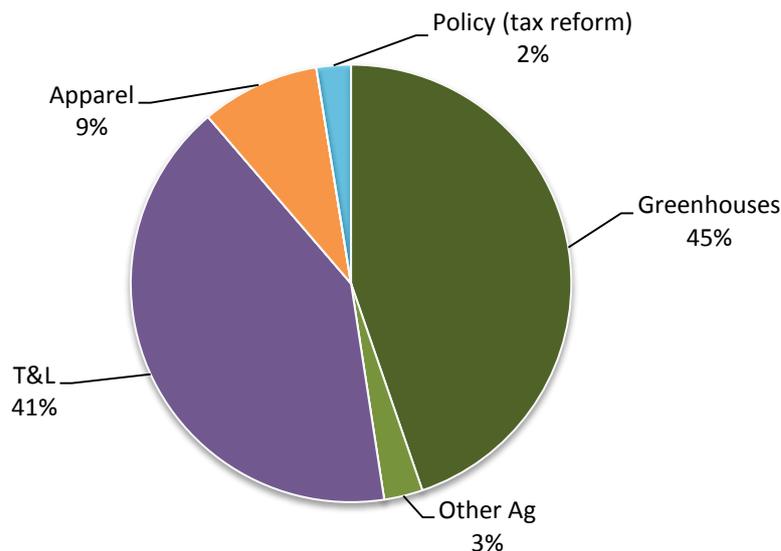
EPI 's investment promotion activities have generated a total in investments and commitments of USD 109 million across its targeted sectors and value chains, reaching around 21.8% of the current target of USD 500 million. This amount represents 9 large investments, in excess of USD 3 million, against EPI's target of at least 10 investment deals. The current pipeline of potential investments that EPI is actively pursuing amounts to USD 559 million (see Figure 2. Foreign Investment: Progress Towards the EPI Targets below for a full description of progress toward the EPI Targets).

Figure 2. Foreign Investment: Progress Towards the EPI Targets



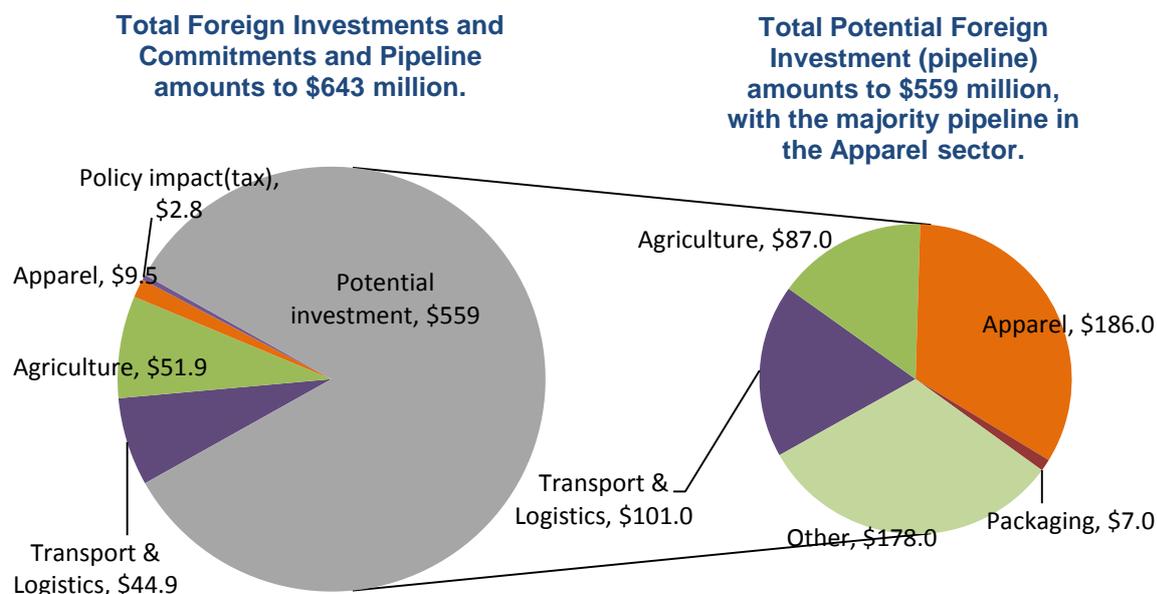
To date, 47.5% of foreign investments and commitments are accounted to greenhouse and other agricultural sectors, and the remainder to T&L (41.2%) and apparel sectors (8.7%) and policy initiatives (2.5%) presented in Figure 3. Contribution of EPI Value Chains and Sectors in Current Foreign Investment Results.

Figure 4. Contribution of EPI Value Chains and Sectors in Current Foreign Investment Results



EPI’s Investment Management Services (IMS) team has developed and actively manages a foreign investment pipeline of USD 559 million, with the support from relevant EPI value chain teams. The majority of the current pipeline is in the Apparel (see Figure 5. Foreign Investment, Commitments and Pipeline below). Also, the amount does not currently include any of the projected contributions from EPI’s capacity assistance to the Georgian Investment Promotion Agency (GNIA).

Figure 5. Foreign Investment, Commitments and Pipeline
(in USD million)



A summary of investments and commitments across sectors and value chains includes:

- **T&L:** EPI implemented a range of activities to support its T&L beneficiaries in attracting foreign investment as the T&L sector offers significant investment

opportunities to capitalize on the growing trade volumes and increasing transit through new land and railway routes.

- EPI has been supporting two specific investment projects that resulted in USD 9 million of investment commitments and USD 92 million in potential pipeline investment:
 - Tbilisi Logistics Center (TLC) – The total potential investment is USD 36 million, of which USD 9 million has already been committed.
 - Agricultural Products and Food Logistics Hub – The total potential investment for this project in Batumi is currently estimated at USD 65 million. Given the agricultural nature of this project, this investment counts towards EPI’s agricultural target for foreign investment.
- EPI activities provide benefits to a large group of key T&L companies, such as Poti and Batumi ports, logistics operators, shipping lines, railways, and Georgian Railway Transcontainer by implementing a trade facilitation system. In preparation for this system, and in anticipation of increased cargo flows due to the greater efficiency of the system that will re-route cargo from alternate routes through Georgia, all these stakeholders are making additional investments into their IT and operational systems. APM Terminal’s Poti Sea Port and Batumi International Container Terminal have each committed to invest approximately USD 1 million to develop their IT infrastructure in preparation for the trade facilitation system.
- EPI’s assistance to the Batumi container terminal in the areas of establishing a customs clearance zone on their property and the introduction of the trade facilitation system have convinced the terminal to expand with a potential new investment of USD 15 million (USD 3 million completed and USD 12 million committed).
- EPI’s assistance to streamline regulatory issues for bonded warehouses and abolished VAT payment requirements related to warehouse services has facilitated USD 18.9 million in new foreign investment among logistics and cold storage companies.
- **Agricultural:** Current foreign investments and commitments amount to around USD 51.9 million, with an additional pipeline of USD 87 million.
 - EPI’s continuous assistance to the heated greenhouse industry resulted in USD 48.8 million in investments and commitments.
 - EPI facilitated USD 3.1 million in foreign investment with an individual investor for the purchase of an agricultural land, with an additional USD 20 million in investment commitments to develop 20 hectares of heated greenhouses. Other potential investments may include hazelnut and pistachio orchards.
- **Apparel:** EPI’s has facilitated USD 9.5 million in foreign investments and commitments from Turkish investors to open 3 new factories in Georgia.
- **Packaging:** EPI developed a Packaging Sector Investment Promotion Action Plan to proactively pursue several foreign investment opportunities with American and Turkish companies. Thus far, the paper packaging sector foreign investment pipeline that EPI is pursuing amounts to USD 7 million.
- **Policy Impact:** EPI assisted the RS implement a risk-based approach to tax audit and administration and a streamlined tax payments system. EPI’s ongoing support

will result in a lower risk, more efficient tax environment for Georgian and international businesses, resulting in USD 2.8 million in foreign investment.

