**Programme:** Private Sector Development South Caucasus (PSD SC): “SME Development and DCFTA” in Georgia

**PN:** 13.2144.7.008.00

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**Activity**: Export Development and Business Clustering Support

**Period:** March 1st – December 31st, 2017

1. **Brief information about the programme**

The three countries of the South Caucasus, Armenia, Azerbaijan and Georgia, face the challenge of generating broad based inclusive growth to reduce the urban-rural gap and poverty above all in rural regions. In view of the small domestic markets with low purchasing power, the primary aim is to expand foreign trade. High policy priority is therefore accorded to diversifying the economy and improving the competitiveness of export products. The greatest export potential exists in processed agricultural products and - though not in all countries - tourism development. In Azerbaijan there is scope for revitalizing the plastics industry.

Small and medium-sized enterprises (SMEs), however, do not take advantage of the market opportunities provided by the European Union (EU), the main trade partner. The core problem lies in the lack of adequate entrepreneurial and institutional preconditions for developing foreign trade-oriented sectors for inclusive growth. The reasons for this lie in the insufficient capacities of the institutions engaged in economic policy, trade promotion and vocational qualification policy. There is hardly any inter-institutional cooperation and dialogue with the private sector. Services are lacking in the fields of production, quality, procurement and distribution. The increasing demand for specific qualifications and competence poses a further challenge for private sector development. Also, there is no systematic exchange of information and experience on economic policy issues among the South Caucasian countries.

The objective of the technical cooperation (TC) measure, Private Sector Development South Caucasus, is therefore: the conditions for the development of selected foreign trade-oriented sectors for inclusive growth have improved. To achieve this, the programme focuses on three intervention fields: (1) Improvement of the business development framework conditions, (2) Promotion of the private sector in the selected value chains, and (3) Vocational qualification. Business needs-oriented promotion of the private sector in the value chains with proven export potential is of the central importance. The intervention areas ‘Improvement of the business development framework conditions’ and ‘Vocational qualification” are geared to this. The programme supports the implementation of policies, strategies and pilot measures.

The measures are implemented in cooperation with the Physikalisch-Technische Bundesanstalt (PTB) and in coordination with the ongoing projects of the United States Agency for International Development (USAID) that support agricultural production in Georgia and Azerbaijan within the value chain promotion framework. An integrated development partnership (PPP/public private partnership) with the economy initiated by the predecessor programme in Armenia and Georgia is continued. There is potential for further cooperation with the private sector. The programme operates at the national level in each of the three countries as well as in pilot regions and promotes the exchange of experience and cooperation at the regional level.

In addition, there are two projects attached to the PSD SC programme which are in line with the objective and intervention fields of the programme:

(1) The project “Economic Integration of Syrian Refugees in Armenia” tackles the challenges related to Syrian refugees with an Armenian ethnic background that immigrated to Armenia during the last years due to the civil war in Syria. In order to support the economic integration of refugees in Armenia, the project supports the economic dialogue and coordination of relevant stakeholders, the integration in existing business networks as well as the access to and the adaptation of employment and qualification programmes. It comprises three main intervention fields: (1) Public-Private-Dialogue and Participation, (2) Integration in Value Chains and Business Networks, (3) Vocational Qualification and Skills Development.

(2) The project “SME Development and DCFTA” is related to the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA) which was signed by Georgia and the European Union in 2014. The European Union is co-financing a support to SME development and DCFTA to be implemented by the GIZ Private Sector Development programme. It seeks to assist the Georgian Government in the implementation process of the DCFTA, supporting the development of the SME sector to adapt to DCFTA regulations and facilitating Georgia’s economic integration into the EU market. The project comprehends following components: (1) Improved enterprise development framework and SME participation in the political dialogue, (2) Comprehensive capacity development for SME support institutions with focus on improved service delivery, (3) Enterprise development and promotion via clustering and support to business networks on national, sector and local level, (4) Business clusters and networks integration into relevant existing EU networks for enterprise development, investment and trade promotion.

(3) The project “SME Development” in Armenia is co-financed by the EU and implemented by the GIZ Private Sector Development Programme South Caucasus. It focuses on the improvement of the Armenian business and investment climate and the support to the development of the SME sector, in particular the link between research and economy as well as access to finance. The projects comprehends following result areas: (1) Improved policy making process and coordination of support to SME development, (2) Strengthening private sector organization to implement SME policies, (3) Improved process of commercialization of ideas linking research institutions and business via cooperation networks, (4) Improved design and management of economic clusters (incubators, technoparks and Free Economic Zones (FEZ)).

