



ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2019 in favour of Georgia

Action Document for EU4 Integrated Territorial Development

<u>ANNUAL PROGRAMME/MEASURE</u>			
<p>This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.</p>			
1. Title/basic act/ CRIS number	<p>EU4 Integrated Territorial Development CRIS number: ENI//2019/041-934 financed under the European Neighbourhood Instrument</p>		
2. Zone benefiting from the action/location	<p>Georgia The Action shall be carried out at the following location: mainly in the four focal regions selected by the Government of Georgia in agreement with the European Union (Kakheti, Imereti, Guria and Racha-Lechkhumi & Kvemo Svaneti)</p>		
3. Programming document	<p>Single Support Framework (SSF) for EU support to Georgia 2017 - 2020</p>		
4. Sustainable Development Goals (SDGs)	<p>SDG 10: Reduced Inequalities SDG 11: Sustainable Cities and Communities</p>		
5. Sector of intervention/ thematic area	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"> <p>Regional and local governance, Local economic development</p> </td> <td style="width: 40%;"> <p>DEV. Assistance: YES</p> </td> </tr> </table>	<p>Regional and local governance, Local economic development</p>	<p>DEV. Assistance: YES</p>
<p>Regional and local governance, Local economic development</p>	<p>DEV. Assistance: YES</p>		
6. Amounts concerned	<p>Total estimated cost: EUR 54 000 000 Total amount of European Union (EU) contribution EUR 54 000,000 of which EUR 40 500 000 for budget support and EUR 13 500 000 for complementary support.</p>		

7. Aid modality(ies) and implementation modality(ies)	Budget Support Direct management through: - Budget Support: Sector Reform Performance Contract - Grants - Procurement - Indirect management with the entrusted entity(ies) to be selected in accordance with the criteria set out in section 5.4.3			
8. a) DAC code(s)	43030 Urban development and management (40%) 15112 Decentralisation and support to subnational government (40%) 32130 Small and medium-sized enterprises (SME) development (20%)			
b) Main Delivery Channel	<i>Recipient Government – 12000</i> Entrusted entity(ies) to be selected in accordance with the criteria set out in section 5.4.3 20000 - Non-governmental organisations and Civil Society			
9. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Gender equality and Women’s and Girl’s Empowerment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input type="checkbox"/>	X	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	X	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
10. Global Public Goods and Challenges (GPGC) thematic flagships	Environment and climate change, sustainable energy, human development			

SUMMARY

The proposed Action is in line with the Georgian Government's Regional Development Programme (RDP) 2018-2021, the Decentralisation Strategy 2025, and the Government's draft Pilot Integrated Regional Development Programme (PIRDP) 2019-22, the latter targeting the four focal regions selected by the Government of Georgia in agreement with the European Union, namely Kakheti, Imereti, Guria, and Racha-Lechkhumi & Kvemo Svaneti.

The **overall objective** of the Action is to promote a more balanced territorial development and improve living standards and conditions of the population through inclusive, smart and sustainable socio-economic means, aiming at creating new centres of gravity apart from Tbilisi and Batumi.

The **specific objective** is to create a favourable environment and promote integrated socio-economic development of the four focal regions (Kakheti, Imereti, Guria, and Racha-Lechkhumi & Kvemo Svaneti).

Its expected results are 1) implementation of integrated territorial development measures in the focal regions and 2) building a national and territorially based system for effective policy implementation.

The Action has been designed taking into consideration the lessons learned from the previous EU interventions in the field of regional and rural development. It will be in synergy with the programmes under the 2017 Annual Action Programme on Skills Development and Matching for Labour Market Needs and Economic and Business Development, and with the upcoming ENPARD IV also under this 2019 Annual Action Programme.

The proposed Action is in line with the two overall objectives of Sectors 1 and 2 of the Single Support Framework (SSF) for Georgia 2017-2020 – namely Sector 1 "Economic development and market opportunities" Specific Objective 5: "to reduce disparities, especially in terms of competitiveness, growth and jobs, between the levels of development of the various regions by means of a multi-sectoral approach, including investment related" and under Sector 2 "to consolidate Public Administration reform; to strengthen the structures and processes of local governance".

In line with the EU engagement policy towards Georgia's breakaway region of Abkhazia, the potential, opportunity and feasibility of extending further actions to that region will be assessed during the implementation of the Action, in accordance with the crisis declaration.

1 CONTEXT ANALYSIS

1.1 Context Description

Georgia is a small developing economy with a population of about 3.7 million people and a gross national income (GNI) per capita of USD 4,067¹. Sound fiscal and monetary policies supported by structural reforms created supply-side dynamics, which positively impacted upon economic growth in the larger Georgian cities, e.g. Batumi and Tbilisi.

The country features a remarkably diversified landscape and topography and consists of 10 administrative and statistical regions (excluding Georgia's breakaway regions of Abkhazia and South Ossetia). The regions are disparate with regard to territorial, social and economic characteristics. The largest region in terms of size is Kakheti with an area of 11,375 km² and the smallest is Guria with an area of 2,033 km². Population wise, the biggest (not counting Tbilisi) is Imereti with 529,700 inhabitants and the smallest is Racha-Lechkhumi & Kvemo Svaneti with only 31,000 residents – i.e. 17 times less.

Unemployment rate is highest in Tbilisi (24.7%) and lowest in Kakheti (3.7%) compared to the national average (13.95%). However, if self-employed subsistence farming is excluded, the picture changes drastically. Hired employment rate is low - 42.3% nationwide. Tbilisi tops the ranking with an index of 84.5% followed by Adjara 45.6%. All other regions record hired employment rates below the country's average.

Poverty remains high in the whole country (about 22%), however it is unevenly distributed with higher rates in rural areas than in urban ones. The incidence of extreme poverty in rural areas is almost twice that in urban areas. Consumer expenditures of 22.3% of the population (i.e. over 0.825 million people) are below 60% of the average subsistence level. Regional economic imbalances remain high in Georgia, particularly between the capital city and the rest of the country².

Tbilisi is the biggest contributor of GDP, accounting for almost half of it. This is not unusual for a capital city of a small developing economy. Business turnover mirrors the GDP distribution, with 72% of turnover attributed to Tbilisi based companies, while turnover for Guria and Racha-Lechkhumi & Kvemo Svaneti together accounts for 1%.

Furthermore, there are significant disparities between urban and rural areas, most importantly in terms of incomes, and living standards. In Georgia, 42.8% of the population lives in rural areas, and almost half of the rural population is engaged in agriculture, forestry and fishing, although the agriculture sector contributes less than 10% to Gross Domestic Product (GDP).

Georgia's age gap is another factor of concern. With a median age of 38.1 at national level, Georgians are still younger than EU nations on average. However, the median age in Guria and Racha-Lechkhumi & Kvemo Svaneti (41.8 and 48.2 years respectively) should be flagged as a challenge in a mid-term perspective.

¹ Source: Geostat, 2016-2018 national and region specific data

² Source: Geostat 2016-2018 national and region specific data.

The 2017 survey conducted by UNDP in the regions show a steady satisfaction of citizens towards local services (infrastructure, kindergarten, social services, etc.). On the other hand, an evident lack of civic engagement can be observed, including in planning and monitoring of local development projects. Citizens' trust in local administration remains average.

Georgian authorities keep a high level of capital investment in the regions. The amount to be spent on projects through the Regional Development Programme 2018-2021 of Georgia is set at GEL 18 billion, which represents a sharp increase compared with GEL 3.9 billion in 2015-2017. This increase is mainly attributed to the government's commitments in infrastructure and education, and to a lesser extent, to cover new measures of other line ministries (economic development, agriculture and tourism).

1.2 Policy Framework (Global, EU)

The EU is a leading partner of Georgia in the area of regional and local development. The cooperation priorities are outlined in the Association Agenda 2017-2020 as well as in the Single Support Framework (SSF) 2017-2020. The regional/territorial development priorities fall under Sector 1 "Economic development and market opportunities" Specific Objective 5: "to reduce disparities, especially in terms of competitiveness, growth and jobs, between the levels of development of the various regions by means of a multi-sectoral approach, including investment related..." and under Sector 2 "to consolidate Public Administration reform; to strengthen the structures and processes of local governance".

The notion of focal regions is underlined by the SSF: "in order to maximise the impact of EU assistance, a cluster of interventions may be focused on specific regions of Georgia whilst recognising that there are development needs across the entire country. In each focal region, the EU will aim to concentrate support from a number of cross-sectoral initiatives to maximise impact."

The proposed actions are also in line with the Eastern Partnership "20 Deliverables for 2020", namely Deliverable 6) The creation of new job opportunities at the local and regional level supported via EU programmes aimed at diversifying the economic activity and reducing disparities, and Deliverable 11) Support the implementation of public administration reform.

1.3 Public Policy Analysis of the partner country/region

The general policy priorities over 2018-2020 are outlined in the Georgian government's programme "Freedom, Rapid Development, Welfare", which has five general priority areas. Under priority area 2 – "deep-rooted and innovative reforms" – authorities aim to develop regions, decrease disparities, develop good quality and innovative services and increase their contribution to GDP.

The Regional Development Programme (RDP) for 2018-2021, approved by the government on 11 June 2018, lays down the foundation of Georgia's regional development policy principles and strategic objectives. The document is in line with the general policy priorities of the government and builds on the experience of the RDP 2015-2017. Compared to the previous programme, the new document has more territorial focus (identifying pilot regions

for targeted actions) and outlines target outcome indicators (GDP growth, employment rate, etc.) for 2021.

The RDP 2018-2021 sets the following five priorities: i) improvement of key infrastructure, ii) support to SMEs and growth-oriented sectors, iii) improvement of human capital, iv) promotion of local development and v) increase of the quality and effectiveness of institutions. Under each priority area, the document identifies measures, implementing agencies and output indicators.

In addition, the government approved on 27 August 2018 (decree #1713) the selection of the four focal regions Kakheti, Imereti, Guria and Racha-Lechkhumi & Kvemo Svaneti. This selection of regions is the result of EU-Georgia policy discussions balancing the economic potential and inter-dependency on one hand, and the scarcity of population and existence of disadvantaged areas on the other.

