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Overview of Youth Mainstreaming in Entrepreneurship Support State Programs in Georgia

Desk Research



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1. Executive Summary

Strengthening of entrepreneurship is a fundamental component of any country’s economic development. There are a number of countries all over the world where the development of entrepreneurship has greatly contributed to their economic growth and solution of social problems.

For the last decade, Georgia has made significant steps forward to develop its entrepreneurship potential. The importance of this field is underlined in several strategic documents¹, and resolutions adopted by the Government. Youth mainstreaming in entrepreneurship acquires even more importance taking into consideration the challenges the country is facing. Georgia is middle income county, where youth unemployment is relatively higher than European Union countries (less than 7%)². According to national statistics bureau of Georgia, unemployment rate of 15-19, 20-24- and 25-29-years’ population is 43.9%, 38.3% and 23.2%. Average unemployment of 15-29 population is greater than 35%, that is more than 55% higher that 30-44 years’ population (average unemployment of 30-44 is around 20%). Development of youth entrepreneurship can be a key tool among other instruments to gradually reduce youth unemployment rate in the country. Proper opportunities to initiate new ventures and small scaled businesses motivates youth population to be self-employed or to employ others.

The present overview analyzes mainstreaming of the youth between the ages of 18 and 29 in the programs oriented on the development of entrepreneurship initiated by 4 state agencies of the central government of Georgia. These are major programmes maintained by state focusing on entrepreneurship development in Georgia and that is why it was jointly decided by DRC and Consultant to include them in the review. The document details relevant programs implemented by the agencies and presents relevant conclusions.

Presently, there is no youth mainstreaming or its level is not sufficient in the sectoral programs or in the ones initiated to directly support entrepreneurship in Georgia.

| Agency/Program | Summary | Conclusion |
|---|---|---|
| Enterprise Georgia – Micro and Small Enterprises Support Program | <ul style="list-style-type: none"> • The program envisages vulnerable groups and their equalization using automatic criteria. The youth between the ages of 18 and 29 do not fall under such groups. • Experience and competitiveness is very important for the purposes of evaluation criteria of business ideas and business plans. Majority of the youth (age 18-29) does not have entrepreneurship experience or the immediate experience that could be used in entrepreneurial activities. | There is no youth mainstreaming within the frames of the program. |

1. 2016-2020 Small and Medium Entrepreneurship Development Strategy of Georgia; 2021-2025 Small and Medium Entrepreneurship Development Strategy draft; Socio-Economic Development Strategy of Georgia - ‘Georgia 2020’;
2. Eurostat. Youth unemployment ratio (15-24), European Union 27 Countries (from 2020).

| | | |
|--|--|---|
| | <ul style="list-style-type: none"> Majority of the projects initiated by youth is oriented on low-income and mass-consumption market segment where competitiveness of their start-ups is rather low. | |
| Georgia's Innovation & Technology Agency – GEL 650 000 and 100 000 grant programs | The programs are focused on the creation of competitive start-ups on the international market. The Program does not equalize the applicants by any indicator and its design makes youth mainstreaming impossible. | There is no youth mainstreaming within the frames of the program. |
| Partnership Fund – Startup Georgia | <ul style="list-style-type: none"> The program is focused on funding innovative business plans. The quality of the team has the highest - 6(10) points blocking criterion. The above criterium represents a problem for the youth of the ages between 18-29 due to absence of entrepreneurial experience. The winners of the program receive co-funding through loans (not more than 49%), while the rest 51% should be attracted by the applicants themselves. The type of applicants' contribution and its high percentage is a barrier for the youth. | There is no youth mainstreaming within the frames of the program. |
| Rural Development Agency – Young Entrepreneur Program | The share of the winning applicant is 60% being a barrier for the youth interested in entrepreneurship. | Partial mainstreaming of the youth in the program. |

2. Description of the methodology and data collection methods

The current research has been carried out in the framework of DRC implemented project “*Enhancing Youth Education, Employment and Participation in Conflict-affected Areas in Georgia and Ukraine*” funded by the European Union.