The entire programme has a total budget of EUR **29,693,940** which is divided as follows:

* General PSD SC Programme: EUR 15,760,000 for three years and five months

(2013 - 2017).

* Project “Economic Integration of Syrian Refugees in Armenia”: EUR 2,500,000 for two years (2015 – 2017).
* Project “DCFTA and SME Development” in Georgia: EUR 5,033,940 for four years (2015 – 2019).
* Project “Support to SME Development in Armenia”: EUR 6,400,000 for four years (2016-December 2019).

**Module objective**:

The conditions for developing selected foreign-trade sectors for broad-based inclusive growth have improved.

**Indicators:**

1. In the economic sectors promoted by the programme, altogether six business framework conditions issues (e.g. sectorial development programmes, trade regulations and procedures, vocational qualification, economic integration of Syrian refugees in Armenia) have been improved.

2. Two policy documents (strategies) each contain gender-specific or conflict-sensitive measures.

3. 70% of interviewed enterprises in the promoted value chains (Wertschöpfungsketten) that have introduced new or improved management tools have raised their business performance (citing the positive changes, e.g. increased turnover, improved quality of products, diversification of business contacts, reduction of rejects, and improved energy efficiency, adaption to climate change, and human resource promotion and development (HRD)).

4. 50% of enterprises in the promoted value chains (Wertschöpfungsketten), including complementary service providers, assess the labour-market relevance of the new or adapted offers for vocational qualification as higher than that of existing offer for vocational qualification (in particular the offer for Syrian refugees in Armenia).

**Partner structure: executing agencies and intermediaries**

The programme has no regional lead executing agency. This function is, however, performed by the ministries of economics in each country - Armenia: Ministry of Economy (MoE); Azerbaijan: Ministry of Economy and Industry (MEI); Georgia: Ministry of Economy and Sustainable Development (MoESD).

**Implementing partners by intervention field**

In the intervention field “**Business Development Framework”,** the implementing partners are government and independent planning and analytical institutions (think tanks)and also the relevant line ministries with their subordinate institutions. The main concern in Armenia is to strengthen the capacities for implementing existing policies. In Georgia, the new government has filled many positions with well-trained, young but politically inexperienced personnel who now face the challenge of drafting and implementing coherent strategies. In Azerbaijan, planning and implementation capacities also need strengthening.

The implementing partners in the intervention field “**Promotion of value chains”** are the respective government agencies for export promotion, providers of business services (providers of training and coaching services, quality infrastructure service providers, e.g. test laboratories), private-sector institutions (employers’ federations, trade and business membership organizations) and selected enterprises, with which new approaches to improving entrepreneurial capacities will be developed and implemented as pilot measures for cooperation and development partnerships with the private sector. Many of these partners have comparatively low capacity levels for implementation. The market for business development services is only beginning to take shape. Associations are often heavily influenced by individuals and only represent a part of the companies engaged in a sector.

In the intervention field “**Vocational qualification”,** the implementing partners are the respective national ministries of education and their institutions, educational and vocational training institutions, local governments and authorities, as well as business membership organizations and representatives of civil society. Here, too, capacities for planning and implementing strategies differ greatly. The weakest links are often the underfinanced and poorly equipped vocational schools.

Regarding the project “Economic Integration of Syrian Refugees in Armenia” the programme cooperates with partners such as the German Savings Banks Foundation for International Cooperation with its expertise in financial consulting and management, the German Association for Adult Education (DVV) with its expertise in life-long learning and trainings, the German Business Association (DWV) and the Senior Expert Service (SES) as well as the UN Refugee Agency (UNHCR).

**Target groups and other stakeholders**

The programme target group is females and males, owners and employees of enterprises (primarily SMEs) in the selected value chains and their suppliers. Female entrepreneurs are often engaged in micro and small enterprises in the traditional sectors (agriculture, production and sale of processed food, handicrafts, service sector, e.g. tourism).

As part of the vocational qualification measures, the target group includes job-seekers and alumni of vocational schools and higher education institutions as well. In Armenia, significantly more women are affected by unemployment than men (35% of the female workforce is unemployed vs 22% of male; data from 2011). The unemployment rate among young women amounts to 40.7% in Georgia and to 69.4% in Armenia (32.4% and 42.7% respectively among male youth).

Other stakeholders are the teaching staff of vocational schools; specialists and managerial personnel of think tanks; representatives of ministries involved; service providers (e.g. export promotion agencies, management consultants) and non-governmental organisations.