Stemming from the RDP 2018-2021, a region-specific territorial development plan – called Pilot Integrated Regional Development Programme (PIRDP) has been prepared jointly by the Ministry of Regional Development and Infrastructure (MRDI) and regional/local authorities with the participation of local stakeholders (Civil Society Organisations, Small and Medium Enterprises, Local Action Groups). It follows a series of public consultations in the four focal regions during the course of 2018 and 2019, involving Governor offices, municipalities, private sector and research institutions and VET colleges, Local Action Groups, and active donor-funded projects.

The following five priorities for investment have been identified: 1) Urban renewal – integrated actions in urban areas; 2) Unique tourism potential; 3) Entrepreneurship, competitiveness and innovation of local SMEs; 4) Integrated local development; 5) Efficient local administration and partners for development (technical assistance).

This Action will provide targeted EU support to all PIRDP priorities, which will be co-financed from national budget, the private sector, municipalities and donors. The overall expected PIRDP budget totals €82.5 million. Both the EU and national contribution will be allotted to a dedicated budget line, according with the country's principles of budgetary appropriations.

The PIRDP has been designed to run inclusive of 2022, which allows EU support for the implementation to be channelled through this Action, amongst others. It is envisaged that the government will update or extend the current RDP to cover the consecutive period 2023-2026.

In 2013, the government adopted dedicated medium term (2014-2020) strategies for Guria, Kakheti, Racha-Lechkhumi & Kvemo Svaneti and in 2016 for Imereti. Based on the detailed regional needs assessment with the involvement of a wide range of stakeholders, including local population, businesses, CSOs and academia, the strategies identified goals, objectives and activities for further socio-economic development for the concerned regions. These strategies did not set quantifiable targets nor defined means of implementation or resources.

The government has adopted a Decentralisation Strategy for 2020-2025 with the intention of granting more functions and finances to local authorities. It has three main dimensions or pillars: i) increasing powers of local authorities, ii) fiscal decentralisation and iii) citizens' involvement and transparency, all attempting to contribute to the increase in public welfare, enhancing the role of citizen and community groups and more efficient public service delivery to address increasing demands from the population.

The *first* pillar aims at increasing the role of the local self-governments in solving a significant part of public affairs either through the elimination of the existing formal and informal barriers or through providing more powers and authority to the local level, based on the principle of subsidiarity. The *second* pillar focuses on the provision of more appropriate material and financial resources to local authorities (including increase in percent of income tax sharing) and more consistent growth of the municipalities' own revenues. The *third* pillar considers the establishment of a comprehensive framework for more reliable, accountable, transparent and result-oriented local self-government with an increased involvement of citizens and more effective multi-level governance features, including inter-municipal cooperation. All three pillars would enhance the implementation and monitoring of this Action and sustaining its results. Works are ongoing to complete the preparation of a detailed Action Plan,

The Government of Georgia is implementing the recommendations of SIGMA's 2018 baseline assessment on policy development and coordination. The assessment pointed at weaknesses in the quality of policy planning (costing, monitoring, coordination and public consultation), which are currently being addressed through the PAR roadmap and action plan implementation. Furthermore, the policy framework (RDP and PIRDP) has been elaborated on the basis of a thorough gap assessment and data collection, thus ensuring its credibility. In the context of this Action coordination arrangements will be set up between government institutions implementing and monitoring the PIRDP, implementation guidelines will be developed, and monitoring frameworks will be established.

The policy framework relevant for the Action is supplemented by the following:

- The Law on Mountains and the (draft) Strategy for Development of High Mountain Settlements of Georgia 2019-2023 are currently undergoing public consultation. They outline the three following objectives: 1) sustainable development of mountainous settlements, 2) social support to population (tax exemptions, salary bonuses) and 3) access to services.
- The Vocational Education and Training (VET) Strategy became an integral part of the Overall National Education/Unified Strategy of Education and Science (2017-2021) adopted in December 2017. This Strategy covers the whole education system and it has three global objectives: quality, inclusion, and relevance. The VET Strategy sets out seven specific outcomes that aim at forming a modern, inclusive, attractive and open system. More specifically, the reform priority areas include: increasing VET enrolment, the development of public-private partnership, work-based learning, quality enhancement, continuous teacher professional development, and the improved connection between VET and other levels of education.
- The Strategy for Rural Development of Georgia 2017-2020 and its action plans are the basis for implementation of the ongoing EU supported ENPARD III aiming at

diversification of production and increase of productivity in agricultural sectors as well as promoting rural development. As the agriculture and rural development strategies are ending in December 2020, the Government is finalising the successor strategy, the Agriculture and Rural Development Strategy of Georgia (ARDSG), which merges the current two strategies into one single framework, covering rural development and agriculture, and also integrating food safety.

- The Government is currently elaborating its first service delivery strategy to harmonise the national approach to identify, design and provide quality assurance of service delivery. The strategy will be discussed with stakeholders and presented for the government's approval in the fourth quarter of 2019.

With regards to **costing of the policy**, both, the RDP 2018-21 (chapter VI, annex X5) and the draft PIRDP 2019-2022 (chapter VI, chapter VII and ANNEX 1 table 3) contain the standard required elements, namely: detailed financial implementation plans allocating available resources to priorities and listing the measures (and sub-measures in case of PIRDP), as well as a description of the institutional system of management and implementation. The RDP and PIRDP indicate the funding sources and financial allocations per projects/measures, referring to external funding (and potential donor when known) wherever state funding is not sufficient. The most recent document, the PIRDP, identifies a financial gap of EUR 50 million. The accuracy of financial projections and costing will be assessed in mid-2019, as the first annual implementation report of the RDP becomes available.

The PIRDP sets a precise implementation system based on the principles of decentralisation (in line with the draft Decentralisation Strategy), naming institutions responsible for (i) coordination and strategic decisions (Government Commission for Regional Development, GCRD), (ii) monitoring (Monitoring Committee), (iii) management (MRDI), implementation (MRDI and three national level governmental agencies), and (iv) project selection (Regional Consultative Councils – 70% of projects, GCRD and central level governmental institutions - 30% of projects).

The RDP actions are broadly reflected in the Basic Data and Directions (BDD) document for 2019-2021 under the section "main policy directions" as well as under the section "main expenditure priorities for spending entities".

The Government Commission for Regional Development (GCRD), chaired by the MRDI, is in charge of the overall sector coordination and monitoring. It is composed of senior management representatives from all line ministries and of regional State Representatives/Governors. The monitoring is done through the "monitoring data sheets" that are filled out by the relevant implementing agencies and submitted to MRDI twice a year.. These serve as a basis for the annual monitoring report, discussed and adopted at GCRD meetings and published on the MRDI website. The first monitoring report is expected to give more insights into the regional distribution of public support to regional development.

The national framework for policy planning, including monitoring and evaluation is currently being revised and shall be adopted in 2019, taking into consideration the SIGMA baseline assessment and lessons learnt from the implementation of the first framework adopted in 2016. With the substantial assistance provided through the EU funded programme supporting

public administration reform, it is expected that the monitoring & evaluation approach and related practice will be further strengthened.

In the Georgian breakaway region of Abkhazia there are neither sector policies on regional and territorial development, nor substantive interventions by the *de facto* authorities in support to the sector. For this region, the EU policy continues to be governed by the principles of engagement and non-recognition, potentially warranting intervention in support of local community development.

1.4 Stakeholder analysis

On a general level, and more specifically related to component 2 of the Action, the **Administration of Government (AoG)**, under the Prime Minister, is in charge of government planning and coordination, policy planning and monitoring. It steers the reforms of the public administration, sets the national framework for policies and reviews all policies submitted to government's approval. With regards to service delivery, the **Public Service Development Agency**, under the Ministry of Justice, is tasked with the elaboration of a unified approach to service delivery. The **Public Administration Reform Council (PARC)**,² composed of the AoG, line ministries including MRDI and other agencies is the platform for the planning, coordination and monitoring of the PAR roadmap 2015-2020, which addresses policy planning, civil service reforms, accountability, public finance management, service delivery and local self-government. Priorities set by the PARC will then be reflected in regional policies, new approaches to service delivery, human resource management, etc. The Ministry of Finance (MoF) is in charge of providing methodological support to municipalities in budget preparation, implementation and execution reporting. Together with the MRDI, the MoF is also responsible for preparing the government decision for allocating state transfers to local self-governments.

The composition and functions of the **Government Commission for Regional Development (GCRD)** are regulated by decree № 297 of 28 October 2010. The GCRD consists of members representing line ministries at management level (deputy Ministers and heads of departments) with an established quorum of more than half of members present. One of the line departments of MRDI performs the role of Secretariat.

The **Ministry of Regional Development and Infrastructure (MRDI)** has the overall management authority and is responsible for the efficient management and implementation of state regional development funds in the sector. Together with the GCRD, the Ministry is in charge of overall sector coordination and monitoring.

The **Parliament's Regional Policy and Self-Government Committee** serves as the forum for institutional dialogue between the state and local authorities. It regularly discusses municipal/regional development strategies and their implementation status, fiscal and property decentralisation issues as well as the steps to be taken by the legislative and central authorities in order to enable the municipalities to implement their competences.

The **State Representatives/Governors in the regions** are appointed by the Prime Minister of Georgia. Governors are in charge of the coordination and monitoring of the implementation of State funding by the municipalities, gathering statistical data and conducting the analysis of

socio-economic developments. The State Representative also has the responsibility to carry out the administrative supervision of the legal acts produced by local self-governments.

The **Regional Consultative Councils (RCC)** are established by the Local Self-Government Code in all nine regions of Georgia. They have the mandate to advise the Governor on regional policy planning and implementation monitoring. RCCs are also involved in the appraisal and selection of municipal projects to be funded from the Regional Development Fund (state budget line). The members of RCC are municipal Mayors and Heads of Councils. CSOs and business community members are invited to the Council as observers.

The **local self-governments** (60 municipalities and 5 self-governing cities³) possess the rights to administer their own budgets, assets, natural resources and local taxes and to manage local infrastructure. The bodies of self-government at the level of municipalities comprise a representative council, *Sakrebulo*, directly elected for a four-year term, and an executive branch, headed by a mayor, directly elected for a four-year term. Currently, the local self-governments have limited competencies and own financial resources to administer their jurisdictions. The (draft) Decentralisation Strategy aims at gradually increasing competences and financial resources by 2025.