- **Other Sectors:** As part of the IMS team’s promotional activities, EPI is also currently facilitating an additional potential USD 178 million of investment.

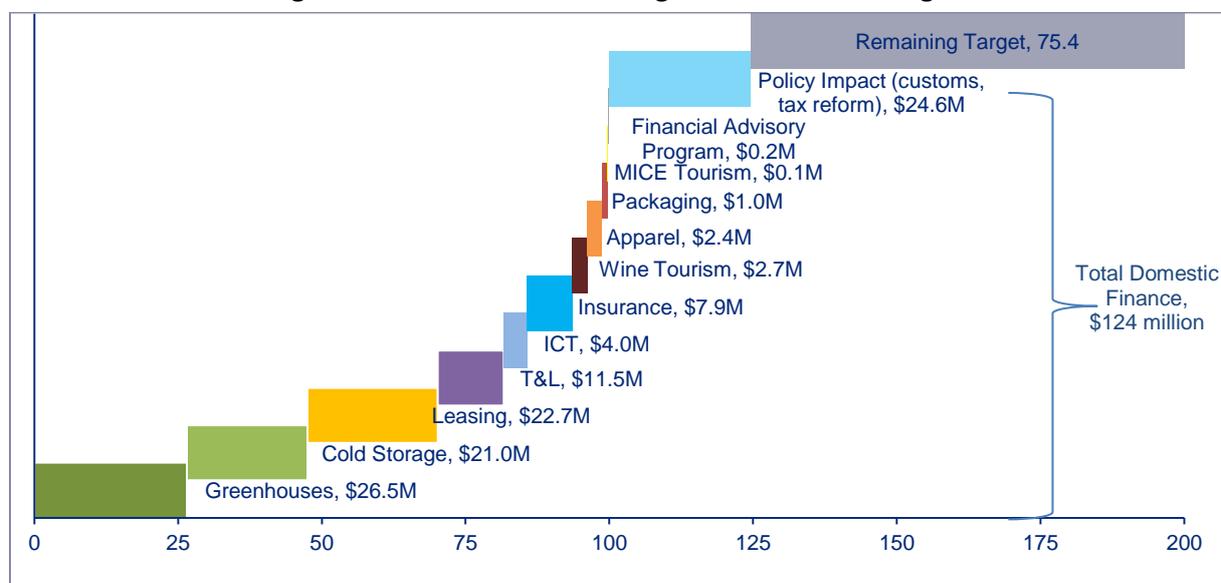
3.0 DOMESTIC INVESTMENT

EPI is contributing to an increase of domestic finance (both debt and equity) available to businesses in Georgia. Indirectly, EPI’s business enabling environment and policy initiatives are also contributing to an increase of domestic finance available in the economy by creating cost savings and allowing companies to reinvest.

CUMULATIVE RESULTS

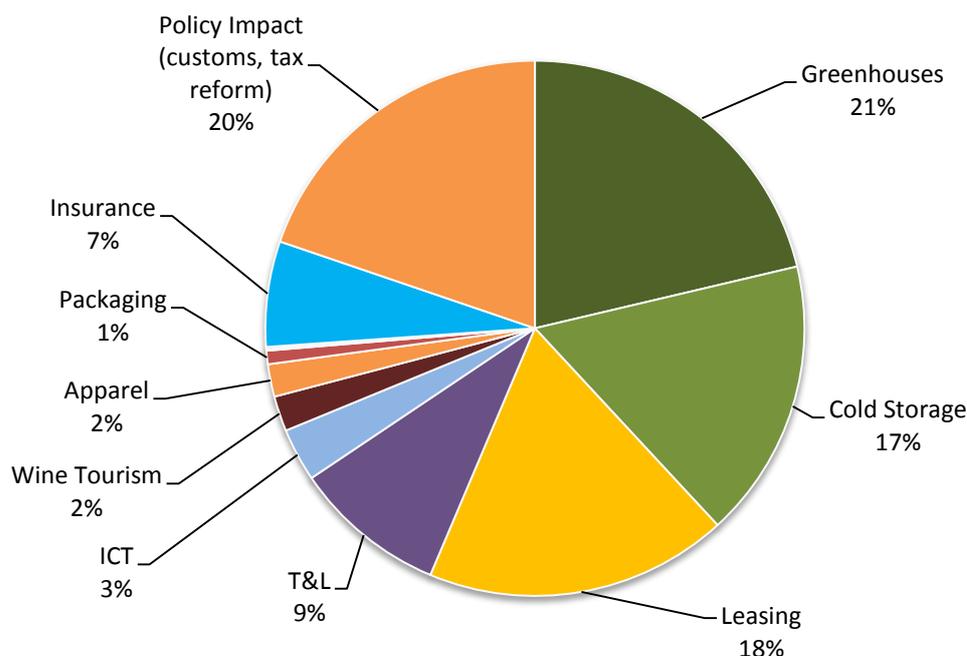
EPI facilitated a total of USD 124 million in domestic finance, including investments and commitments, loans, and leasing products, against its target of USD 200 million by project end (see Figure 6. Domestic Finance: Progress Towards EPI Target).

Figure 6. Domestic Finance: Progress Towards EPI Target



To date, 38.2% of domestic finance is accounted by greenhouse and cold storage sectors, 18.2% by the leasing industry, 9.2% by the T&L sector, 6.4% by loans facilitated by crop insurance and 19.7% by policy initiatives(see Figure 7. Contribution of EPI Value Chains and Sectors in Current Domestic Finance Result below).

Figure 7. Contribution of EPI Value Chains and Sectors in Current Domestic Finance Result



Total domestic finance and investment per different EPI value chains and sectors includes:

- Greenhouse Investment:** With continuous greenhouse operator trainings and audits, EPI continued to engage with existing and new greenhouse operators who reported a cumulative amount of USD 26.5 million in investments. This includes approximately USD 15.8 million in existing investments and construction underway during the 2012 operating season, and an additional USD 10.7 million planned for investment during 2013.
- Cold Storage Investment:** Cold storage investment remains the same as in the prior reporting period at USD 21 million.
- Leasing Companies:** On the heels of a break-through leasing tax reform as well as targeted technical assistance to three leasing companies during 2011 and continuously through the first quarter of 2012, the leasing companies reported an increase by USD 21.6 million in their leasing portfolios.
- T&L:** Domestic investments in transport and logistics amounted to USD 11.5 million in 2012.
- ICT:** EPI has been supporting the development of the Georgian ICT industry as an enabling sector contributing to growth of other sectors in the economy. To date, EPI has been identifying market opportunities, sponsoring participation at international trade fairs and conferences in Bucharest, Dubai and Istanbul and facilitating market linkages for ICT software development companies. As a result, EPI's nine ICT beneficiaries developed software for customers that spurred USD 4 million in domestic investment by these customers to effectively use the software.
- Insurance:** EPI's assistance to development of crop insurance products, tailored training programs for insurance industry on agricultural insurance, and crop insurance pilot project have created a 17-fold growth in the annual total sum insured to over USD 7.3 million in 2012, only two years since project start or in cumulative estimated increase of USD 7.9 million in loans facilitated since 2010.