The goal of the research

| Goal of the overview | Subject of the overview |
|--|---|
| Analysis and evaluation of youth mainstreaming in the programs implemented by the Agency of Entrepreneurship Development Program. Development of recommendations to improve the program and to ensure youth mainstreaming. | Micro and Small Business Support Program |
| Evaluation of youth mainstreaming in the programs implemented by GITA. Development of recommendations to improve the program and to ensure youth mainstreaming. | GEL 650 000 and GEL 100 000 grants component |
| Evaluation of youth mainstreaming in the programs implemented by Partnership Fund. Development of recommendations to improve the program and to ensure youth mainstreaming | Start-up Georgia Program-innovative component |
| Evaluation of youth mainstreaming in the programs implemented by Rural Development Agency. Development of recommendations to improve the program and to ensure youth mainstreaming | Young Entrepreneur Program |

The process of research

Desk research – contents of the programs implemented by each target agency were overviewed. Along with the information uploaded by the agencies on Legislative Herald of Georgia (www.matsne.gov.ge), the web pages of the four agencies were used for data collection: (www.fund.ge www.startup.gov.ge www.enterprisegeorgia.gov.ge www.gita.gov.ge www.rda.gov.ge). Programs relevant to the research objectives were identified in close agreement with DRC representative. At least one program was selected from the ones implemented by each agency.

In-depth interviews – the process of examining the identified programs included desk research as well as in-depth key informant interviews (KIIs) with the agencies/program implementers. Four KIIs were held in total, one per agency representative.

Overall goal of the study report is to identify existing gaps, challenges and barriers of state entrepreneurship support programs towards youth entrepreneurship. The report emphasizes conclusions and specific recommendations for state agencies to make their programs more youth oriented and ensure equal opportunities for young people of age 18-29.

3. Overview of GOG' programs supporting youth entrepreneurship

Entrepreneurship has been actively encouraged for the last decade. Different strategic documents have been developed by the Government of Georgia that focus on the role of entrepreneurship in the process of overcoming economic and social problems. In order to achieve the above goals, the Government of Georgia has established 4 state agencies working in different directions facilitating and encouraging business development and entrepreneurship in the spheres falling under their competence. These agencies are as follows:

- Enterprise Georgia
- Partnership Fund
- Georgian Innovation and technology agency (GITA)
- Rural Development Agency (RDA)

3.1 Enterprise Georgia

Enterprise Georgia works in three interrelated fields such as business development, export encouragement and investments attraction. Encouragement of entrepreneurship falls under business development component that implements different programs. Presently, Enterprise Georgia offers its beneficiaries over ten programs or services. However, taking into consideration the goals of the present overview, we will focus on Micro and Small Business Support Program. Based on its design, the Program represents the main source of support for startups and other companies at the early stage of development.

LEPL Enterprise Georgia is one of the first state bodies aimed at improving business environment, developing private sector, promoting investment opportunities and climate, and supporting export. In order to ensure the dynamic development of the country's economy, the Agency unites three components or three interrelated tiers: business (local production), export and investments.

3.1.1 Micro and Small Business Support Program

Entrepreneurship Development Agency has been implementing Business Support Program since 2016. At the first stage, the grants at the amount of GEL 5000 and GEL 15000 were issued. However, the program increased the grants amount in 2020 and now the ceiling is GEL 30 000. Any person of legal age being a citizen of Georgia is eligible to participate in the program. An applicant has to go through the following phases:

Business idea phase

Business idea phase - at this stage, the business idea suggested by the applicant is analyzed and sorted out based on the preliminarily defined criteria. Evaluators assess how realistic the project is, its feasibility and the applicant's experience. The following fields being the subject to assessment are filled in at the business idea phase: the main idea; requested co-funding amount; assets to be purchased with co-funded resources; time frame; applicant's contribution; assets to be purchased using applicant's share; target market; expected income; applicant's experience, functions and duties.