RCCs and Local Governments in the four focal regions are expected to play a major role in the implementation of this Action.

The targeted regions comprise of 27 municipalities: 9 in Kakheti (including the self-governed city of Telavi), 11 in Imereti (including the self-governed city of Kutaisi), 3 in Guria and 4 in Racha-Lechkhumi & Kvemo Svaneti. The local self-government units feature disparate and different levels of development, capacity and experience of working with donors and international organisations. The local governments are expected to be the main group of beneficiaries and final recipients of this Action. They will work with State Representatives/Governors in the implementation of the planned actions, especially during the validation of the final set of interventions/measures, project prioritisation and selection stage and overall monitoring of the Action roll-out.

The role of regional **Civil Society Organisations** will be strengthened when compared to similar actions in the past. They are expected to be more involved in the design, development, implementation and monitoring of the PIRDP measures to be implemented in the focal regions under the PIRDP (and the overall Action) in line with the PAR concept that provides for a holistic perspective involving key stakeholders and determining the accountability for implementation. Where relevant, they will also act as project promoters, especially for the measures aimed at combating social exclusion.

The **National Association of Local Authorities of Georgia (NALAG)** is also one of the stakeholders. Although no direct role or function is foreseen in the Action's implementation, it will partake in learning and networking exchange with the municipalities of the focal regions, especially in the context of the decentralisation reform. NALAG may also provide

³ Municipalities and self-governing cities have the same status and functions. Self-governing cities are established within the boundaries of the particular City. Municipalities represent the constellation of the settlements (villages, small towns).

complementary support to local self-government units in various phases of the implementation of the actions.

Learning institutions in the focal regions such as universities in Kutaisi and Telavi as well as Vocational Education and Training (VET) colleges, together with their Research & Development subsidiaries, will play an important role, contributing to the increase of competence and building a knowledge-driven future. They will act both as project promoters to enhance innovation and transformation, and as partners working with civil society in participatory mechanisms to ensure transparency and openness during public consultation and the review of the design and implementation of the actions.

Other stakeholders include members of **Local Action Groups (LAGs)** established within the framework of ENPARD in certain areas of Kakheti and Imereti. In synergy with the proposed fourth phase of ENPARD, the experience and model of Local Action Groups will be shared and promoted for the design and development of bottom-up initiatives on sub-regional level, especially in order to animate individual interventions bringing civil society, private sector and municipalities together to solve specific problems.

The different stakeholders feature varied levels of institutional and organisational capacity to participate in and manage the Action. While the MRDI has already gained significant track record in vertical and horizontal policy coordination, there may be instances where such experience in specific sectors/areas is marginal such as integrated local development, smart specialisation, clustering, business support activities, digital services, post-industrial revitalisation, etc. For that, potential knowledge holders (academia, think-tanks, agencies dealing with innovation and business support services, etc.) have been identified at national level to ensure sound standards and communication for the purpose of the Action delivery (and concentration of funding). Also, the roll-out of specific measures will be carried out by the complementary support of the Programme.

Regional stakeholders also demonstrate different level of experience and capacity to effectively partake in the Action. Although they have a good track record in working together, the technical knowledge on issues pertaining to the PIRDP is insufficient, and will also require additional technical support.

Potential beneficiaries include: ministers, municipalities, educational institutions, NGOs, enterprises, public agencies, and individuals. Unarguably, their capacity to benefit from the Action is the most heterogeneous across all institutions involved in the implementation, with important difference between some institutions exhibiting good project management track record and capacity (also in the EU context) and other organisations with limited or no experience at all.

Overall, the Action contributes to the broader PAR framework but only indirectly; as such, the bodies responsible for the reform of public administration (AoG, Civil Service Bureau) are not considered as stakeholders for this Action.

1.5 Problem analysis/priority areas for support

Despite the successful implementation of the RDP 2015-2017 and the ongoing implementation of the current RDP 2018-2021, the regional dimension and regional policy objectives are not fully embedded in the line ministries' work. Therefore, the proposed Action will seek better coordination between national strategies through an integrated (multi-sectoral) approach while ensuring concrete implementation at the regional/local level through bottom-up approaches. In addition, the Action foresees measures within areas not addressed by national strategies such as the revitalisation of monocentric industrial towns and developing new centres of gravity.

Overall, the following development policy issues are similar to all regions:

- Monocentrism and limited urban activities/regional centres of socio-economic gravity;
- Low value added and productivity (at regional level and per capita);
- Insufficient entrepreneurial capacity and capability to invest for better competitiveness and increased innovation;
- Job creation, employment – limited income opportunities and widespread poverty;
- Unequal access to services – especially in rural and post-industrial areas;
- Negative demographic and migration dynamics;
- Weak horizontal policy coordination – non-existence of regional development in the programme of line ministries.

Although the needs of individual regions are similar, there is also a variety of factors when it comes to basic needs, business support schemes and basic public services (basic transport and environmental infrastructure, SME development and business support institutions, quality and access to essential public services), which are particular for each of the four focal regions.

Succinct information on opportunities and challenges per region are provided below:

Kakheti: It is the largest rural region with an area of 11 375 km². Gross Value Added (GVA) is GEL 1 838 million (5.7% of Georgia's total); GVA per capita amounts to GEL 5 840.

- *Local development:* Despite efforts in recent years to improve hard infrastructure, the problems with water supply, sewage system, solid waste management and roads are still acute, especially in villages. Youth migration and aging of the population is also a challenge.
- *Productive sectors:* Kakheti is the largest wine maker and wine exporter of the country. Being the biggest in terms of share of meadows and winter pastures across the country, the region is one of the largest contributors of sheep breeding. Sheep and cattle from Kakheti are exported to the Middle East countries. With its historical monuments and unique traditions, the region is a favourite destination of both foreign and local tourists.
- *Urban development:* Telavi has the potential to become a strong second tier regional centre providing the whole region with administrative, cultural, educational, support to businesses and innovation functions; some smaller cities have potential for attracting various type of economic activities (tourism, food processing and raw materials usage). The Telavi State University could be used as a base for research and innovation for agro technologies.

Imereti: The total area is 6 415 km²; GVA is GEL 3 248 million (10% of Georgia's total); GVA per capita amounts to GEL 6 406.

- *Local development:* Imereti is rich in natural resources and local culture including a tradition of sport clubs (football, basketball, rugby, weight lifting). Rural areas generally have poor access to water.
- *Productive sectors:* The rural economy is the most intensive – greenhouses with the total area of 462 ha account for two thirds of all greenhouses in the country. Imereti is one of the biggest cattle breeding regions of Georgia and one of the leaders of dairy cow breeding. The region was the centre of agriculture production selling, however nowadays business links are destroyed. There is a need to support the modernisation of food processing, marketing and value chains. The realisation of big road and railway transport corridor projects and further development of Kutaisi airport will contribute to the economic development. There are two free industrial zones in Kutaisi.
- *Urban development:* Kutaisi, the regional centre and third largest city in Georgia, is a former industrial town which has lost most of the economic activities and a substantial part of its population. There are also other monocentric industrial towns in need of industrial modernisation and diversification. The second largest international airport and highways of international importance are located in connection with Kutaisi and are currently under modernisation. International connections will also support the creation of business and trade links with Guria and Racha - the adjacent poorer regions. The Kutaisi University could be used as a base for innovations and further economic development of the region.

Guria: The total area is 2 033 km²; GVA is GEL 652 million (2% of Georgia's total); GVA per capita amounts to GEL 5 900.

- *Local development:* Guria has a very low population density, with limited access to water supplies and the local transport network is in poor condition. Many of the settlements in the region have mountainous character, with low accessibility. Unique characteristics include forest resources and culture and historical heritage.
- *Productive sectors:* The region is characterised by a rich nature due to the Mediterranean type of climate conditions, with a variety of plants and fruits, partially exploited tourism potential built on the Black Sea, as well as natural and cultural heritage. Apart from agriculture and tourism the area has some maritime and fisheries industry.
- *Urban development:* Guria has a small number of cities and towns, with a low level of development. Urban areas have low accessibility for inhabitants of the region and from outside. The cities have limited economic functions, therefore low attractiveness for investment. Ozurgeti, the centre of the region, has limited potential to play the role of regional hub for administrative, cultural, economic and social functions. Still, there is some potential for the towns to attract various types of cultural and economic activities (tourism, food processing and raw materials usage).

Racha-Lechkhumi & Kvemo Svaneti: The total area is 4 600 km²; GVA is GEL 165 million (0.5% of Georgia's total); GVA per capita amounts to GEL 5 464.

- *Local development:* Racha-Lechkhumi & Kvemo Svaneti face typical problems similar to all mountainous areas elsewhere in Georgia with very low density of

population, lack of basic infrastructure and limited access to public services. This causes further depopulation and lack of economic activities beyond basic agriculture related ones. Racha-Lechkhumi has a peripheral location that influences negatively its accessibility and growth opportunities.

- *Productive sectors*: the region is an important producer of grape and wine; also maize, haricot beans and other vegetables, a variety of fruits, and Racha ham. The region has good water resources and some raw materials (arsenic).
- *Urban development*: The region has a small number and a low level of functional development of cities and towns. The urban areas have limited accessibility for inhabitants of the region and from outside. As it is the case for Guria, the regional centre, Ambrolauri, has a limited role to play as regional hub for administrative, cultural, economic and social functions. Still there is some potential for towns to attract various types of cultural and economic activities (tourism, food processing and raw materials usage).

Despite the existence of a number of policy documents, Georgia's regional policy framework (concerning both planning and implementation) remains centralised and fragmented, characterised by limited evidence-based planning and monitoring capacities, thus undermining the ability of the authorities to make informed investment decisions against a comprehensive series of development indicators.

The institutional capacity of regions is generally characterised by a low ability of regional and local authorities and other development partners (business, NGOs and citizens' organisations) to cooperate effectively in the management of regional development issues. Insufficient experience is a challenge for regional authorities and other stakeholders in preparing and implementing development projects and when monitoring and evaluating them.