- **Wine Tourism:** Wine tourism investment remains the same as in the prior reporting period at USD 2.7 million.
- **Apparel:** As apparel companies accessed new markets, and began to acknowledge the importance of upgrading their factories to meet stringent international standards in health, safety, environmental and social compliance, EPI's apparel beneficiaries reported USD 2.4 million in domestic finance. EPI's support of standards' adoption will help to attract international brand names and stimulate additional domestic investments in the apparel sector.
- **Packaging:** Packaging investment remains the same as in the prior reporting period at USD 1 million.
- **Meetings, Incentives, Conferences and Exhibitions (MICE) Tourism:** MICE tourism investment remains the same as in the prior reporting period at USD 0.1 million.
- **Financial Advisory Program:** During first quarter 2012, EPI launched its financial advisory program that generated USD 0.2 million.
- **Policy Impact:** EPI assisted the RS implement a risk-based approach to tax audit and administration and a streamlined tax payments system. EPI's ongoing support will result in a lower risk, more efficient tax environment for Georgian and international businesses, resulting in USD 9.7 million in domestic investment. In addition, customs warehousing reforms facilitated another USD 14.9 million in investment.

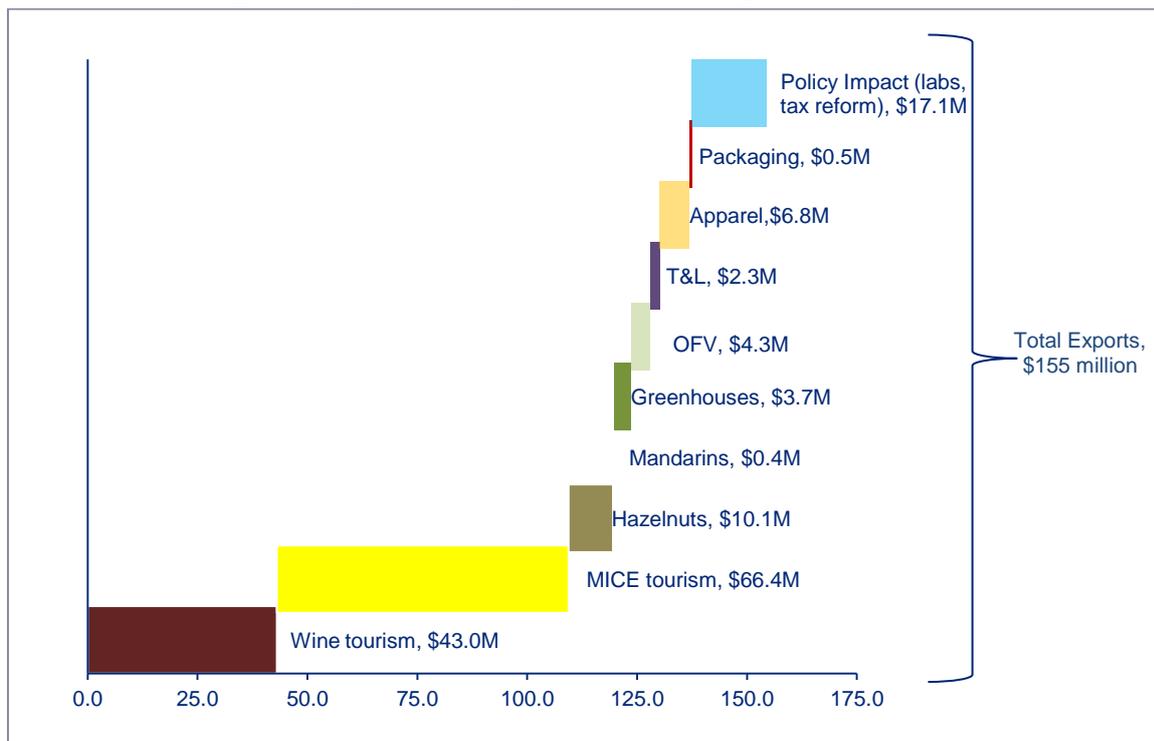
4.0 EXPORTS

EPI is contributing to an increase of exports directly by engaging with value chains and sectors to increase their capacity to export. Indirectly, EPI is also increasing the country's exports by improving the overall business environment, especially by its activities in the area of customs, conformity assessment bodies/laboratories (certification and testing of products for exports), and eGovernance (trade facilitation system).

CUMULATIVE RESULTS

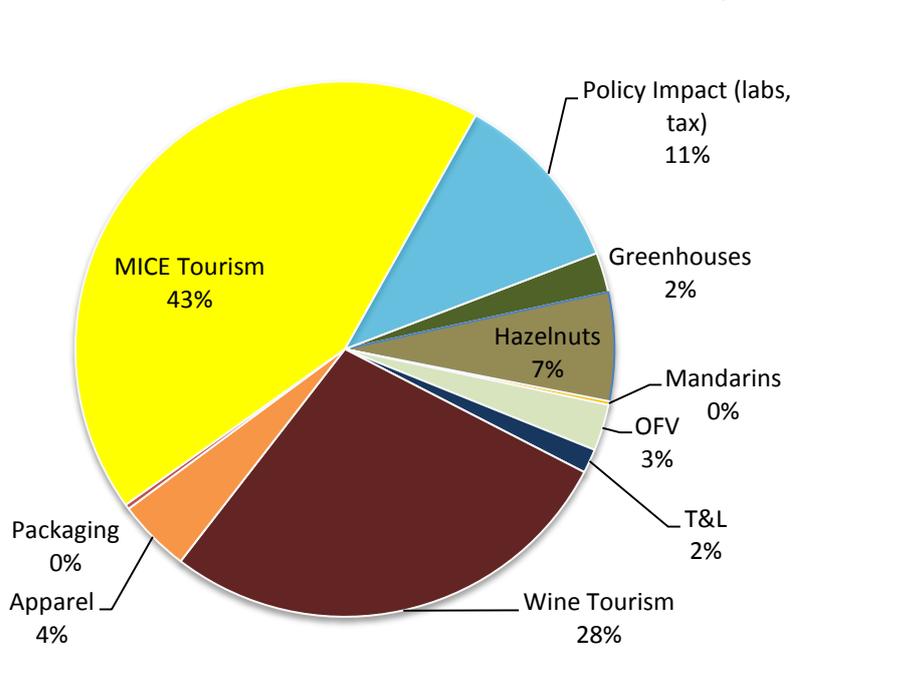
EPI's activities have generated a total value of USD 155 million in exports across its targeted sectors and value chains, towards a USD 150 million export target (see Figure 8. Exports: Already Exceeded EPI Target of USD 150 Million). To date, EPI has provided export-focused technical assistance to 184 firms, with a breakdown of 88 firms in the agricultural component and 96 in the M&S component.

Figure 8. Exports: Already Exceeded EPI Target of USD 150 Million



Of the current actual amount, wine and MICE tourism represent a majority of the exports at 70.8% of contribution, followed by Hazelnuts at 6.5%, Open-field Vegetables at 2.8% and Greenhouse Vegetable at 2.4%. Policy initiatives accounted for 11.1% (see Figure 9. Contribution of EPI Value Chains and Sectors in Current Export Result).