Table 1. Criteria for the assessment at the phase of business idea (the fields to be filled in by evaluators)³.

| # | Assessment criteria | Point | Value (%) |
|------------------|--|-------|-----------|
| 1 | The main idea | 3 | 35 |
| 2 | Assets to be purchased with the co-funded amount | 2 | 6 |
| 3 | The time-frame for using the co-funded amount | 1 | 0 |
| 4 | Assets to be purchased using the applicant's share | 2 | 6 |
| 5 | The time-frame for using the applicant's share | 1 | 0 |
| 6 | Target market | 2 | 12 |
| 7 | Expected results | 2 | 12 |
| 8 | Experience, functions and duties of the applicant | 3 | 15 |
| Total (%) | | | 86 |

The evaluation at the business idea phase is divided into two stages. At the first stage the experts/evaluators fill in the fields amounting to 86% of the total score. At the second stage, points are assigned automatically amounting to 14% of the total and are based on the social and economic conditions in the country and the Program priorities. The criteria and their value are a challenge for young entrepreneurs due to the following conditions:

- Startups and new businesses initiated by young people produce products and services of mass consumption characterized both by high turnover and lower than average profit margin and by low turnover and lower than average profit margin⁴. Taking this into account, there is a high probability that the majority of applicants whose age is from 18 to 29 will have significant difficulties to accumulate enough points in “target market” and “expected income” criteria. It should also be noted that the above criteria are evaluated at 12% each, being 24% of the total assessment.
- One of the most important challenges in the process of analyzing the entrepreneurship opportunities of the youth is the lack or/and absence of experience in entrepreneurship. Criterion 8 assigns 15% to the applicant's experience, functions, duties and responsibilities but does not separate experience from duties and responsibilities. Moreover, the definition focuses mostly on experience.

As we have already mentioned, the evaluators assess only 86% of the total points (100%). The rest 14% is evaluated automatically based on the preliminarily defined priorities.

3. Source: Enterprise Georgia.

4. OECD. 2017. Study report by OECD development center. Unlocking the Potential of Youth Entrepreneurship in Developing Countries.

Table 2. Automatic criteria at the business idea phase⁵

| # | Automatic criteria | Points | Value (%) |
|---|--|--------|-----------|
| 1 | Top priority projects focus on intellectual service; top priority projects focus on high level of inclusion. | 1 | 2 |
| 2 | Top priority projects focus on accommodation and tourism services. | 1 | 2 |
| 3 | Start a new business. | 1 | 2 |
| 4 | Starting/expanding a business by women entrepreneurs. | 1 | 2 |
| 5 | Starting/expanding business in a village. | 1 | 2 |
| 6 | Starting/expanding business in a high-mountainous village. | 1 | 2 |
| 7 | Starting/expanding business by Internally- Displaced Persons – IDPs. . | 1 | 2 |
| | Total (%) | | 14 |

Table 2 clearly demonstrates that Enterprise Georgia has some priority directions. Selection of these directions are dictated by two factors. The first factor is the priorities the country has such as: (1) creation of businesses focusing on intellectual service; (2) development of accommodation and tourism sector; (3) start of new businesses. The second factor is the equalization of vulnerable groups of applicants with other ones, namely: (1) Support women entrepreneurs; (2) Develop rural business; (3) Develop business in high-mountainous villages; (4) Support IDPs. The above automatic criteria do not support directly the young people who want to be involved in entrepreneurship. There is a direct parallel between the women who want to be engaged in entrepreneurship and the youth (based on which the automatic point is assigned on gender basis). Local and international reports⁶ demonstrate that the groups share the majority of challenges related to starting business and/or participating in similar grants' competitions, namely:

- Poor access to financial resources;
- Poor access to entrepreneurial education;
- Lack of entrepreneurial experience;
- Low income;
- Small amount of tangible and intangible assets that could be used in entrepreneurial activity.