The ongoing efforts to improve administration efficiency and accountability also cover sub-national levels. The new rules in the civil service, established in 2015, are applicable to municipalities. The national anticorruption strategy now also covers prevention of corruption in the local public sector. Still, rolling out public administration reforms in regions and municipalities is particularly challenging, given the number of institutions, their limited institutional and financial capacities, and more generally, the limited awareness of local public officials of the challenges ahead. A survey conducted by UNDP in 2017 shows high public satisfaction with most services provided by municipalities but limited trust in local administration. Civic engagement remains limited too.

The Action builds on the identified unique characteristics and assets of each of the focal regions that highlight competitive advantages, potential for excellence (and needs at the same time) allowing for focused support and investments towards key regional priorities, challenges and needs. The proposed actions make innovation and creation of synergies a priority for the focal regions. They also feature elements aimed at the improvement of governance and getting stakeholders more closely involved, including in decision-making processes related to how to spend available funds. Overall, their economic rationale incorporates the key pillars of the smart specialisation framework such as: development and implementation of strategies for economic transformation, response to economic and societal challenges, making the regions more visible to inward investors, improving internal and external connections and attempts to accumulate a critical mass of resources.

Georgia, similar to other Eastern Partnership countries, is at an early stage of developing of its approach for smart specialisation (S3). There is a need of mapping (at national and regional levels) the economic and research fabric, internally organising a coherent approach, and mobilising and coordinating relevant stakeholders through an entrepreneurial discovery process. The support in targeted focal regions could enable local stakeholders to gain the competences needed for continuing the strategy's design and implementation in the future. The exchange of good practices of the S3 platform activities in EU Member States can provide additional insights for local economic development.

1.6 Other areas of assessment

1.6.1 *Fundamental values*

Fundamental values of democracy and human rights are protected by the Georgian Constitution in line with main international standards. Georgia is considered a country adhering to the Rule of Law, although improvements are still needed in the areas of enforcement of judicial decisions and the independence of judiciary. Freedom House recognises Georgia as “partly free” with Internet being considered “free” and press “partly free”. Overall Freedom Rating is assessed with the score 3/7 (1 being Most Free and 7 Least Free), and is the same for political rights and civil liberties.

1.6.2 *Macroeconomic policy*

Economic activity, which grew at 4.7%, proved resilient in 2018. Preliminary data suggest that weaker domestic demand towards the end of year was largely offset by strong export and tourism growth. The current account deficit narrowed to 7.7% of GDP in 2018, from 8.8% in 2017. The deficit is expected to gradually narrow, supported by an improving trade balance.

Despite a weaker global outlook, preliminary data indicate robust growth in the first quarter of 2019. The IMF estimates 4.6% growth in 2019. Structural reforms and infrastructure investment are expected to support growth over the medium term. Although the outlook is positive, Georgia remains vulnerable to spill-overs from external developments, including escalating global trade tensions and financial market volatility. A greater than expected slowdown in credit could impact growth in the short term. The economic impact of the measures imposed by the Russian Federation in summer 2019, banning flights to and from Georgia as of July 2019, remains to be analysed.

During the first five months of 2019, the inflation was above the 3% target of the National Bank, reaching 4.7% in May.

Monetary policy remains focused on price stability, and the stance of monetary policy is appropriate. Authorities are committed to exchange rate flexibility and build-up of external buffers. Despite the "de-dollarization" policy launched jointly by the Government and the National Bank in 2018, it remains high. Financial sector reforms remain focused on responsible lending principles that have tightened lending standards and slowed credit growth. This is likely to make credit growth more sustainable and needs to be balanced with sustained access to credit for creditworthy borrowers.

Fiscal targets of 2018 were met with a comfortable margin due to stronger growth (VAT) and over-performance in collection of certain taxes (Personal Income Tax and Corporate Income

Tax) and non-tax revenues. The fiscal deficit will remain relatively stable in 2019 and over the medium term, although spending composition is expected to change reflecting new priorities toward implementing the education reform. The authorities also strengthened the fiscal rules by eliminating expenditure ceiling (set as 30% of GDP) and clarifying the scope of the deficit and public debt.

The authorities remain committed to the structural reform agenda that should create favourable conditions for balanced growth. In order to increase medium-term growth potential Georgia has to continue: improving infrastructure that will strengthen the connectivity, comprehensively reform the education system, supporting business sector and environment, mobilise domestic savings (financial market and pension reforms) and modernise commercial justice (insolvency law, effective commercial dispute settlements).

Macroeconomic stability in Georgia is also supported by the EU Macro-Financial Assistance (MFA), approved by the EU co-legislators in April 2018. Following the entry into force of a Memorandum of Understanding (MoU) and the accompanying loan and grant agreements in November 2018, the first instalment of EUR 20 million (EUR 5 million in grants and EUR 15 million in loans) was disbursed to Georgia in December 2018. The next step in the implementation of the MFA programme will be the disbursement of the second (final) instalment of EUR 25 million (EUR 5 million in grants and EUR 20 million in loans). Aside from the political precondition and good progress with the IMF programme, the second instalment will also be subject to specific policy conditionality agreed between Georgia and the EU in the MoU.

Based on the above, the general condition regarding the satisfactory progress in the maintenance of a stability-oriented macroeconomic policy is considered fulfilled.

1.6.3 *Public Financial Management (PFM)*

Overall progress in PFM through 2017 and 2018 is noticeable, particularly with regard to: expansion and strengthening of fiscal discipline and budgeting; enhancement of technical capacity in the Central Harmonization Unit (CHU) and selected line ministries and the State Audit Office (SAO) for performance audits; rolling out rules and procedures for the establishment of financial control; improved regularity of Parliament's consideration of SAO reports; enhanced parliamentary capacity for budget and fiscal analysis and positive emphasis on citizen engagement in the budget process.

International assessments of the accountability and transparency of Georgia's PFM system place it among the top tier of performers globally. Despite the fact that the Georgian system of public finances is internationally considered as one of the best amongst emerging and developing countries, the 2018 central and subnational Government Public Expenditure Financial Accountability (PEFA) assessments show that challenges remain in the areas of: public assets and investment management, consolidation of governments' financial fiscal statements and fiscal risk reporting, integration of policy planning and budgeting in the medium term, competitiveness and reliability of public procurement system.

The EU-Georgia policy dialogue and cooperation in this specific field is strong, and ongoing and new joint actions support national progress in PFM. In this framework, the Ministry of

Finance has developed a new PFM Strategy 2018-2021 focused on (i) management and result-orientation of budget and of public investment; (ii) International Public Sector Accounting Standards (IPSAS) oriented accounting and cash management reforms; (iii) debt management; (iv) tax and customs harmonisation with the EU acquis; (v) macro-fiscal planning; (vi) public internal financial control and (vii) supervision of the private sector financial accounting and reporting.

The new Strategy captures most of the weaknesses identified by 2018 PEFA assessments, IMF's Fiscal Transparency Evaluation (FTE) report, Open Budget Index, Tax Administration Diagnostic Assessment Tool (TADAT) and requirements of EU budget Directives.

In terms of comprehensiveness, targets indicators and reform cost estimations have been included for the entire duration (2018-2021) of the programme.

It is also worth noting that the State Audit Office, the State Procurement Agency and the Parliament are in the process of improving PFM related governance standards and that policy coordination amongst different PFM stakeholders is organised via the PFM Coordination Council of Georgia, which includes the participation of representatives of civil society organisations, IFIs and of the EU Delegation. Furthermore, policy dialogue between the EU and Georgian stakeholders is ongoing and, in this framework, a new Programme (EU4 Economic Governance and Fiscal Accountability) was approved and will start in 2019.

Fiscal decentralisation is an important aspect of empowering local self-government in the context of territorial development. Through its (draft) Decentralisation Strategy, the government is currently planning to confer more responsibilities to municipalities, including more accountability and more funding. Although this is anticipated only in a mid-term perspective, the Action could swiftly provide sound demonstrate what it could mean in practice empowering local authorities to decide on their priorities and objectives.

1.6.4 *Transparency and oversight of the budget*

The Open Budget Index (OBI) published end-January 2018 ranks Georgia as number five amongst all the assessed countries. In particular, Georgia makes all key budget documents publicly available online in a timeframe consistent with international standards and confirms an increase of 14 points compared to the 2015 OBI score. Such progress puts Georgia ahead of other countries in the Neighbourhood and Western Balkans regions and confirms the capacity of past and ongoing EU-Georgia policy dialogue and cooperation to deliver strong results in a critical governance area.

The Parliament holds hearings on the SAO's annual report as well as the report on the execution of the state budget, and parliamentary hearings are timely carried out. The technical capacities of the Budget Office of the Parliament are progressing, but more is needed to provide a timelier service to all relevant Committees.

As a direct result of EU-Georgia policy dialogue and cooperation, the Ministry of Finance is now publishing regularly a 'Citizen's Guide to the State Budget' in Georgian and in English which better informs citizens and media on budget planning and priorities. The Guide also outlines the amount and the nature of transfers provided to the local self-governments.