Figure 9. Contribution of EPI Value Chains and Sectors in Current Export Result



A summary of EPI activities and contribution to exports across sectors and value chains includes:

- **Wine Tourism:** EPI's wine tourism activities at the sector level have significantly raised Georgia's profile internationally as a wine tourism destination and have contributed to an additional increase of exports by USD 43.0 million, in comparison to 2010. These activities created significant worldwide media attention towards Georgia's wine culture and history. The data is based on comparing visitor arrival data (as tracked through EPI/GNTA survey) for 2011 and 2012.
- **MICE Tourism:** Similarly, EPI activities during 2011 have highlighted the potential positive benefits of MICE tourism for the Georgian economy. GNTA have now prioritized MICE Tourism as the country's second most important tourism product and are dedicating significant resources to its promotion. Activities at the sector level are estimated to have contributed USD 66.4 million in MICE tourism exports during 2012, following the same data methodology as with wine tourism.
- **Hazelnut Exports:** EPI's activities during 2012 focused on training hazelnut producers and several hazelnut processors, including participation in international nuts trade fair, as well as due to productivity increases from EPI training. The incremental increase of hazelnut export value since 2011 for EPI hazelnut processor beneficiaries amounts to USD 10.1 million.
- **Greenhouses:** Greenhouse produce is consumed domestically, displacing the predominantly Turkish imports of vegetables. For the purposes of this PMP Report, greenhouse production is considered as import substitution or export. During the 2011-12 growing period, the estimated exports of this industry amount to USD 3.7 million.
- **T&L:** During this period, EPI's transport and logistics activities have resulted in increased export revenues amounting to USD 2.2 million since 2011.
- **Packaging:** EPI's activities in the paper packaging sector resulted in USD 0.5 million in first exports by supporting adoption of new technologies, improvement of quality standards and testing, and creation of market linkages.
- **Apparel:** EPI has been providing sector-level and enterprise-level technical assistance to nascent Georgian-owned apparel companies, resulting in numerous new exports and outsourcing orders. Although initially hesitant at their capacity to compete in the global market, these apparel manufacturers are now eager to attend the trade fairs in Ukraine, Germany and Istanbul that EPI introduced to them. In addition, EPI also began to create linkages with Turkish-owned companies in Adjara, both through its fashion design and apparel conferences, lean manufacturing workshop and workforce education support. As a result, EPI's beneficiaries increased exports by USD 6.8 million since project start.
- **Policy Impact:** EPI supported testing laboratories to gain ANSI accreditation, boosting the credibility and long-term quality standards of Georgia wine, fruits and vegetables and other food producers. Estimated impact on hazelnut exports alone ranges from USD 7.5 million to USD 18.8 million per year (of which USD 7.5 million is accounted for this year). In addition, EPI's assistance the Georgian RS to implement a risk-based approach to tax audit and administration resulted in USD 9.6 million in exports.

5.0 EMPLOYMENT

EPI activities will increase employment in several sectors and value chains, both directly and indirectly. EPI is collecting data directly from the beneficiaries as well as from GEOSTAT and GNTA administered survey for international tourism receipts to derive a combined employment impact. For the agricultural sector, EPI conducted a smaller sampling of the

beneficiaries to determine trends for the overall population of its trained farmers. Given the seasonality, the mandarin sector employment data for 2012 harvest period will be reported in next PMP report.

CUMULATIVE RESULTS

During this year, EPI reported 7,050 new jobs for its value chains and sectors, of which 7850 jobs in agricultural sector and 6,300 in M&S sectors.

Table 3. Employment Data in EPI Targeted Sectors and Value Chains

Change in the Number of Jobs by Sector	
Hazelnut	-562
Open Field	947
Greenhouse	365
Apparel	76
ICT	24
T&L	207
Wine Tourism	2,151
MICE Tourism	3,320
Packaging	65
BDS/ FA/ Associations/Laboratories	458
TOTAL	7,050

Source: EPI beneficiary forms, GNTA Survey, World Travel and Tourism Council methodology.

6.0 PRODUCTIVITY

EPI's activities aim to increase productivity of its targeted sectors, recognizing that some of the efficiency gains in productivity may at least temporarily impact employment growth in the same sectors. True productivity indicators, in general, are very difficult to define and calculate at the value chain level since it requires accurate collection of numerous factors that impact productivity (total factor productivity). Instead, EPI has identified a group of proxy productivity indicators, with the data collected from EPI beneficiaries, GEOSTAT, MoESD and GNTA.

CUMULATIVE RESULTS

As indicated in Table 2, EPI is meeting its benchmark for increases in productivity targets.

Table 4. EPI Productivity Results

Productivity Indicator	Baseline	Source	Baseline Productivity 2011	2012 Productivity
Hazelnuts - Yield tons per hectare	2011	Project calculations	1 tons per hectare	1.16 tons per hectare
Mandarins - Yield tons per hectare	2011	Project calculations	7.4 tons per hectare	8.6 tons per hectare
Open Field Vegetables - Sales per hectare¹⁰	2011	Project calculations	\$6,408	\$7,901
Greenhouse - Sales per hectare	2011	Project calculations	\$31,117	\$49,165
Apparel - Revenue per employee	2011 H1	Beneficiary Forms	\$2,941	\$4,663
ICT- Revenue per employee	2011 H1	Beneficiary Forms	\$7,620	\$12,671
Containerized cargo per year	2011 H1	MoESD	136,764 containers	180,555 containers
Civil aviation passengers per year	2011 H1	MoESD	469,000	583,000
Tons transported by road transport	2011 H1	MoESD	12.0 million	12.1 million
Wine visitors/year	2011 8 months	GNTA Survey	64,648	100,407
MICE visitors/year	2011 8 months	GNTA Survey	66,623	103,475
Hotel occupancy (Kakheti) /year	2011	GNTA	13%	26%
Hotel occupancy (Adjara) /year	2011	GNTA	44%	59%
Conference facilities utilization	2010	Beneficiary Forms	39%	52%
Packaging-Capacity Utilization	2010	Beneficiary Forms	34%	60%

7.0 REVENUE (SUB-COMPONENT BENCHMARK)

The following revenue benchmarks apply:

- Average revenue increase of 20% across 3,000 farms (primarily 5 ha and more) and 100 agribusinesses by 18 months from April 1, 2011 (by September 30, 2012)
- Average annual revenue increase of 10% across an additional 5,000 farms and an additional 200 agribusinesses (annually from September 30, 2012)
- Average revenues across at least 500 small, medium, and large enterprises in targeted M&S sectors increase by 25% by 18 months from April 1, 2011 (by September 30, 2012), and a minimum annual increase of 20% thereafter

¹⁰ Open-field vegetables constitute 4 different crops and farmers typically grow several of the crops in their plots. When collecting yield data, the quality data for the different crops had significant quality issues. Instead, EPI used an alternative measure of revenue per hectare.

CUMULATIVE RESULTS

AGRICULTURAL SECTOR

EPI has primarily engaged with hazelnut and greenhouse sectors during 2012. In early 2012, the mandarin and open field vegetable assistance commenced with the launch of training programs. For the year, EPI beneficiaries reported an average revenue increase of 27% (from USD 44.5 million in 2011 to USD 56.3 million in 2012) across 5,666 farms and 212 agribusinesses. While EPI has targeted large farmers, the overall size of the agricultural sector in Georgia requires EPI to engage with farmers that own between a third and one ha of land.

EPI also reported 3,858 additional hectares under improved technology or management practices as a result of EPI assistance.

M&S SECTORS

EPI beneficiaries reported an average revenue increase of 61% (from USD 77 million in first half of 2011 to USD 124.4 million in 2012) across 588 businesses for the first six months of 2012 in comparison to the same period in 2011.

8.0 BENEFICIARIES (SUB-COMPONENT BENCHMARK)

The following three beneficiary benchmarks apply:

- At least 40 agricultural and enterprise service providers delivering assistance and training benefiting a minimum of 30,000 farms and 300 agribusinesses by 30 months since April 1, 2011 (by September 30, 2013), and continued assistance for the life of the project
- At least 10 business service providers (BSPs) delivering high quality productivity-enhancing services to industries by 24 months from April 1, 2011 (by April 1, 2013) and continuing thereafter.
- Service providers delivering combination of individualized assistance and training courses benefitting a minimum of 500 enterprises in priority industrial and service sectors by 12 months from April 1, 2011 (by April 1, 2012), and continued assistance for the life of the project.