The project “Economic Integration of Syrian Refugees” concentrates on Syrian refugees in Armenia as a target group with a special focus on women and people of the age between 30 and 50 years as well as young people.

**Macroeconomic, socio-economic, socio-cultural, political and environmental assessment– Impact and sustainability**

**Gender equality:** The programme seeks to improve the involvement of women in the economic life. In all three countries, gender-specific measures are targeted to support the entrepreneurship and integration of women in business life. At the general framework level, this entails raising awareness of this issue and accounting for gender in policy and strategy documents. Stake holding by women is also taken into account when selecting value chains for promotion and the participant enterprises can be advised on conducting measures for gender equality. In terms of education and qualification measures, the programme aims to involve both genders equally with a special focus on participants from rural areas. Therefore, the development measure has beneficial effects on gender equality.

**Participatory development/good governance**: The programme strengthens the steering mechanisms and management capacities of ministries and subordinate authorities, e.g. in structural policy, trade promotion as well as in qualification and youth employment promotion. The capacities of government and independent think tanks are strengthened for preparing and compiling economic policy studies. A major contribution is the inclusion of capacity development measures in business life. Considering the multi-level approach, the programme fosters a public-private dialogue (PPD) among the private sector, civil society and government at national and local (sub-national) level. Strengthening these processes enables male and female entrepreneurs to better articulate and advance their interests.

**Rural development and food security**: All three countries are largely agrarian. The main export potential lies in processed agricultural products. Trade promotion measures therefore also aim indirectly at promoting rural development, which is a major secondary objective of the programme. Especially the tourism sector and the promotion of the wine/beverage sector bear substantial potential to foster rural development. The accompanied measures to improve the framework conditions and the education and qualification offer also contribute to the sector’s development.

**Trade development**

The measures contribute directly or indirectly to strengthening the trade development within the South Caucasian countries as well as with the Eurasian economic region and the EU. The cooperation with the OECD Eurasia Competitiveness Programme and the SME Panel which is initiated by the EU reinforces the mentioned orientation.

**Impacts on human rights:** The programme subscribes to the guiding principle of sustainable development. It advances the political and economic participation of women and men and the right to freedom of association by promoting business institutions. The programme also conducts its activities adhering to specific values and standards of transparency.

**Impact:** Improving the quality of business management in SMEs makes a contribution to raising the competitiveness of the group of enterprises, which plays a major role for employment. The promotion of largely agricultural value chains geared to foreign trade and improving the employability of women and men contributes in the long term to more income and employment, particularly in rural regions, and to narrowing the urban-rural gap. By promoting the framework, building the capacities of implementing partners and stepping up public-private dialogue, the programme contributes to institution-building. In order to increase the impact of the programme accessed its scaling-up potentials already in 2014. It is planned to integrate the working results into national and sectorial strategies and policies on a local level by including education providers and cooperating with upstream and downstream segments while also considering the business interests. The increasing use of best-practice experiences is initiated on a regional level and will continue via a dialogue platform and a regional newsletter.

**Sustainability:** The South Caucasus is highly affected by the conflict between Armenia and Azerbaijan which also influences the regional exchange beyond the political sphere. The programme succeeds to establish a dialogue between relevant economic actors including Armenia and Azerbaijan. However, so far there are no concrete business cooperation or joint projects between the two countries. The commitment of the private sector turns out to be the key factor for economic development and diversification. Especially the need to improve the vocational education and qualification as well employment promotion is increasingly recognized and supported on a political level. A remaining risk is the lack of financial and personnel resources of the vocational education and qualification providers as well as the still negative image of vocational education within the society. The effects of the DCFTA trade agreement in Georgia, the accession of Armenia to the Eurasian Economic Union and therewith the international redefinition of priorities in terms of regional cooperation, are closely observed by economic and political actors. Azerbaijan accelerates the process to enter the WTO. Currently, the service market is still too underdeveloped to develop a sustainable service portfolio for enterprises considering the new trade and investment context. However, the programme seeks to assure optimal sustainability by reforming the business development framework in the above-mentioned areas, supporting the implementation of policies and strategies and building institutional capacities in the areas of training, policy analysis and export-dedicated services.

# **2. Context and current situation in the field of assignment**

Current assignment is to be implemented by the assistance of the European Union in the framework of the EU4Business Initiative in Georgia.