It is also worth noting that the Government is following up on recommendations provided by the SAO and has committed to increased transparency also by providing implementation information in the documentation annexed to the annual budget execution report submitted to the Parliament.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Macroeconomic instability, economic crisis may divert authorities' commitment/attention	L/M	Continuous policy dialogue with the government, monitoring of macro-fiscal and political situation, provision of technical and financial assistance.
Insufficient commitment by authorities to decentralise implementation system for actions; poor coordination with relevant line ministries	M/H	Uninterrupted multi-stakeholder policy dialogue, sharing lessons learned and rationalisation of the broader policy reforms (decentralisation, PAR, etc.); building on already existing institutions/bodies, their promotion including through public consultation; enhanced policy coherence and facilitation of inter-ministerial coordination, including through dialogue with other donors and EU-funded interventions. Engaging communication expertise to develop and implement communication plan under the "EU4Georgia" umbrella initiative. Also: conferring the MRDI with a managing function paired with enhanced internal communication and a clear division of mandate in line with the RACI principle (responsible-accountable-consulted-informed).
Alignment of complimentary actions financed from sources other than the EU	L/M	Reinforced planning and budgeting aligned with the fiscal cycle, enhanced coordination with other donors, improved territorially-based monitoring system (ex-ante and on-going), building packages of projects realising the same purpose but financed from various sources.
High turnover of civil servants in beneficiary institutions involved in implementation; insufficient technical capacity/experience	L/M	Continuous policy dialogue paired with reinforced analysis and enhanced regular monitoring of implementation; provision of supportive measures and technical assistance especially on regional and

		sub-regional level.
For Abkhazia: tensions and sensitivities relating to status-issues result in possible restrictions or complete cancellation of implementation	M	Continuous political contacts with the Georgian government; conflict-sensitive implementation of grants based on conflict analysis and identification of remedial actions.
Assumptions		
Alignment of duration (start/end) of the complementary measures such as TA with the Action cycle through thorough planning and coordination.		
Agreement with the responsible authorities on co-financing, flexibility of co-financing arrangements.		
Commitment and buy-in from local authorities participating in the Action.		
Comprehensive facilitation of project pipeline design and preparation.		
Contributions to priority area 2 (tourism) and 3 (SMEs) of the PIRDP are also covered through parallel EU funded actions under the programmes ENPARD and Economic and Business Development in Georgia.		
Small - scale infrastructure measures and rural diversification brings results.		
Large-scale infrastructure financing supported by donors will increase connectivity and access to services.		
For Abkhazia: geo-political conditions remain in place for the implementation of grants.		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

The EU has implemented a number of initiatives linked to territorial development over the current decade.

During 2011-2018, two consecutive budget support programmes were implemented in the regional development area, amounting to EUR 49 million. This support was an important first step towards the organisation of a system of programming, monitoring and implementation of regional development policies in Georgia. The budget support programmes achieved a number of tangible results, especially in relation to the establishment of a policy framework, coordination channels between different governmental policies in regard to territories, as well as increasing capacities of the Ministry of Regional Development and Infrastructure to deal with territorially differentiated issues, especially in programming and monitoring. The EU programmes, paired with significantly larger financial allocations of the government, also had an important territorial impact on creating basic services and hard infrastructure in the regions. Despite successful implementation of support towards regional development, the regional/territorial dimension has not been sufficiently mainstreamed into the work exercised by line ministries working primarily to deliver on their sectoral mandate, using their own standards and criteria. Also, the project design and development requires a shift from ad-hoc intervention to more feasibility analysis in order to avoid cost overrun, improve effectiveness and ensure timely implementation.

Social and economic opportunities for Georgia's rural population are being supported by the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) that has promoted a European model of rural development (based on the LEADER approach)

in different municipalities of Georgia. This programme so far has helped in diversifying the rural economy and supporting social and business initiatives which have led to better employment for rural households and improved living conditions for over 8 000 people. The implementation of the LEADER approach provided important lessons learnt and as pointed out by the ENPARD I evaluation, it has proved a good platform for involving the local actors in the decision-making process with respect to their own development. The experiences acquired by local actors will be relevant to be able to come up with a meaningful contribution to project pipeline development as part of the bottom-up approach of this Action. In addition to that, the sustainability of LAGs (or similar groups) must be properly taken into account when designing similar facilities/bodies in the future.

The sector is also supported by the regional initiatives of Mayors for Economic Growth (M4EG) and Covenant for Mayors, as well as by the Call for Proposals under the CSOs/LAs programme 2017. During 2017-2018, six direct grant contracts were signed with ten municipalities (two of them being implemented in Imereti and Kakheti). The EU allocates funding for local economic development as well as supports inclusive policy-making ensuring that people living in the territory administered by LAs participate in local public affairs and receive adequate services. These initiatives have illustrated a broad desire by local authorities to engage in territorial development, e.g. through joining M4EG and to develop Local Economic Development Plans. Experience gained in project management implemented through a grant facility is one of the most important pillars of the legacy of this initiative.

The ongoing Programme on Public Administration Reform (2016-2021) contributes to the strengthening of policy planning, human resources management, accountability and service delivery at central level. The first years of implementation of the reform already inform on priorities and challenges for conducting the reform at subnational level, in particular in the areas of civil service, accountability, effective public service delivery.

At the same time, there is a need for further extensive capacity building among local actors, beyond what has been provided through the above initiatives. A sub-national PEFA assessment of 2018 conducted in three municipalities (Tbilisi, Batumi, Martvili) shows that public financial management systems in Georgian municipalities are relatively strong and have improved. However, budget reliability in the municipality context depends for the most part on the reliability of information on grants received from the national government. Challenges also remain in the area of providing performance information on service delivery, debt and assets management and annual financial reporting. Close links with the government's PFM Reform Action Plan and the PIRDP implementation will be essential.

3.2 Complementarity, synergy and donor co-ordination

Regional development is one of the policy areas that requires multi-level synchronisation to ensure complementarities and synergies. Issues such as inter- and intra-government cooperation, working with donors, prioritisation, choices between national sectoral policies versus regional development are all factors that may affect the Action.

Synergies and complementarities will be developed through the coordination between the Regional Development Fund and national measures supporting e.g. SMEs, rural economy, tourism, skills development and social inclusion, which require a more place-based approach

or “territorialisation”. Those will require strengthening of vertical and horizontal coordination between various levels of administration following the PAR principles.

There are several donors and institutions already active in the policy area such as: World Bank (WB), UNDP, GIZ and programmes financed from bilateral agreements, including with Czech, Polish, Slovak and Swedish funders. Coordination and networking mechanisms for local and regional development issues already exist and are run under the auspices of UNDP. However a more formal platform will be established on the national level to improve synergies across those institutions working with and for the government. On the regional level, complementarity and synergy will be overseen by the Regional Consultative Councils. Activities that run in parallel with the Programme (and need to be adequately coordinated) are implemented by several development partners and include *inter alia*:

- The World Bank Group is financing RDP (2018-2021) interventions focusing on the improvement of infrastructure services and the enhancement of contribution of tourism to local economies, including institutional capacity building. The project is implemented in four Georgian regions, including the two focal regions of Imereti and Kakheti. In addition, the WB is also implementing a loan facility as part of the Regional and Municipal Infrastructure Development Project, financing high priority local infrastructure undertakings and improving efficiency of service delivery in the targeted municipalities and that of the Municipal Development Fund at national level. Both actions can inform the Action's interventions, which could build on the infrastructure developed from both loan facilities.
- The World Bank is also financing actions to achieve commercialisation of R&D projects (but not for conducting the actual research and development phases). Grants are also offered by GITA nation-wide targeting higher education institutions and research & development activities (more of supply-driven approach). In turn, the Action will support R&D activities through joint research and development projects initiated by private sector operators (demand-driven).
- UNDP (using Swiss and Austrian funding) is managing the project "Fostering Regional and Local Development in Georgia (Phase II)", focusing on systemic reform of local and regional governance, increase of citizens' engagement in decision-making and creation of a more enabling environment for local economic growth. It also supports decentralisation reform. A total of 23 municipalities from Guria and Racha-Leckhumi & Kvemo Svaneti take part in the project, which may help in the prioritisation of actions to be financed under the Action.
- UNDP is also assisting Georgia to advance decentralisation and good governance at local level, using funds from the Danish government. The project is implemented in three planning regions, including Imereti, and it can create synergies during the roll-out of the Action as it works to achieve more efficient institutions and their staff for better service delivery and social inclusion.
- GIZ is implementing the project "Good Local Governance in South Caucasus". In Georgia, the project provides advice on balancing the differences between dynamic urban centres and remote areas and helps improve planning procedures at municipal level, including investment decisions. In addition to that, the project supports the preparation of action plans and other planning documents which can inform the development of a small-scale project pipeline to be financed within the framework of the Action.

- Additional synergies can be sought after through coordination with small donor-funded programmes financed e.g. by Czech, Slovak, Polish and Swedish governments, which target small-scale interventions e.g. in the area of social inclusion and environment, which are important elements of the proposed Action.

The programme on Public Administration Reform (2016-2021) targets, *inter alia*, strengthening the structures and processes of local governance. As part of the complementary support, technical assistance and grants to CSOs are also foreseen, in order to strengthen the strategic policy framework and institutional capacities of local/regional structures, civil servants and other stakeholders. PAR activities in support to local/regional stakeholders will start in 2019 until 2021. At the same time, this Action will contribute to several PAR policy areas, including accountability (involvement of civil society and citizens in project preparation and monitoring), service delivery (regional capacities, e-services) and local self-government (more bottom-up planning).

The Programme Skills Development and Matching for Labour Market Needs (Skills4Jobs) (2018-2022) targets lifelong learning opportunities, vocational education and training and employment support services in selected regions of Georgia. This programme is expected to contribute to the improvement of educational infrastructure, bespoke curricula in specific/strategic sectors of the focal regions etc., in line with objectives of the Unified Strategy for Education and Science for 2017-2021.

In order to support the implementation of the rural development component, eight Local Action Groups (LAGs) have been created to date under ENPARD I and II, of which two are operating in Kakheti (Lagodekhi and Dedoplistskaro). Currently under ENPARD III four new LAGs are being established, including one in Imereti (Tskaltubo). ENPARD III and IV aim at continuing existing support for rural development, building on the lessons learnt from previous phases, and to further expanding support to additional rural communities in the four focal regions. The ENPARD III and IV funding, among other anticipated results, would increase food production and income, improve agricultural competitiveness and enhance environmental protection and management of natural resources. LAGs and supported NGOs could be used as means to come up with new project proposals supported by this Action.

The activities planned under the Programme Economic and Business Development to support SMEs and the development of value chains, will also contain elements of territorial development, i.e. build on the endogenous potential in regions in the areas of tourism, organic agriculture and selected sectors of manufacturing. The EU support consists of budget support and complementary support provided through indirect management for the following actions: "*Green Economy: Sustainable Mountain Tourism & Organic Agriculture (GRETA)*" implemented by the Austrian Development Agency (with SIDA co-funding), "*EU Innovative Action for Private Sector Competitiveness in Georgia (EU IPSC)*" implemented by the UN (UNDP, UN FAO, UNIDO and IOM), and "*Clusters 4 Development. Better Business Sophistication in Georgia*" implemented by GIZ.