CUMULATIVE RESULTS

EPI engaged 93 agricultural service providers which have in turn provided services and training to 32,600 farmers and 6,208 agribusinesses.

EPI also engaged 42 business service providers to deliver services to their clients and members, therefore fully meeting and exceeding its subcomponent benchmark. By October 1, 2012, EPI's service providers have benefited 877 companies, therefore fully meeting and exceeding its subcomponent benchmark, as follows:

- BDS and financial advisory programs engaged 24 service providers, reaching 532 businesses.
- EPI is providing support to five associations to provide higher-value services to their members (GWA, GITO, Georgian Insurance Association, Georgian Logistics Association, ICT Business Council) who provide services to 130 businesses.
- EPI has engaged a local firm, Key Management Solutions (KMS), to deliver training on customer service to hospitality businesses, reaching 70 companies.

- EPI is also increasing capacity of 12 private laboratories to enhance their testing services that they provide to companies, especially export-oriented companies, who are reaching 33 businesses (and over 2,500 agri-businesses).
- In the T&L sector, EPI is working with three logistics service providers that provide services to 112 businesses.

9.0 WORLD ECONOMIC FORUM (WEF)

In the 2012-2013 WEF Global Competitiveness Report (GCR), Georgia gained in rank and score from the previous year. Table 2 provides the ranks and scores for the GCR indicators that most directly relate to EPI's scope of work. While ranks are influenced by the performance of other countries in relation to Georgia, the scores provide a more telling story of Georgia's performance.

Overall, out of 15 indicators, scores of 8 individual indicators were increased and rankings were improved for 7 indicators compared to baseline. The areas of most improvement include affordability of financial services; VC breadth; degree of customer orientation; local availability of research and training services; and availability of financial services.

As part of the EPI business perception survey that EPI conducted in 2012, the survey also asked businesses to provide responses to the same 15 WEF GCR indicators that EPI selected as part of its PMP. The EPI-administrated business survey achieved higher scores of selected indicators when compared to the WEF survey. However, the EPI-administrated survey follows a slightly different methodology since WEF takes into consideration survey results for the last two years and filters any outlier cases based on responses on all questions.

The latest GCR scores, confirmed by the EPI survey, suggest a number of areas requiring ongoing support. For example, labor market efficiency remains an area of improvement – and EPI's work will attempt to address workforce development and university/industry partnerships in targeted sectors. Similarly, technological readiness is generally lacking and EPI's support for greenhouse and cold storage facilities in the agriculture sector and access to credit will enable Georgian firms to adopt new technologies. These and other activities related to the GCR indicators will help improve business perceptions of Georgia's business environment.

Table 5: WEF GCR & EPI Business Perception Survey

No.	Pillar	Indicator Name	2010-2011		2011-2012		2012-2013		Change last year		EPI Business Perception Survey Questions	EPI Business Perception Survey 2011	EPI Business Perception Survey 2012
			Rank	Score	Rank	Score	Rank	Score	Rank	Score		Score	Score
Georgia GCI			93	3.9	88	4	77	4.1	11	0.2			
Basic Requirements			95	4.1	86	4.3	61.0	4.6	25	0.5			
1.02	Institutions	Intellectual Property Protection	97	2.9	105	2.8	126	2.6	-29	-0.3	How would you rate intellectual property protection, including anti-counterfeiting measures, in your country?	4.3	4.2
Efficiency Enhancers			94	3.7	89	3.7	87	3.8	7	0.1			
5.07	Higher Education and Training	Local availability of research and training services	125	3	115	3.2	119	3.3	6	0.3	In your country, to what extent are high-quality, specialized training services available?	4.4	4.5
6.14	Good Market Efficiency	Degree of customer orientation	127	3.7	118	3.9	120	3.9	7	0.2	How well do companies in your country treat customers?	4.9	4.9
7.07	Labor Market Efficiency	Reliance on Professional Management	88	4	85	3.9	92	3.9	-4	-0.1	In your country, who holds senior management positions?	5.2	5.2
8.01	Financial Market Development	Availability of financial services	106	3.9	107	3.9	100	3.9	6	0.0	Does the financial sector in your country provide a wide variety of financial products and services to businesses?	4.7	4.6
8.02		Affordability of financial services	108	3.5	96	3.7	85	3.9	23	0.4	To what extent does competition among providers of financial services in your country ensure the provision of financial services at affordable prices?	4.6	4.4
8.04		Ease of access to loans	83	2.5	79	2.7	93	2.5	-10	0.0	How easy is it to obtain a bank loan in your country with only a good business plan and no collateral?	3.7	3.8
9.01	Technological Readiness	Availability of latest technologies	98	4.3	99	4.5	94	4.6	4	0.3	To what extent are the latest technologies available in your country?	5	4.8

No.	Pillar	Indicator Name	2010-2011		2011-2012		2012-2013		Change last year		EPI Business Perception Survey Questions	EPI Business Perception Survey 2011	EPI Business Perception Survey 2012
			Rank	Score	Rank	Score	Rank	Score	Rank	Score		Score	Score
9.02		Firm-level technology absorption	125	4	115	4.1	123	4.0	2	0.0	To what extent do businesses in your country absorb new technology?	4.9	4.8
Innovation and Sophistication Factors			121	2.9	117	3	120	3.0	-3	0.1			
11.01	Business Sophistication	Local supplier quantity	137	3.6	138	3.7	137	3.7	0	0.1	How numerous are local suppliers in your country?	4.4	4.5
11.02		Local supplier quality	131	3.4	130	3.6	131	3.6	0	0.2	How would you assess the quality of local suppliers in your country?	4.5	4.5
11.03		State of cluster development	98	3	102	3	116	3.0	-18	0.0	In your country's economy, how prevalent are well-developed and deep clusters?	3.4	3.7
11.05		VC breadth	93	3.2	87	3.3	84	3.4	9	0.2	In your country, do exporting companies have a narrow or broad presence in the VC?	4	4.0
12.01	Innovation	Capacity for Innovation	112	2.4	103	2.6	116	2.5	-4	0.1	In your country, how do companies obtain technology?	3.6	3.6
12.04		University Industry Collaboration on R&D	134	2.5	126	2.6	134	2.5	0	0.0	To what extent do business and universities collaborate on research and development (R&D) in your country?	3.4	3.8

ANNEX 2: UTILIZATION OF USG PERSONNEL

COLLABORATION WITH U.S. TREASURY

EPI and the U.S. Treasury are working together on a tax penalty regulatory framework to ensure implementation of the proportional tax penalty system. EPI has transferred two EPI staff and consultants, David Koguashvili and Paul Cooper, to work on the Treasury project to continue assistance in the tax administration area.

COLLABORATION WITH U.S. DEPARTMENT OF AGRICULTURE (USDA)

In collaboration between USAID and the U.S. Department of Agriculture (USDA), EPI provided inputs to an agricultural statistics consultant who conducted an assessment of the MoA's data collection, data analytics, and reporting capacity. USAID and USDA will further determine whether the USG will assist the MoA in addressing the specific analytical and data collection needs identified by the assessment. EPI also coordinated with the USDA to provide a summer internship opportunity to three Georgian students of agronomy who are attending the American Agrarian University in Yerevan.

