



## Georgia Competitiveness and Innovation Project

The CIIP grant cleared the path for a key private sector and financial sector Development Policy Operation (DPO). Georgia had withdrawn support for private sector development in the early 2000s. The technical assistance on innovation policy, export support, and access to finance that was delivered through the CIIP grant became the basis for a line of work that remains core to the World Bank's relationship with Georgia. The innovation and structural reforms supported by CIIP and the wider World Bank program contributed to deepening Georgia's ties with the European Union. The associated projects solved institutional capacity gaps that had hindered innovation support in Georgia for many years. The network of innovation labs and technology parks are still in operation and thriving.

### CHALLENGE

Georgia's export basket showed stagnancy and relatively low level of sophistication for its level of development. The World Bank's Trade Competitiveness Diagnostic (June 2013) showed that Georgia underperformed in the level of sophistication of its export bundle and its overall development, in stark contrast to other countries in the region that had managed to move up the quality and sophistication ladder, such as Moldova, and move to higher levels of development, such as Lithuania. Furthermore, the diagnostic revealed the low survival rate of exporters in international markets, compared to regional peers. For growth to be sustained over the medium to long run, it was critical for Georgia to improve competitiveness by upgrading its exports and advancing the capacity and growth of its domestic firms and SMEs. To advance with this reform agenda, Georgia needed to strengthen institutions and articulate a competitive growth strategy, based on increased innovation, technological absorption, and a better skills match in the economy.

### APPROACH

The CIIP-funded TA supported the Government of Georgia with critical resources necessary to develop and launch the implementation of Georgia's competitiveness agenda. The detailed support provided under the three key areas through this TA was:

- Improving the institutional framework to create an enabling environment for export development, entrepreneurship, and innovation by closely working with the Ministry of Economy and Sustainable Development (MoESD);
- Deepening innovation capacity of entrepreneurs and SMEs by developing financial and non-financial instruments to be provided by Georgia's Innovation and Technology Agency (GITA);
- Enhancing competitiveness by providing business advisory support to upgrade knowledge and modernize SMEs, particularly in manufacturing, through closely working with the Georgia Entrepreneurship Development Agency (GEDA).

In addition to the above support, CIIP provided advise on the establishment of public-private dialogue (PPD) mechanisms and stakeholder engagement to shape programs and potential reforms and enhance their implementation.

### PARTNERS

The TA was funded between July 2013 and December 2016 through the Competitive Industries and Innovation Program. The World Bank Group team's main counterparts included MoESD, GITA, and GEDA. This TA was provided at the request of the MoESD, in its dialogue with the World Bank Country Office in Tbilisi.

## RESULTS

**Institutional and capacity support:** 1) Creation of a new state-owned agency coordinating innovation and technology development (GITA) with a first-time allocation in the state budget for innovation and technology absorption for GITA (US\$15 million for 2014–16); 2) Creation of a new state-owned agency coordination export and SME development (GEDA) with a first-time allocation for SME and export development for GEDA (US\$35 million for 2014–16).

**Capacity building support:** 1) TA to strengthen GITA's institutional capacity, including the introduction of the mini-grants program as a pilot financial tool and the establishment of innovation and fab labs as innovation infrastructure; 2) TA to strengthen GEDA's institutional capacity, including advice on business advisory services to be provided.

**Strategy and legal support:** 1) Support in discussing and developing Georgia's SME Development Strategy (2016–2020); 2) Support in discussing and developing Georgia Innovation Strategy 2020; 3) Development and adoption of Law on Innovation.

**Innovation and SME support infrastructure:** 1) Establishment of three technology parks, and 23 fabrication laboratories operated by GITA. 2) Establishment of Business Services Center, operated by GEDA.

**Establishment of Public-Private Dialogue mechanisms:** 1) Establishment of Research and Innovation Council; 2) Establishment of Investors Council.

The CIIP-funded outputs have led to the development of the following outcomes:

**Financing innovation:** 17 projects funded through GITA's mini-grants; 130 projects funded through GITA's micro-grants; and 21 companies financed under GITA's Startup Georgia program. Given the relatively small share of women studying science and engineering, GITA actively raised awareness of its activities and programs among women. As a result, 23 percent of the beneficiaries that received innovation finance from GITA were female.

**Skills and training:** 1) 1,100 information technology (IT) specialists trained; 2) More than 20,000 persons attended GITA's workshops and seminars.

**Financing SMEs through the Government project 'Produce in Georgia':** 1) 220 projects financed under 'Produce in Georgia' with an estimated investment value of US\$150 million and total anticipated job commitments of 7,767; 2) 4,876 entrepreneurs (out of which 34 percent were women entrepreneurs) received financial support through the Micro and Small Support Program under 'Produce in Georgia'.

**Firm-capabilities support:** 1) About 500 export-oriented companies used GEDA's export advisory services (more than 150 of them participated in international trade fairs); 2) 8,880 entrepreneurs have gone through the training through the Micro and Small Support Program.

These efforts and results made by the Government in institution building to support innovation and export and SME development activities have significantly improved Georgia's outlook. The score (1–7) of 'Capacity for Innovation', one of the elements to evaluate innovation factors, of the Global Competitive Index (GCI) increased from 2.5 in GCI report 2012–13 to 3.7 in GCI report 2017–18, while the overall index score increased only 0.2 points during the same period.

## MOVING FORWARD

The CIIP-funded reforms succeeded in meeting their intermediate results and laid the foundations for future innovation support to Georgia. The CIIP support ensured that infrastructure development for innovation is a priority for the Government as a tool to promote innovation development and ensure inclusive access to high-tech equipment and services throughout the country.

World Bank support on innovation continues through the GENIE project which aims to increase innovative activities of firms and individuals and their participation in the digital economy.



## BENEFICIARY STORY

With support from the World Bank and jointly implemented projects - and a creative, professional and growing team, GITA is meeting its objectives with ongoing projects such as providing financial instruments, infrastructure development and improving professional skills essential for innovation ecosystem in general.

GITA is expanding countrywide and simultaneously broadening Georgian population's vision and knowledge about innovation, digital economy and opportunities around the world. GITA is becoming a source of opportunity for individuals to turn their ideas into reality.

## WBG CONTRIBUTION

Georgia Private Sector Competitiveness Development Policy Loans (DPLs), DPL1 and DPL2. Several policy actions taken by the Government were implemented by DPL1 and DPL2 to support the country's private sector development. The total financed amount was US\$110.0 million—US\$60 million of DPL1 approved in April 2015 and US\$50 million of DPL2 approved in July 2017 (the disbursements of these two DPLs are completed).

Georgia National Innovation Ecosystem Project (GENIE). GITA's grants program and innovation activities have been scaled up starting in 2016 as one of the focus areas of the Georgia National Innovation Ecosystem Project (US\$40.0 million), which was approved in March 2016. The implementation of the project is underway, and early results include: two Regional Innovation Hubs and three Community Innovation Centers established, equipped, and operational, 15 new or improved products or services introduced to existing or new markets by project beneficiaries, and 37 new startups launched.