The tourism sector is also supported by a CSO/LA project (EUR 0.4 million), implemented by Ozurgeti municipality (Guria region), which aims at fostering the Gurian tourism sector by raising the awareness and attractiveness of the region through concerted cooperation between

local authorities, local society, and national agencies. The proposed Action will focus on the improvement of the quality of services and associated small-scale infrastructure.

The EU is providing important support to the improvement of municipal and regional infrastructure through several investment projects implemented in partnership with European Financial Institutions (KfW, EBRD, EIB, NEFCO). These EU-supported investments, complementary to the Municipal Development Fund, are mainly targeting the sectors of water supply and sanitation, energy efficiency and waste management. It has to be highlighted that the PIRDP is not specifically targeting waste management.

The abovementioned EU programmes are expected to partially contribute to priority area 2 (tourism potential) and priority area 3 (entrepreneurship, competitiveness and innovation of local SMEs) under the PIRDP. The current Action will primarily focus on the support for the remaining three PIRDP priority areas (urban renewal – integrated actions in urban areas; integrated local development; efficient local administration and partners for development).

Donor coordination for Georgia's breakaway region of Abkhazia is mostly done by UNDP via the Joint Consultative Forum and the Ambassadorial Working Group in Tbilisi, and at the Abkhaz Strategic Partnership in Abkhazia, which brings together UN agencies and international NGOs.

Complementarity will be sought at a later stage with relevant EU-funded regional programmes, such as EU4Climate and EU4Environment.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The overall objective of the Action is to promote a more balanced territorial development and to improve living standards and conditions of the population through inclusive, smart and sustainable socio-economic means, aiming at creating new centres of gravity apart from Tbilisi and Batumi.

The specific objective is to create a favourable environment and promote integrated socio-economic development of the four focal regions (Kakheti, Imereti, Guria, Racha-Lechkhumi & Kvemo Svaneti) through integrated territorial development measures and more effective and responsive administration.

The Action should bring concrete results visible to citizens on the ground, while mainstreaming the ongoing national reforms of public finance and public administration in the focal regions. It will also help to mobilise investments in the selected regions, retain talents, support entrepreneurship, create jobs and reduce disparities.

Key guiding principles are:

- **Additionality:** EU support shall be accompanied by additional measures and increased contribution from the Georgian side to these regions. It is expected that most of funds channelled through budget support are allocated to the four focal regions.

- **Partnership**, participation: regional/local administrations and CSOs shall be strengthened for designing/selecting and monitoring the implementation of projects.
- **Visibility**: EU support shall be visible in the focal regions, in coordination with the Government's communication efforts.
- **Mainstreaming**: The territorial development approach shall be mainstreamed in the sectorial government programmes, thus contributing to strengthening the role of MRDI.
- **Complementarity**: EU support will supplement the ongoing reforms (public administration and public finances, education and VET, private sector development) in the focal regions while bringing additional goods and services.
- **Transparency** of projects selection and financing shall be ensured.

The results of the Action stem from the priorities and anticipated results outlined in the national policy planning documents (RDP 2018-2021 and PIRDP 2019-2022).

Result 1 – Integrated territorial development measures implemented in the focal regions

Activities under this result area cover support to territorial development priorities implemented through national and local governments, private sector, CSOs and local community/partnership groups.

Result 1.1: Gap between urban areas in the focal regions and the rest of the country decreased

The following activities will aim at strengthening the socio-economic role of regional urban centres and regeneration of deprived urban areas:

- Elaboration of strategies for the city and functional areas and preparation of transport plans for regional centres and urbanised areas;
- Support for transport infrastructure projects for connecting the city and outer area, road safety and integrated transport modes;
- Support to the development and modernisation of social, cultural and multi-purpose infrastructure, educational infrastructure and facilities in regional centres;
- Support to planning and investment projects for utility facilities and infrastructure, brownfield ventures, energy efficiency and other small-scale infrastructure;
- Support to social activation, new skills development projects for addressing employability and engagement with civil society organisations.

Result 1.2: Unique regional tourism potential developed

The interventions below will focus on increasing income of local operators through the exploitation of sustainable tourism potential, natural and heritage sites and improving the quality of regional tourism service:

- Support to the development of public infrastructure serving tourists visiting natural heritage sites, such as: parking facilities, toilets, waste management facilities, information posts and signs, shelters, resting sites, local markets, etc.;
- Support to projects for the preservation of cultural and natural heritage (museums, exhibition centres and associated infrastructures, information and promotional materials);

- Equipment or regional educational centres supporting the tourism industry, with related educational programmes, provision of training and advisory services for the sector operators.

Result 1.3: Entrepreneurship and enterprise competitiveness improved

In order to enhance the regional productive base, innovation of regional companies and stimulation of research and development capacity is aimed at through:

- Support to projects for the expansion of micro, small and medium companies investing in industrial production and food processing (construction works, machinery, equipment, advisory services);
- Assistance services for product, process and service innovation development in enterprise sector;
- Promotion and support services for R&D works by firms (internally), between businesses and between businesses and research and development centres.

Result 1.4: Local competitiveness and quality of life in remote areas enhanced

Activities of this result area aim at the preservation and development of local traditional crafts and products, new types of economic activities in remote areas, support to local infrastructure helping the development of local businesses and improvement of the delivery and quality of public services through:

- Process/technology services to offer products based on traditional recipes; marketing of new products;
- Marketing activities of traditional crafts and products (new channels of distribution including IT tools, new design, packaging);
- Recovery services/projects for traditional crafts, products and services which have been historically important assets of the area;
- Modernisation/adaptation works of buildings for production, exhibitions and selling traditional crafts and products;
- Organising festivals of local products;
- Organising exhibition rooms and small museums devoted to traditional crafts, activities of the population and traditional products;
- Trainings for individuals and entrepreneurs in connection with investments;
- Renovation, rehabilitation, development activities for upgrading of accommodation establishments;
- Rehabilitation of built environment in rural and remote areas (utility infrastructure, social facilities, transport, infrastructure, educational facilities);
- Introduction of ICT and digitalisation products and services;
- Delivery of various local services targeting improvement of skills.

Result 2 – National and territory-based system is built for effective policy implementation

This will entail support to inclusive public policies and service delivery inspired by locally identified needs through granting more authority, competences and resources to regional/local authorities and CSOs.

Result 2.1: Inclusive and evidence-based policy making at national and regional/local levels⁴

The following activities are considered:

- Capacity building for policy making institutions at national level (guidelines, manuals, methodologies and standards, including for the implementation of the Action);
- Support in contract/project management for future sustainability and effective management verifications of programme expenditure;
- Collection of data (also through collaboration with Geostat) and development of research studies concerning development trends in the regions;
- Feedback to policy making from monitoring of the implementation of the Action;
- Provision of advisory services for building the institutional and professional capacities of Regional Consultative Councils and the Governors' administrations in the focal regions;
- Funding analytical studies, researches and consultations in focus regions for realisation of intermediary objectives outlined in the (draft) Decentralisation Strategy and 2019-2020 Action Plan ;
- Supporting the implementation in focal regions of the ongoing public administration and accountability reforms already applied at national level;
- Awareness raising and promotional activities for smart specialisation, focusing e.g. on mid-to-high tech and other fast-growing sectors, especially in Imereti.

Result 2.2: Broader access to user-centric, high quality and accountable public services

The interventions will focus on:

- Financing the design of municipal/regional public services (local permits, fees, petition and feedback mechanisms) through digital/electronic platforms;
- Promotional activities in the regions, including investment forums in the focal regions;
- Assistance in the development of project pipeline and support in the selection of operations.

Result 2.3: Fostered public participation in planning and implementation of regional/local development projects

Public participation will be promoted through:

- Support to civil society organisations to engage in an integrated and sustainable territorial development and policy dialogue;
- Promotional measures for equal opportunities for women and men to take an active part in regional development matters;

⁴ More elements could be added if the Decentralisation Strategy materialises in concrete actions with indicative timeline and identified responsible institutions for implementation.

- Fostering measures for minorities participation in planning and implementation of regional/local development strategies;
- Improving the capacity of information systems to reflect gender and minorities' participation in regional and local economic development activities.

4.2 Intervention Logic

The Action has been designed taking into consideration the significant needs of Georgia in relation to the alleviation of negative consequences of socio-economic disparities between Tbilisi and Batumi and the rest of the country.

Mainstreaming of the territorial dimension will improve thanks to increasing the role of the MRDI in the implementation of PIRDP. The MRDI will be responsible for the management of the whole programme - the relevant line ministries will implement measures in line with the objectives of the Action and not of their sectoral policies.

Overall, the following development policy issues in the concerned regions will be addressed:

- Polycentrism and more competitive urban areas/regional centres - to provide more critical mass for development and spill-over;
- Low value added and productivity - to enhance regional Gross Value Added (and per capita);
- Insufficient entrepreneurial capacity and capability to invest for better competitiveness and increased innovation - to increase exports and productivity;
- Job creation, employment - for more income opportunities and decrease in poverty;
- Fair access to services - to improve the quality of life;
- Inclusion, especially in rural and post-industrial domain - to reduce poverty and stimulate social innovation;
- Improved horizontal policy coordination - to mainstream regional development to line ministries' work.

The four focal regions targeted by the Action need to address the weaknesses outlined above and to unleash their potential. This will be done through interventions in competitive areas to attract inward investments. The Action, through complementary measures (technical assistance, indirect management with entrusted entities and grants) will bring opportunity to test new approaches to multi-stakeholder decision taking in the context of decentralisation and thus increasing the needs for better policy coordination and consultation among various actors. More specifically, technical assistance to regional, local and national public institutions and non-state actors will contribute to strengthening of the capacity to design, implement, monitor and evaluate area-based interventions.

Result Area 1: Dedicated measures are included in the Action, focusing on pilot interventions that aim to support inter-sectoral projects targeting monocentric and post-industrial areas featuring high outmigration levels and needs for job creation alongside improvement in the quality of life. Implementation in mid- to long-term perspective should increase the level of local competitive and comparative advantage to bring inward investments, including foreign direct investment (FDI). That will in turn contribute to the increase in the volume of enterprise turnover, new employment opportunities and decrease in poverty levels. The integrated approach will ensure that physical and social infrastructure will be addressed alongside improvement in economic environment and combating social exclusion as opposed to current stand-alone sectoral interventions exercised by the Government.