COLLABORATION WITH U.S. DEPARTMENT OF COMMERCE

EPI is coordinating its IPR activities with the EU Delegation and the U.S. Department of Commerce Commercial Law Development Program (CLDP), who are also supporting IPR reform in Georgia. EPI worked with the U.S. Embassy in organizing an IPR outreach training mission by EPI IPR advisor Tim Trainer, who provided a presentation at a regional customs enforcement workshop conducted by the Commercial Law Development Program.

COLLABORATION WITH OTHER USAID PROJECTS

USAID New Economic Opportunities (NEO). EPI coordinated with USAID NEO to mobilize approximately 200 NEO farmers to attend hazelnut trainings held in Samegrelo at EPI/Ferrero Knowledge Plots. NEO provided small tools and sprayers to all participant farmers during the four series of training sessions.

USAID Azerbaijan Competitiveness and Trade Project (ACT). EPI is coordinating with USAID ACT to provide training to Azeri agronomists as part of EP hazelnut trainings in Samegrelo. EPI is also providing support to develop a GDA between Ferrero and USAID Azerbaijan.

USAID Regional Competitiveness Initiative (RCI). EPI and USAID RCI organized a regional conference to discuss the latest developments and trends in trade facilitation and custom reforms across the region.

USAID Policy, Advocacy, and Civil Society Development in Georgia (G-PAC). EPI partnered with USAID G-PAC to begin implementation of a project designed to improve the ability of Georgian think tanks to analyze and disseminate economic information. EPI, in consultation with the public officials, engaged with G-PAC to identify relevant topics for a grant offered by G-PAC and to provide mentoring to a selected economic think tank.

USAID Judicial Independence and Legal Empowerment Program (JILEP). EPI collaborated with USAID JILEP to interpret the customs provision of the Tax Code, which was finalized this quarter and will be presented to the public in the upcoming quarter.

USAID Kosovo Business Enabling Environment Program (BEEP). EPI's building code expert collaborated with a USAID project in Kosovo to conduct a working session in Istanbul at an international conference discussing Georgia's success and challenges in construction reform

with government officials, USAID representatives and independent experts of South-West Balkan countries

ANNEX 3: UTILIZATION OF LOCAL PARTNERS

	Name	Area(s) of Focus
1	Potato Growers Association	AG
2	Shida Kartli Vegetable Growers Association	AG
3	Iliia State University	
4	Ministry of Agriculture of Adjara	AG VC, Packaging, Agricultural Policy
5	Agroexport	AG VCs
6	Alaverdi Ltd	AG VCs
7	Aromaproducti	AG VCs
8	Bazi	AG VCs
9	Agrotechno	AG VCs
10	National Food Agency	AG VCs, Agricultural Policy
11	Ministry of Agriculture	AG VCs, Agricultural Policy, Packaging
12	Agroservice	AG VCs, ICT
13	Association Subtropic	AG, Agricultural Policy
14	USAID NEO	AG, Procurement
15	Open Society Georgia	Agricultural Policy
16	USDA	Agricultural Policy
17	Office of the Prime Minster	All BEE Related VC Topics
18	International Affairs Department of Adjara	All VCs
19	Poti Free Industrial Zone	All VCs
20	Ridge Consulting (UK)	All VCs
21	Sibley International	All VCs
22	TAM/BAS	All VCs
23	Batumi Investment Agency	All VC, Investment Promotion
24	Adjara Textile	Apparel
25	Batumitex Limited	Apparel
26	BTM Textile	Apparel
27	Demetre 96	Apparel
28	Elif Textile	Apparel
29	Elselema	Apparel
30	Georgian Textile	Apparel
31	Geosport	Apparel
32	Imeri	Apparel
33	Iveria	Apparel
34	Kardem	Apparel
35	Knitex	Apparel
36	KOTON	Apparel
37	Laura Gachava Sewing Company	Apparel
38	Materia	Apparel
39	Miller & Company	Apparel
40	Unistyle	Apparel
41	Tbilisi Fashion Week	Apparel
42	Ministry of Education and Science	Apparel Training, ICT
43	Turkish Clothing Manufacturers Association	Apparel, Investment Promotion

44	Constanta Bank	Access to Finance
45	Credo	Access to Finance
46	FAO	Access to Finance
47	Finagro	Access to Finance
48	Association of Banks in Georgia	Access to Finance
49	Financial Solutions Group	Access to Finance
50	Giorgi Oragvelidze	Access to Finance
51	Innova (GMCG)	Access to Finance
52	Legal-Tax Consulting	Access to Finance
53	Navada & Ross Consulting	Access to Finance
54	Ramaz Khvichia	Access to Finance
55	GEC	Access to Finance, BSP
56	Testing Lab: Multitest Ltd	Quality Infrastructure
57	Testing Lab: Wine Laboratory Ltd	Quality Infrastructure
58	Caltrider Advisors	BSP
59	Grant Thornton	BSP
60	IMG	BSP
61	Synergy Group	BSP
62	TBSC Consulting	BSP
63	Caucasus University	BSP
64	Management Academy	BSP
65	Batumi Municipality	Building Codes
66	Shota Rustaveli Batumi State University	Building Codes
67	Mobile Finance Eurasia	Commodity Price System
68	OpenRevolution	Commodity Price System
69	BPG Ltd	Construction Materials
70	Eurostandard Ltd	Construction Materials
71	Paravant Perlite Ltd	Construction Materials
72	Energy Efficiency Centre of Georgia	Construction Materials
73	Georgian Employers Association	Construction Materials
74	Sustainable Development and Policy Center	Construction Materials
75	USAID NATELI	Construction Materials
76	World Experience	Construction Materials
77	Georgian Technical University	Construction Materials, ICT
78	Mercy Corps	Cold Storage Facilities
79	SDA	Cold Storage Facilities
80	EU Customs Administration Twinning Project	Customs
81	Business Ombudsman's Office	Customs and Trade Facilitation
82	EU	Donor Coordination
83	USAID G3	Economic Governance
84	GRM	Food Safety
85	Besik Skhirtladze Ltd	Greenhouses
86	Piunic Georgia Ltd	Greenhouses
87	BSA Ltd	Greenhouses
88	VD Capital Ltd	Greenhouses
89	Global Enterprise Ltd	Greenhouses
90	Europlant Ltd	Greenhouses
91	Georgian Agriculture Corporation	Greenhouses
92	Agro Invest	Greenhouses

93	Agroservice	Greenhouses
94	Mamuka Tevzadze	Greenhouses
95	Shabo Georgia	Greenhouses
96	Menji Ltd	Greenhouses
97	Sense Selection	Greenhouses
98	Sula International Ltd	Greenhouses
99	Bio Agro Ltd	Greenhouses
100	Agroimpex Georgia	Greenhouses
101	Garemo Da Analitika	Greenhouses
102	Herbia	Greenhouses
103	Agrokomi Ltd	Greenhouses
104	Zaza Bigvava I/E	Greenhouses
105	Misaktsieli 2001	Greenhouses
106	Akaki Ltd	Greenhouses
107	Geguti Ltd	Greenhouses
108	Revazi Jijelava	Greenhouses
109	Saga Ltd	Greenhouses
110	I/E Shubitidze	Greenhouses
111	I/E Ermile Jgarkava	Greenhouses
112	I/E Lasha Saralidze	Greenhouses
113	I/E Ketevan Gabelia	Greenhouses
114	Greenhouse Association (West)	Greenhouses
115	Mashav	Greenhouses
116	4 Seasons Ltd	Greenhouses
117	Icon Group	Greenhouses
118	Laurus Ltd	Greenhouses
119	Terjola Agro Ltd	Greenhouses
120	V and T Ltd	Greenhouses
121	Agro-Plus	Hazelnuts
122	Nut Export Company	Hazelnuts
123	Civil Registry Agency	ICT
124	Alta Software	ICT
125	Axsoft	ICT
126	AZRY	ICT
127	Delta Systems	ICT
128	GRENA	ICT
129	HP	ICT
130	ITI	ICT
131	Mysoft.ge	ICT
132	Object Group	ICT
133	WIMP	ICT
134	Oracle	ICT
135	Oris	ICT
136	Quantum Group	ICT
137	Singular Group	ICT
138	UGT	ICT
139	Agriculture University	ICT
140	Enterprise Incubator Foundation (Armenia)	ICT
141	ICT Business Council	ICT
142	Itnovations	ICT