The above information shows that youth is not identified as a vulnerable group and is not equalized with other applicants at the business idea phase of micro and small business component of Enterprise Georgia. Business idea phase has an important function for successful participation in the program. Most applications are rejected at this very phase. 26 299 applicants applied to micro and small business program in 2020 and only 4103, accounting for 15% of the submitted applications, were selected for the next phase. Unfortunately, the Agency does not record the age of applicants that makes it impossible to identify how many of 26 299 applicants were young (of the ages from 18 to 29) and how many of them were able to go through business idea phase successfully and participate in business plan phase.

5. Source: Enterprise Georgia

6. OECD. 2016. Centre for Entrepreneurship, SMEs, Regions and Cities. Policy Brief on Women's Entrepreneurship

OECD. 2016. Centre for Entrepreneurship, SMEs, Regions and Cities. Women Entrepreneurs in the OECD: Key Evidence and Policy Challenges

Training in developing business plans - the applicants having won the business idea competition shall go through one-day-training where they overview each sub-chapter of business plans. The overview includes provision of general information on what a specific sub-chapter means and what information should be entered. Based on the international practice, one of the main challenges for young people willing to become entrepreneurs is lack of access to entrepreneurial education. The same challenge is noted in the document - National Concept of Youth Policy 2020-2030 approved by the Parliament in 2020. Article 4.5 of the document states that there is no formal entrepreneurial education in Georgia, or it is very ineffective. Respectively, one-day training held on developing business plans cannot meet the challenges young people face due to absence of entrepreneurial education.

Phase of business plans and interviews

Phase of business plans and interviews – after coping with the phase of business ideas, the applicant has to develop a business plan that is assessed at total 100%. The score includes two interrelated components. The business plan accounts for 35%, while interview - 65%. Business plan consists of the following sub-chapters: the main idea, the product/service to be produced; experience, functions and duties of the applicant; the property to be used in the business, etc. The criteria defined for interviews reiterate the ones used at the phase of business plan assessment. However, at this stage, along with the business plan itself the applicant’s actual relation to and knowledge of the business plan are also assessed.

To be more specific, interviewers clarify details and comments raised during the business plan assessment.

Table 3. Evaluation criteria at the business plan and interview phase⁷

| # | Content criteria | Business plan points (%) | Interview points (%) | Total points of criteria (%) |
|----|--|--------------------------|----------------------|------------------------------|
| 1 | The main idea | 2.8 | 5.2 | 8.0 |
| 2 | The product and service to be produced | 3.8 | 7.1 | 10.9 |
| 3 | Experience , functions and duties of the applicant | 3.9 | 7.2 | 11.0 |
| 4 | Property to be used in business activity | 3.2 | 5.9 | 9.0 |
| 5 | Description of the whole process of production/service | 4.2 | 7.8 | 12.0 |
| 6 | Seasonality of sales | 2.3 | 4.2 | 6.5 |
| 7 | Geography of selling products/services | 2.3 | 4.2 | 6.5 |
| 8 | Target market/clients | 2.3 | 4.2 | 6.5 |
| 9 | Competitiveness | 2.3 | 4.2 | 6.5 |
| 10 | Budget | 3.5 | 6.5 | 10.0 |
| 11 | Income and expenses | 4.6 | 8.5 | 13.0 |
| | Total (%) | 35 (%) | 65 (%) | 100 (%) |

7. Source: Enterprise Georgia

Similar to the business idea phase, business plan and interview phases almost fully reiterate the challenges that young people of the ages from 18 to 29 interested in entrepreneurial activity may face, namely:

- Criteria 3 of the table 3 - Experience, functions and duties of the applicant – is assigned 11%. As it has already been noted, youth interested in entrepreneurial activity either has less experience in this field or does not have it at all.
- Criteria 9 of the table 3 – Competitiveness- is assigned 6.5%. According to international practice, 90% of the youth start-ups get bankrupt during 12 months after starting the business and leave the market. In Georgia where young people have a very limited access to entrepreneurial education, this indicator might be even higher. Respectively, the probability that start-ups initiated by young people will be competitive enough compared to other applicants' businesses is rather low.

The above criteria, that in total make 17.5% of the total percentage, represent direct challenge for the young people interested in entrepreneurship. There is also a high risk of subjective factor since if an applicant gets low points in experience and competitiveness, it places the successful implementation of the business plan under the risk that might affect the assessment of other criteria as well.