The relevance of this assignment falls under all components of the PSD SC project “SME Development and DCFTA” in Georgia, but has a focus on its components 3 and 4. The components are:

1. Improved enterprise development framework and SME participation in the political dialogue;
2. Comprehensive capacity development for SME support institutions with a focus on improved service delivery
3. Enterprise development and promotion via clustering and support to business networks on national, sector and local level
4. Business clusters and networks integration into relevant existing EU networks for enterprise development, investment and trade promotion

Component 1 entails supporting the capacity development of central administrations of the government in terms of designing and implementing specific measures within SME context, as well as strengthening PPD for improved cooperation among private and public sectors, serving to strengthen the involvement of private sector in policy-making, thus further increasing the efficiency of government institutions in planning relevant policies

With Component 1 operating on the level of policy-making bodies of the Government, Component 2 envisions support measures for policy-implementation bodies: such as entrepreneurship development agency, innovation and technology agency, as well as a national chamber of commerce and industry. The support measures aim at improving the offerings of such institutions to the private sector.

Within Component 3, the “SME Development and DCFTA in Georgia” Project (hereinafter, the Project) aims to support the development of Business Clusters – Networks of interconnected businesses, usually operating in the same industry, which allows pooling know-how, technology, expertise, and sharing resources such as equipment, infrastructure and personnel. Business clusters aim to offer member companies benefits from optimization of costs related to R&D, market research, logistics, marketing etc.

Through partnering within Cluster structures, companies can build sustainable partnerships through strategic alliances and increase the collective capacity to establish international linkages, the latter being the main subject of Component 4, wherein the Project, together with partner institutions, will support relevant Georgian Business Clusters in establishing and fostering linkages with relevant EU institutions and clusters.

## **2.1. Export Development Initiative**

In mid-2016, the Government of Georgia, represented in this case by the Ministry of Economy and Sustainable Development of Georgia and its agency – Enterprise Georgia, approached GIZ with the request to support design and deployment of a long-term, comprehensive and systematic approach / roadmap to the development of the country’s export potential (including both goods and services).

For this purpose, the Project mobilized an international expert, who conducted a visit to Georgia in November of 2016. Based on the Government’s interest to apply sectoral approach in developing the country’s export strategy, and the expert’s subsequent recommendation, the Project suggested the Ministry an approbated GIZ methodology for Sector selection and Value chain upgrading, deployment process of which could constitute the export development strategy. Upon the Ministry’s feedback, it was first decided to test the methodologies’ applicability to Georgian context in case the testing of the methodologies is deemed successful by the stakeholders (represented by the Government of Georgia and the Project), it would then be integrated into a national export development strategy.

## **2.2. Furniture Cluster development support**

The Project has discovered an agglomeration of over a hundred companies in Tbilisi. The companies operate among the different components of the furniture value chain and are diverse, ranging from 20 sq.m. micro enterprises to approx. 2,000 sq.m. processing facilities. The agglomerated companies cooperate in an ad-hoc manner, however characteristics of their already existing forms of cooperation fit into the context of a cluster. The project has conducted profiling of major companies in the agglomeration, which operate in different components of the furniture production/processing value chain, with the purpose to support these companies in clustering.

## **2.3. Honey Sector development support**

Honey remains high on the agenda of the Government of Georgia’s economic branch as represented in this case by the Ministry of Agriculture of Georgia. At the same time, the honey production in Georgia remains challenged by a number of structural issues along its entire value chain. In this context, in Autumn of 2016 the Project has mobilized international expertise to analyze the mentioned challenges and offer solutions for positioning of Georgia’s honey as an upscale, niche product, successfully exported to Germany and the EU. The analysis outlined a strategy to be addressed towards reaching the mentioned objective.

# **3. Conditions of the assignment**

## **3.1. Export Development Initiative**

In frames of the underlying contract the contracted consultant (hereafter ‘local consultant’) will be tasked to support the development of the national export strategy. Content-wise, the local consultant’s scope of work for this purpose is to support the piloting of GIZ methodologies in Georgian context, as well as support to the missions of international consultants and participation in preparation of analysis/recommendations for the export development strategy. The scope of work requires the local consultant to possess extensive knowledge of Georgia’s export structure, background and tendencies, and strong ties to majority of the players in the field. Competence of the local consultant in these areas is considered a key component of the success of the Export Development Initiative effort, as the Project strives to support the Government by a combinationof international and local expertise and advisory. Main deliverables of the local consultant, in this regard, are:

* Design, organization and co-management of (a) workshop(s) aimed at piloting the GIZ Value Chain selection and upgrade methodologies (preparing of industry profile, mobilization of participants, documentation of the workshop outcomes, etc.)
* Advisory on and arrangement of the meetings for international consultant(s)’s visit(s), based on the local consultant’s knowledge of the actors and their roles in Georgia’s export context
* Support to the works of the Project and international consultant through on-the-spot advisory, reporting and documentation, as well as contentual contribution of the documentations by international consultants and the Project.
* Upon request, provision of the Project and international consultants with relevant secondary data (in a processed form) with analysis and expert-opinions

## **3.2. Furniture Cluster development support**

The purpose of the project is supporting the establishment, development and internationalization of the Furniture Cluster. In frames of the underlying contract, the local consultant will be tasked to support the efforts directed towards this goal through deliverables such as:

* Workshops: Conducting workshops for Georgian furniture cluster dedicated to (a) start-up of the cluster, (b) activity planning, (c) revision of achievements and supporting business cluster formation and development through advisory in implementation of a joint project, around which the activities of a business cluster will be oriented on its initial stage of development
* Business missions:

*Below activities will be conducted with close support from relevant international consultant and GIZ staff*

* + Inbound:
    - Design, organization and co-management of the relevant international consultants’ visits and works, support to international consultants and GIZ staff with relevant secondary data, analysis and expert opinions
    - (if applicable) Design, organization and co-management of business missions of EU-based furniture companies to Georgia
  + Outbound:
    - (if applicable) Support to the business missions of Georgian Furniture cluster members to relevant EU clusters, companies and institutions

The Project requires that the local consultant will support these activities through preparation / training of Georgian companies for networking with EU counterparts and other stakeholders (whenever applicable), and documentation / reporting of the missions.

## **3.3. Honey Sector development support**

On one hand, the deliverables of the local consultant are similar to those for the furniture industry section, as the Project aims to support the business clustering of honey producers in Georgia. It is envisioned that the clustering effort will build on existing associations of honey producers. In this regard, the consultants’ deliverables are:

* Workshops: Conducting workshops for future Georgian honey cluster dedicated to (a) start-up of the cluster, (b) activity planning, (c) revision of achievements and supporting business cluster formation and development through advisory in implementation of a joint project, around which the activities of a business will be oriented on its initial stage of development
* Missions:
  + Inbound:
    - Design, organization and co-management of the relevant international consultants’ visits and works, support to international consultants and GIZ staff with relevant secondary data, analysis and expert opinions
    - (if applicable) Design, organization and co-management of business missions of EU-based honey companies to Georgia
  + Outbound:
    - (if applicable) Support to the business missions of future Georgian honey cluster members to relevant EU clusters, companies and institutions

The Project requires that the local consultant will support these activities through preparation / training of Georgian companies for networking with EU counterparts and other stakeholders (whenever applicable), and documentation / reporting of the missions.

At the same time, it is expected that the local consultant’s support to the international consultants’ inbound missions to Georgia should be extended not only towards the topics oriented clustering effort, but also towards those that focus on facilitation of the activities and objectives identified in the strategy outline mentioned in Section 2.3. Such duties may include support to marketing activities, organization of trainings of relevant stakeholders, scientific research (full scope to be made available to the winning consultant).

## **3.4. Conditions and Payments**

The consultant shall be provided up to 10 days per month, over a period of February 2017 – December 2017. Hotel accommodation and transportation outside of the Capital City of Tbilisi (both in- and out of Georgia) shall be provided by GIZ Georgia. Assignment of the days per specific tasks shall be agreed upon with the Project, during the working process.

All deliverables must be submitted in professional English. The level of proficiency will be determined as sufficient at the discretion of GIZ. In case of need, the Consultant will be requested to edit the deliverables until the level of proficiency will be deemed as acceptable. Any costs associated with professional editing (in case of need) will be borne by the Consultant.

In case of need, GIZ retains the right to come back to the Consultant with feedbacks to the submitted draft report (GIZ retains the right to go through the process repeatedly, until such time that it deems the report final).

Structure of payments (advance, interim, final) will be subject to negotiation with the winning Consultant.

## **3.5. Submission Requirements**

The offer from the Consultant needs to include a Technical Proposal and a Financial Proposal (in professional English):

* **The Technical Proposal** requires the bidding consultants to submit details pertaining to the Consultant’s experience and knowledge; approach to the current assignment:
  + Experience in supporting export development
  + Sectoral knowledge and experience
  + Overview of the methodology for the current assignment
  + Cover letter
  + CV

*For a detailed description of the assessment criteria, please refer to the attached evaluation form*

* **The Financial Proposal** requires the bidding consultants to submit net daily rate (GEL).