143	Javakhishvili Univeristy	ICT
144	Lemondoo	ICT
145	Softline Georgia	ICT
146	Carana Corporation	ICT, Apparel
147	Liberty Bank	ICT, ATF
148	TBC Bank	ICT, ATF
149	Free University	ICT, BSP
150	Cisco	ICT, IPR
151	Microsoft	ICT, IPR
152	Ministry of Justice	ICT, Leasing
153	DEA	ICT, TFS
154	GPI Holding	Insurance
155	Imedi L	Insurance
156	Georgian Insurance Association	Insurance
157	Parliament	Insurance, Investment Promotion, Pension Reform
158	National Bank of Georgia	Insurance, Leasing, Pension Reform, T&L, Apparel, Tourism
159	Kutaisi City Hall	Investment Promotion
160	Poti City Hall	Investment Promotion
161	Telavi Municipality	Investment Promotion
162	Dedoplistskharo Municipality	Investment Promotion
163	Georgia Consult	Investment Promotion
164	GF Capital	Investment Promotion
165	International Development Consultants	Investment Promotion
166	Georgian Chamber of Commerce	Investment Promotion
167	USAID HIPP	Investment Promotion
168	Batumi International Investor Association	Investment Promotion, Apparel, Agriculture, Tourism
169	EBRD	Investment Promotion, All VCs
170	Georgian National Investment Agency	Investment Promotion, Apparel
171	Georgian and Turkish Businessmen Association	Investment Promotion, Apparel
172	Tbilisi City Hall	Investment Promotion, Construction Materials, AG VCs, T&L, MICE Tourism, Regulatory Environment and Licensing, Apparel
173	Georgian Small and Medium Enterprise Association	Investment Promotion, Procurement, IPR, ICT
174	PMCG	Investment Promotion, Revenue/Tax Administration Strengthening, Pension Reform, All VCs, BSP
175	Ministry of Economy and Sustainable Development	Investment Promotion, T&L, Apparel, Privatization, Building Codes, Trade, Regulatory Environment and Licensing
176	American Chamber of Commerce	Investment Promotion, Tourism
177	British-Georgian Chamber of Commerce	Investment Promotion, Wine Tourism

178	Federation of Professional Accountants and Auditors	Investment Sector Economic Governance
179	CLDP	IPR
180	Sakpatenti	IPR, E-Filing
181	EU Delegation in Georgia	IPR, Quality Infrastructure
182	Alliance Leasing	Leasing
183	Georgian Leasing	Leasing
184	TBC Leasing	Leasing
185	Business Association of Georgia	Leasing, Pension, Procurement, AG VCs
186	USAID JILEP	Legal Education, IPR
187	Department of Tourism & Resorts of Adjara	MICE Tourism
188	Adjara Tourism Agency	MICE Tourism
189	GNTA	MICE Tourism
190	ExpoGeorgia	MICE Tourism
191	Georgian Event	MICE Tourism
192	Caucasus Travel	MICE Tourism
193	BTL Travel	MICE Tourism
194	Georgica Travel	MICE Tourism
195	Liberty Travel	MICE Tourism
196	Visit Georgia	MICE Tourism
197	Sheraton	MICE Tourism
198	Marriott	MICE Tourism
199	Radisson	MICE Tourism
200	Holiday Inn	MICE Tourism
201	Betsy Hotel	MICE Tourism
202	Acrossgeorgia	MICE Tourism
203	Georgian Discovery Tours	MICE Tourism
204	Intercontinental	MICE Tourism
205	Explore Georgia	MICE Tourism
206	Shota Rustaveli State University	MICE Tourism
207	Georgian Palace	MICE Tourism
208	Intourist Palace Hotel	MICE Tourism
209	Travel Club	MICE Tourism
210	Travel Shop	MICE Tourism
211	Universe Business Group	MICE Tourism
212	Georgia Paper Making Ltd	MICE Tourism
213	Georgian Cardboard Ltd	MICE Tourism
214	Legi Group Ltd	MICE Tourism
215	Milangi Ltd	MICE Tourism
216	Neoprint Ltd	MICE Tourism
217	Paper+ Ltd	MICE Tourism
218	Saluka Ltd	Packaging
219	ABCO	Packaging, AG VCs
220	Ministry of Environment	Packaging
221	UNDP	PERSUAP
222	Competition and State Procurement Agency	Procurement

223	Georgian Accreditation Center	Regulatory and Environment Licensing
224	Revenue Service	Revenue/Tax Administration Strengthening, Customs, Leasing, TFS
225	Ministry of Finance	Revenue/Tax Administration Strengthening, Customs, Pension Reform, Leasing
226	Caucasus Trans Express	T&L
227	Civil Aviation Agency	T&L
228	Assa Trans	T&L
229	Global Logistics	T&L
230	GA Logistics	T&L
231	Delidor	T&L
232	Hapag-Lloyd	T&L
233	Lasare	T&L
234	MSC Georgia	T&L
235	Pace Georgia	T&L
236	TLC Property Management	T&L
237	TransCare	T&L
238	TransMal	T&L
239	Vengo	T&L
240	Georgian International Road Carriers Association	T&L
241	Georgian Logistics Association	T&L
242	TRACECA Permanent Secretariat	T&L
243	Alioni 99 Ltd	T&L
244	Asian Development Bank	T&L
245	Transcaucasia Crystal Ltd	T&L, Construction Materials
246	Partnership Fund	T&L, Investment Promotion
247	Batumi International Container Terminal	T&L, TFS
248	Maersk Georgia	T&L, TFS
249	A.P. Moller	T&L, TFS
250	Georgian Railway Transcontainer Ltd	T&L, TFS
251	Freight Forwarders Association	T&L, TFS
252	ACT	T&L, Tourism, PMP
253	U.S. Treasury	Tax Administration
254	APM Terminals Poti Sea Port Corporation	TFS
255	Chateau Mukhrani	Tourism
256	Armenian Guides Guild	Tourism
257	Center for the Promotion of Imports from Developing Country (CBI)	Tourism
258	Georgian Guide Association	Tourism
259	Georgian Incoming Tour Operators Association	Tourism
260	Georgian Tourism Association	Tourism
261	Global Star	Tourism
262	World Bank	Tourism
263	Georgian Business Development Center	Tourism, ICT, Internships
264	National Statistical Services of Georgia	Tourism, Investment Promotion