Result Area 2: The Action is expected to demonstrate that public consultation and participatory mechanisms can help better address existing strategic needs and opportunities than top-down policy approaches observed in the partner country. The inclusion of sub-national and local stakeholders in project prioritisation and selection will contribute to more inclusive, evidence-based policy-making and implementation. Funding opportunities will reach non-state actors thus allowing for the engagement with civil society organisations, contributing to higher participation of women, youth and other disadvantaged or marginalised groups. Selected measures will enhance e-governance improving the interface between authorities-to-customer and authorities-to-business.

Horizontally, technical assistance will support target groups such as local authorities and representatives of RCCs, thus building more enabling environment to implement the Action, including a project pipeline development in line with the intended Action objectives.

At regional and national level, the Action will also include components of service delivery by CSOs to implement those territorial development measures that do not fall under the capacity/mandate of national and regional/local authorities, such as minority and vulnerable population groups.

4.3 Mainstreaming

The national strategic framework indirectly targets several cross-cutting issues, such as environment, gender equality and empowering disadvantaged groups.

All activities of this Action (budget support and complementary measures) will be designed, implemented and monitored in line with the principles of good governance, human rights and gender equality.

Concerning **governance**, the Action will advocate for improved policy dialogue and implementation of integrated territorial development approaches. It will also enhance the institutional capacities of the MRDI and promote stronger inter-institutional coordination around regional development and decentralisation matters. This would also promote better quality and actually implementable legislation through a more inclusive and evidence based legislative process, consistently with what is envisaged in the Public Administration Reform Roadmap and the other PAR related strategic documents.

Social and economic rights of the population living in focal regions will be enhanced by means of promotion of participatory approaches, as the Programme is supporting strengthening the Regional Consultative Councils (RCC) in target regions to implement strategies for territorial development.

Gender equality will be targeted in all stages of programme implementation with the objective of reducing the gap between women and men through the actions specified below. The approach will reflect the principles of the National Gender Strategy and related Action Plan. All interventions will be required to take the issue through offering preferential access in sensitive geographical areas to prevent exclusion, address accessibility (especially to labour market) and stimulate employability and job creation. Action performance with regard to the gender gap will be thoroughly monitored during the implementation on output and result level. The Programme also contributes to the EU Gender Action Plan 2016-2020.

The Action also addresses **social inclusion**, especially of females living in deprived areas and support to groups and territories adjacent/prone to negative socio-economic effects of the former territorial conflicts with Russia. In addition to those, the planned assistance includes the revitalisation of abandoned industrial areas thus contributing to the improvement of environment and overall quality of life. Support to identified competitive and fast-growing sectors in the focal regions will contribute to the dissemination of the smart specialisation concept providing important added value to public interventions in Georgia.

Good governance will be mainstreamed in the future interventions through processes promoting transparency of planning and consultation processes, result-based monitoring and increased participation of local residents in the implementation of the Action. Indeed, local participation in decision-making will be a part of selection criteria of several measures. Good governance will also be supported thanks to direct improvement of municipal services through investments and capacity building at local level, and reporting on the progress of the Action.

As part of the public strategies and plans relevant to territorial development, the Action will provide support to help reaching the following targets:

- ensuring that needs of minority women, IDPs and working women (especially those with children) in focal regions are properly assessed and appropriate support provided;
- promoting incentives and preferential access to women and vulnerable groups for goods and services provided under the Action;
- ensuring proper assessments lead to supporting actions which are gender-sensitive, prevent exclusion and facilitate participation of women and other vulnerable groups;
- defining appropriate criteria for beneficiary targeting and facilitating *de facto* access to information about engagement opportunities to women and vulnerable groups;
- ensuring indicators relevant to gender reflect disaggregated information by sex and other criteria, and data is collected appropriately.

Environmental protection is important for all the focal regions. The Action will specifically provide affirmative measures to support deprived and neglected areas in tackling the negative factors impacting their environment. Protection of the environment and climate change mitigation and adaptation are integral parts of territorial development, therefore support measures will envisage building institutional capacities to support application of environmental legislation, management of natural resources and promotion of climate change mitigation and adaptation practices.

During the project selection process to be financed under this Programme, special attention will be given to the actions promoting energy efficiency and development of renewable energy, protection and sustainable management of forests and of other natural resources.

4.4 Contribution to SDGs

This intervention is relevant for the 2030 Agenda. It contributes primarily to the progressive achievement of SDG(s) Goal 10: Reduced Inequalities and Goal 11: Sustainable Cities and Communities.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this Action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this Action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 *Rationale for the amounts allocated to budget support*

The amount allocated for the budget support component is EUR 40 500 000 and for complementary support is EUR 13 500 000. This amount is based on commitment of the partner country to allocate national budget resources (including EU budget support) for the support to implementation of integrated territorial development actions in the focal regions. The amount is commensurate with the financing needs related to the reforms supported and will provide substantial leverage for the policy dialogue. Institutions concerned with the performance targets have demonstrated sufficient absorption capacity and a good track in fulfilling the conditions under the previous EU funded budget support programmes. Overall four instalments are planned. Instalments will be disbursed upon compliance with the general and specific conditions for the tranche release.

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the 2018-2021 Regional Development Programme of Georgia, the 2020-2025 Decentralization Strategy of Georgia, and the Pilot Integrated Territorial Development Programme and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches are the following:

- Increasing accessibility of regional centres and integration of urbanised areas;
- Regeneration of designated post-industrial areas;
- Development of public infrastructure for product, process and services development;

- Support to innovative projects, local micro and small businesses;
- Promotion and support of Research & Development works;
- Marketing activities of traditional crafts and products;
- Modernisation/adaptation of buildings for production, exhibitions;
- Promotion of municipal and regional public services;
- Strengthening policy-making institutions at national level (guidelines, manuals, methodologies and standards).

The selected performance indicators and targets to be used for disbursements will apply for the duration of the Action. However, in duly justified circumstances, the Ministry of Regional Development and Infrastructure of Georgia may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The changes to the targets and indicators shall be agreed in advance and may be authorised in writing (through an amendment to the financing agreement, which may be done through an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Georgian Lari will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the appropriate EU rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the Action with EU restrictive measures⁵.

5.4.1 Grants: (direct management)

(a) Purpose of the grant(s)

The grants will contribute to achieve Result 1 and Result 2 of the Action.

The grant support will contribute to implementation of selected measures under Result 1 that do not fall under the capacity/mandate of national and regional/local authorities in focal regions;

⁵ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

Further grant support will contribute to Result 2 and will be complementary to the assistance provided through indirect management with an entrusted entity (see under 5.4.3 below). More specifically the grant support will encourage the initiatives for improved, inclusive and evidence based policy-making at national and regional/local levels, including strengthening of networking and cooperation between local authorities and local level CSOs to help implement the public administration reforms, non-financial performance monitoring and monitoring of quality of service delivery.

(b) Type of applicants targeted

Potential applicants include non-profit-making legal persons falling under the following categories: local authorities, academia and civil society organisations (including think-tanks).

Other essential characteristics of the potential applicants, such as their place of establishment, shall be specified in the guidelines for applicants of the call for proposals. The default scope may be narrowed down in terms of nationality, geographical location or nature of the applicant where it is required on account of the specific nature of the Action.

5.4.2 Procurement (direct management)

Technical Assistance will support decentralisation reforms and capacity building of local, regional and national authorities specified under Result 2. Support shall contribute to more inclusive and evidence-based policy-making as well as increase the quality and accountability of public services and institutions.

External review missions will assess the compliance with the budget support related policy reform conditions tentatively for each calendar year 2020-2022. The self-assessment provided by the government, and the assessment of independent experts will be verified by the Commission, which on that basis, and taking into account any other relevant data, will produce its own assessment on compliance.

5.4.3 Indirect management with entrusted entity(ies) (Member State Organisation(s) and/or international organisation(s)).

A part of this Action may be implemented in indirect management with entity/entities which will be selected by the Commission's services using the following criteria:

- A proven track record in advising and capacity building of national and local authorities in regional and local governance matters and be reputable and credible among beneficiary institutions;
- A proven strong management capacity in Georgia to date and the ability to deploy high level technical experts;
- Where relevant, readiness/flexibility to implement the Action in cooperation with other implementing partners;
- Comparative advantage of the organisation for implementing its share of the Action in this particular thematic field (approach, expertise, experience of similar actions and/or of comparable country situations, expected remuneration, etc.);
- The methodology and approach of the organisation for achieving the results;

- The organisation's approach in supporting the partner country to exercise effective leadership and ownership on policy implementation;
- Confirmation that the organisation is prepared to implement communication actions in close coordination with the EU Delegation and in line with the Visibility Guidelines;
- Co-financing of the Action would be considered as an asset.

In case the selected entity is an international organisation currently undergoing an ex-ante assessment of its systems and procedures, it can also now implement this Action under indirect management based on its compliance with the conditions in force at the time if previously other indirect management actions were awarded to the organisation and based on a long-lasting problem-free cooperation, pending the finalisation of the ex-ante assessment, and, where necessary, subject to appropriate supervisory measures in accordance with Article 154(5) of the Financial Regulation.

The implementation by an entity/entities entails actions contributing to both results, namely with regard to implementing selected measures under Result 1 that do not fall under the capacity/mandate of national and regional/local authorities as well as working with state and sub-national government institutions in policy setting and implementation of measures under Result 2.

It is also possible that several entrusted entities complying with the criteria established above and having similar experience will partner under one agreement and implement the above activities jointly if this is cost effective and suitable.

In case the envisaged entity/entities would need to be replaced, the Commission's services may select another entity.

If negotiations with the abovementioned entity/entities fail, that part of the Action may be implemented in direct management in accordance with the implementation modalities identified in section 5.4.1.