265	Ministry of Finance and Economy of Adjara	Tourism, T&, Investment Promotion, Building Codes
266	Goodwill	Vegetables
267	Marneuli Cannery	Vegetables
268	IOCE	Vegetables
269	USAID Job Counseling Project	Vocational Education
270	BIRG	WEF/GCR
271	ISET	WEF/GCR
272	Batumi Vocational College Black Sea	WFD
273	Kutaisi Vocational College Iberia	WFD
274	Ozurgeti Vocational College Horizonti	WFD
275	Poti Vocational College Pasisi	WFD
276	Akhaltsikhe Vocational College Opizari	WFD
277	Tbilisi Vocational College Mermisi	WFD
278	Association of Young Economists of Georgia	WFD
279	Civil Development Agency	WFD
280	Caucasus - Georgian Business Development Center	WFD
281	Georgian Association of Women in Business	WFD
282	International Business Women Networking	WFD
283	CCID	WFD, T&L, ICT
284	Bagrationi	Wine Tourism
285	Besini	Wine Tourism
286	Corporation Georgian Wine	Wine Tourism
287	Exotour	Wine Tourism
288	Explore Georgia	Wine Tourism
289	Khareba	Wine Tourism
290	KTW	Wine Tourism
291	Pheasant's Tears	Wine Tourism
292	Schuchmann	Wine Tourism
293	Schumi Winery	Wine Tourism
294	Teliani Valley	Wine Tourism
295	Wineman	Wine Tourism
296	Georgian Wine Association	Wine Tourism
297	Wine Lab	Wine Tourism
298	Wine School	Wine Tourism
299	Wine Club	Wine Tourism
300	Georgian National Wine Agency	Wine Tourism
301	Qvevri Foundation	Wine Tourism
302	Redix	Wine Tourism
303	Oxfam Georgia	Women Integration

ANNEX 4: SUCCESS STORIES

EPI success stories published during the reporting period can be found in the following pages.

SUCCESS STORY

New Alliance Brings Big Opportunity to Georgian Hazelnut Farmers



EPI Photo

Representatives of USAID, Ferrero, and the Economic Prosperity Initiative (EPI) formalize the Global Development Alliance between USAID/Caucasus and Ferrero.

USAID is teaming up with the global candy company Ferrero to help sweeten the deal for Georgian hazelnut farmers.

The new alliance with the makers of Nutella and Ferrero Rocher chocolates will help the farmers learn new farming practices to boost their yields and improve their incomes. The project will leverage \$1.5 million of Ferrero's resources to implement a training program for farmers at Ferrero's 4,000 hectare plantation in western Georgia.

By increasing the quality and quantity of the hazelnut harvest, the trainings will help growers open up new markets, increase exports, and help farmers get a better price for Georgian nuts. The training will also improve the supply for Ferrero, which depends on a steady stream of high-quality nuts to add the crunch to its candies.

Despite being the 6th largest producer of hazelnuts worldwide, Georgia's hazelnut sector has relatively low rates of productivity.

Gocha Meskhi, a farmer from Samegrelo, Georgia, has grown hazelnuts for years, but his orchards produced yields well below international averages. This year, he attended trainings given by agronomists from Ferrero that will help him improve productivity at every stage of his operation, from cultivation to harvest.

"It is extremely helpful to learn how Ferrero manages its orchards," Meskhi said. "The technology of seedling production introduced at the training was particularly interesting. It was a novelty for me and very useful to practice."

Approximately 800 farmers have already received training, and 2,000 farmers total will be trained through the program. The project will also work with individuals and companies involved in the hazelnut sector to introduce simple quality standards, a market information system, and promote development of a farmer association to represent the interests of the sector.

Ferrero and USAID, working through its Economic Prosperity Initiative, see the enormous potential for the hazelnut sector in Georgia. The new partnership will further USAID's goal to spur economic growth that increases incomes and creates new employment opportunities for Georgians.

SUCCESS STORY

USAID Helps Improve Leasing Legislation to Boost Access to Equipment and Machinery for Georgian Businesses



EPI Photo

A Georgian farmer and his daughter with a leased tractor. USAID's Economic Prosperity Initiative (EPI) Project has helped Georgian leasing companies increase their portfolios and lease more equipment to Georgian small businesses.

When the Georgian Parliament adopted amendments to Georgia's leasing laws last year, it was the result of several years of effort and significant help from USAID's Economic Prosperity Initiative (EPI).

"Improving the leasing regulatory framework has been a great challenge over the past seven years," said Nana Mikashavidze, head of the Leasing Association in Georgia. "The new leasing law is a significant step forward in leasing sector development that will contribute to overall economic growth of the country."

After years of struggling under a regulatory environment that prevented their growth, Mikashavidze thinks that, with the new legislation, leasing companies finally have the opportunity to increase productivity and boost their sales, with EPI's support.

Working with the government and private sector, EPI identified problems in the old leasing laws and brought the leasing regulatory framework in Georgia in line with international best practices.

This development has the potential to benefit more than just leasing companies. A healthy leasing sector helps small businesses gain access to equipment and farmers to access machinery. Improved access to finance through leasing can spur growth in all sectors of the economy.

Worldwide, the leasing industry finances about \$900 billion worth of new equipment every year. In countries with a robust leasing industry, the sector represents 8% of GDP. In Georgia, the leasing industry only represents 0.2% of GDP.

The recent legislative success has served as a catalyst to stimulate the Georgian leasing industry. EPI has built on this success by connecting Georgian leasing companies with potential clients in Georgia as well as vendors and investors in the US. EPI is also promoting the use of leasing instruments in many sectors, especially in agriculture. As a result, investors are looking forward to investing in the industry, helping leasing companies increase access to finance for many businesses, and spurring economic growth across Georgia.

SUCCESS STORY

Farmers in Georgia Will Access to Finance through Crop Insurance

The farmer and Aldagi BCI representative discussing the crop insurance at the farmer's land



EPI Photo

USAID's Economic Prosperity Initiative (EPI) Project helped Georgian farmers to increase access to finance and stabilize income

Merujhan Karakhanian – a 46 year-old ethnic Armenian farmer from village Diliska, Georgia – is a business-oriented and hardworking farmer, striving for growth of his small business. His land of 0.7 HA harvests 18 tons of potatoes: significantly less compared to the world average. Merujhan decided to improve his yields, attempting to purchase new potato seeds and applied to a bank for a loan, but having no collateral, Merujhan's loan application was refused. He had no other options.

To ease access to finance of farmers like Merujhan, USAID Economic Prosperity Initiative (EPI) partnered with Bank of Georgia and Insurance Company Aldagi BCI to implement a crop insurance pilot project that offers an integrated loan and crop insurance product where an insurance policy serves as alternative collateral for a loan. The pilot not only helps increase access to finance for farmers who so far had no other option, it also sets precedence for buying crop insurance that stabilizes farmers' income in case of weather or other disasters. During the pilot project, the crop insurance premium is co-shared by EPI, Bank of Georgia and farmers. It is expected that insurance companies will now gain sufficient knowledge to develop the right insurance products with EPI's technical assistance, eventually reduce its administrative costs and partner with banks in the future to cross-sell crop insurance products. The pilot project will insure approximately USD1.2 million of loans to 1,000 farmers and include crops such as hazelnut, mandarin, potato, onion, garlic, carrot, and beetroot.

After learning about a crop insurance pilot project, Merujhan applied and received a loan in an amount of 6,000 GEL. Besides him, about 40 potato growers were insured and able to take out a loan in South Georgia. The total loan value insured so far amounts to USD 106,920. Merujhan Karakhanian already learnt his lesson – after receiving a loan and insurance product, his crop was badly damaged by recent hail in the area. Despite this, Merujhan feels safe: "Thanks to EPI's pilot project my business can grow. Notwithstanding calamity, I know the insurance will cover the damage and I will not be forced to abandon the business like many farmers had been forced to do before" – explains Merujhan. He is now a believer.

USAID Economic Prosperity Initiative (EPI)
6 Samghebro St.
Tbilisi, Georgia
Phone: +995 32 43 89 24/25/26
Fax: +995 32 43 89 27