5.4.4 *Changes from indirect to direct management mode due to exceptional circumstances*

The alternative option for implementing the Action described in section 5.4.3 is procurement of services (direct management), if the preferred modality (indirect management) cannot be implemented due to circumstances outside of the Commission's control. This procurement will contribute to achieving activities under Result 1 that do not fall under the capacity/mandate of national and regional/local authorities as well as working with state and sub-national government institutions in policy setting and for activities under Result 2.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the

countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this Action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
Budget support- cf. section 5.3	40 500 000	N.A.
Complementary Support:	13 500 000	N.A.
Grants – total envelope cf. section 5.4.1	2 500 000	N.A.
Procurement – total envelope cf. section 5.4.2	2 250 000	N.A.
Indirect management with entrusted entity(ies) cf. section 5.4.3	8 500 000	tbc
Evaluation (cf. section 5.9) Audit/ Expenditure verification (cf. section 5.10)	250 000	N.A.
Total	54 000 000	N.A.

5.7 Organisational set-up and responsibilities

The Action will be directly managed by the European Commission through its Delegation in Georgia. All contracts and payments are made by the Commission on behalf of the beneficiary. All initiatives will be conducted with the support and engagement of the authorities, civil society and development partners ensuring that implementation of regional governance and territorial development policies are well coordinated.

The steering of the Programme will be entrusted to the Government Commission for Regional Development, which will oversee and guide the overall direction and policy of the Programme. It will assess progress in the implementation of the Action and decide if any modifications are needed. It shall devote a separate session to the implementation of this Action once a year and can be convened whenever the programme implementation requires strategic decisions.

5.8 Performance and Results monitoring and reporting

Monitoring of the implementation of the Budget Support Component of the Action will be entrusted to the Government Commission for Regional Development (GCRD). Continued sector monitoring shall be a general condition for the budget support component of the Action. The GCRD will organise semi-annual sector coordination meetings, involving the EU Delegation and other relevant stakeholders. Sector coordination meetings will be an

opportunity to assess progress in the implementation and deciding of any possible proposed modification to the Action.

At the level of the individual projects funded under the complementary support of the Action, specific Steering Committees (SCs) will be convened by the beneficiary institutions involving the EU Delegation and other relevant stakeholders. These SCs will meet regularly to review progress on the basis of periodic reports.

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partners (Ministry for Regional Development and Infrastructure, contractors under the complementary support) shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using the partner's strategy, policy or reform action plan list.

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per Joint Programming document should be taken into account.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the Action, a final evaluation will be carried out for this Action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the Programme targets priority areas of cooperation within the Single Support Framework.

The evaluation of this Action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least three months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and *inter alia* provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This Action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

With regards to the Neighbourhood East, all EU-supported actions shall be aimed at increasing the awareness level of the target audiences on the connections, the outcome, and the final practical benefits for citizens of EU assistance provided in the framework of this Action. Visibility actions should also promote transparency and accountability on the use of funds.

Outreaching/awareness raising activities will play a crucial part in the implementation of the Action, in the case of budget support the national government shall ensure that the visibility of the EU contribution is given appropriate media coverage. The implementation of the communication activities shall be the responsibility of the implementing organisations, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (European Neighbourhood Policy and Enlargement Negotiations) will be strictly adhered to.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

It is the responsibility of the implementing organisation to keep the EU Delegations and, where relevant, DG NEAR, fully informed of the planning and implementation of the appropriate milestones specific visibility and communication activities.

The implementing organisation shall report on its visibility and communication actions, as well as the results of the overall Action to the relevant monitoring committees.

This Action will be communicated externally as part of a wider context of EU support to the country, and where relevant to the Eastern Partnership region in order to enhance the effectiveness of communication activities and to reduce fragmentation in the area of EU communication.

The implementing organisation shall coordinate all communication activities with EU Delegations as well as regional communication initiatives funded by the European Commission to the extent possible. All communication strategies developed as part of this Action shall ensure they are in line with the priorities and objectives of regional communication initiatives supported by the European Commission and in line with the relevant EU Delegation's communication strategy under the "EU4Georgia" umbrella initiative.

APPENDIX I– INTERVENTION LOGIC TABLE (FOR BUDGET SUPPORT)

	Results chain	Indicators (max. 15)	Baselines (2017)	Targets by the end of the budget support contract	Sources of data
Expected impact of the policy (Overall objective)	More balanced and integrated territorial development	GVA per-capita ratio between 4 regions (sum) and Tbilisi (%)	43	45	PIRDP 2019-2022
		Employment rate (%), average for 4 regions	64.1	67	
	Socio-economic development of focal regions (Kakheti, Imereti, Guria, Racha-Lechkhumi & Kvemo Svaneti)	Rate of productivity per employed person at market prices (thousand GEL/year)	13.4	20	
		Number of population (thousands), sum of 4 regions	972.6	Stabilisation of population	
	Improved living standards and conditions of the population	Percentage of absolute poverty (%) average of 4 regions	27.4	20	

Expected outcomes of the policy (Specific objective(s))	1.Integrated territorial development measures implemented in the focal regions	Number of persons employed in 4 regional centres (Kutaisi, Telavi, Ambrolauri, Ozurgeti)	56 288	Increase by 10%	PIRDP 2019-2022
		Percentage of average annual growth of monthly income in the urban areas	7.5%	At least the same rate	
		Share of investments in fixed assets as percentage of GDP (average of 4 regions)	4.0	4.5	
		Value added created by SMEs in 4 regions (million GEL), sum of 4 regions	1306	Average annual growth rate at least 25%	
		Percentage (share) of tourism sector in total regional output in 4 regions	2.4	3.0	
		Share of households having access to water and sanitation services	45.6	55	
	2. National and territory-based system is built for effective policy implementation	Disbursement rate at the end date of PIRDP (% of million GEL)	0	At least 90%	
		Local public services users' satisfaction		At least 60% satisfaction	

Induced outputs	1.1 Building transport and other critical urban infrastructure	Number of buildings rehabilitated		20 buildings rehabilitated	PIRDP 2019-2022
	1.2 Unique regional tourism potential developed	Number of transport and other infrastructure facilities supported		32 transport and other infrastructure projects	
		Number of new products marketed		15 products	
	1.3 Entrepreneurship and enterprise competitiveness improved	Number of R&D vouchers for SMEs		150 (average GEL 60 000)	
		Number of consultancy and training services provided		50	
	1.4 Local competitiveness and quality of life in remote areas enhanced	Number of persons (SMEs) involved in tourism trained		200	
		Number of machinery and services purchased/provided		30	
		Number of local micro and small companies supported		200 grantees (average GEL 30 000)	
	2.1 Inclusive and evidence-based policy making mechanism created	Number of RCC effectively functioning	0	4	
2.2 Increased access to user-centric, high quality and accountable public services	Number of local public services designed and delivered	7 types of services	At least 20% increase of service users		
	2.3 Fostered public participation in planning and implementation of regional/local development projects	Number of RCC sessions organised with public participation	0	At least 4/year per region	

Direct outputs	Elaborate increasing accessibility mechanisms for regional centres and urbanised areas	Preparation of strategy for the cities and their functional areas		4 strategies prepared and implemented	PIRDP 2019-2022
	Support development and modernization of social, cultural and multi-purpose infrastructure	Number/geographical coverage of transport and other infrastructure projects financed		32 transport and other infrastructure projects	
	Support social activation, new skills development projects	Number of projects designed		At least 8 projects per focal region	
	Support projects for expansion of micro, small and medium companies	Number of projects financed		20 projects	
	Assistance services for product, process and service innovation	Number of R&D projects designed		150 projects	
	Organising festivals, exhibition rooms and small museums	Number of consultancy and training services provided		50 services	
		Number of events organised		16 events	
	Capacity building activities for policy making institutions at national level	Number of guidelines and procedures elaborated		36	
		Number of staff trained		At least 200 persons	
	Financing the design of municipal/regional public services	Number of PIRDP projects designed		200	
Support to civil society organisations	Number of CSO involved in RCC meetings		50		
Promotional measures for equal opportunities for women and men	Number of measures designed		10, at least one per region		

APPENDIX II – DONOR COOPERATION AND COMPLEMENTARITY

The list of EU-funded programmes that are complementary to this Action includes:

<i>EU Programme</i>	<i>EUR million</i>	<i>Duration</i>	<i>Complementarity with this programme</i>
Public Administration Reform (PAR)	30	2015-2021	Pilot Ministries (MESD, MESCYS, MIDPLHSA, MRDI ⁶) will benefit in terms of improved strategic planning and policy development capacity
European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) Phases II and III	79	2016-2020	Promotes inclusive and sustainable growth, creating employment and livelihoods for the poor and excluded in rural areas. Special measures target vulnerable people in remote regions and empowerment of rural women; pilot action in Georgia's breakaway region of Abkhazia
Support to EU-Georgia DCFTA and SMEs	51	2015-2018	Targets the development of SMEs and business organisations, supports economic integration of targeted groups, such as internally displaced persons (IDPs), returned migrants, women in business and young entrepreneurs.
Economic and Business Development in Georgia	47.65	2018-2022	Support services on entrepreneurship and to SMEs, business incubators, etc.
Skills Development and Matching for Labour Market Needs	48.8	2017-2021	Lifelong learning opportunities, vocational education and training and employment support services
ENPARD IV	55	2019-2022	Continued support to rural development and extended assistance to food safety and SPS

Other EU Member States and international donor-funded programmes that are complementary to this Action include:

Partners	Funded programmes	Timetable
Austria (ADA)/ Swiss Development Cooperation (SDC)	UNDP implemented "Fostering Regional and Local Development in Georgia" project	2017-2021
Danish Government	UNDP implemented "Fostering Decentralisation and Good Governance at the Local Level" project	2018-2023
Germany	Good local governance in South Caucasus	2017-2019
<u>International Financial Institutions</u>		
World Bank	Third Regional Development Project for Georgia	2015-2019
World Bank	Increasing Institutional Capacity for Innovation	2015-2018

⁶ Ministry of Economy and Sustainable Development (MESD), Ministry of Education, Science, Culture, Youth and Sports (MESCYS), Ministry of Internally Displaced Persons, Labour, Health and Social Affairs (MIDPLHSA), Ministry of Regional Development and Infrastructure (MRDI)