Conclusion and Recommendations

In conclusion, we have to say that micro and small business grants program implemented by Enterprise Georgia is a well-functioning State Direct Support Mechanism. Within the frames of its competence, the program encourages entrepreneurship and entrepreneurial aspiration in the country. The Program aims at equalization of different vulnerable groups and creation of equal starting conditions. However, such groups do not include the youth of the ages from 18 to 29. The applicant has to go through two phases and both of them comprise quite many challenges for young people. Based on the above difficulties and challenges, we can conclude that the Program does not mainstream youth.

Within the frames of Micro and Small Business Support Program implemented by Enterprise Georgia, the following steps should be made to mitigate the difficulties that young and willing to get engaged in entrepreneurship people face:

- Automatic equalization percentage points should be assigned to the youth of the age of 18-29 at the phase of business ideas.
- Equalization index should be used for the youth of the age of 18-29 at the phase of business plans and interviews criteria - “Applicant’s experience, functions and duties” and “Competitiveness”.
- Youth group has very limited access to entrepreneurial education. The training course offered by Micro and Small Business Support Program is very crucial but does not meet the needs and challenges youth group face. The program should expand the coverage of training courses and offer at least basic course in entrepreneurship.

4. Partnership Fund

Partnership Fund was established in 2011 and its goal is to manage assets and carry out investment activity. The activity of the Fund is focused on the implementation of big and wide-scale business projects. In 2016, Partnership Fund founded Start-up Georgia aimed at encouraging and supporting new businessmen. At the first stage, Start-up Georgia together with Georgia’s Innovation & Technology Agency developed the program that included **innovative and high-tech components**. Innovative component was to be implemented by Start-up Georgia, while high-tech component – by Georgia’s Innovation & Technology Agency. After a year of cooperation, Georgia’s Innovation & Technology Agency changed its strategy and left high-tech component of Start-up Georgia during the process of diversification of funding sources. Since presently Start-up Georgia is implementing only innovative component, it represents the subject of current research.

Offer by Startup Georgia to people with innovative business ideas

Support to the development of an innovation ecosystem - Startup Georgia is to become a significant part of the ecosystem. This implies collaboration of the state, educational, scientific, and private sectors pursuing the purposes of building the economy in the country that prerequisites expert knowledge and innovations and increasing competitiveness of the private sector.

Improving of the startup group qualification – Startup Georgia supports the Program participants in improving their skills and qualifications through the appropriate trainings and consultations that are required for successful implementation of their business idea. At the starting point Startup Georgia also provides support to the funded applicants in taking decisions that are important for the developing company (through so-called mentoring).

Financial support - financial resources are received by the projects identified to be the best in the relevant contest declared. Namely in particular, Fund Startup Georgia finances the program participants ("Partner") that will appear to have the best innovative and feasible business ideas out of its allocated budget within GEL 15,000-GEL 100,000 in order to finance expenses as determined by the project.

4.1 Innovative component

Innovative component implemented by Start-up Georgia envisages co-funding for start-ups at the amount of GEL 15,000-100,000. It should be noted that this co-funding is not a grant. Start-up Georgia becomes a minority partner whose share in the company must be less than 50%. The above partnership may last for maximum 10 years during which the major/majority partner has to buy out the shares of Start-up Georgia from the company. The buyout amount includes the principal plus annual 10% (calculated based on the compound accrual system).

Any physical person, or group of people being citizens of Georgia who have innovative ideas can seek funding through the innovative component of Start-up Georgia. Funding of any field/sphere not banned by Georgian legislation is possible.

Innovative idea means introduction of a new or updated product, process or service having economic or social value. It is important for the business idea to be economically justified and attractive in terms of investment.

Investment Committee makes the decision on the projects to be approved within the frames of Start-up Georgia. Each member of the Investment Committee evaluates the presented project from 1 (negative) to 10 (positive) points. In order to get funding, a project must get an average minimum valued 6 points. The above rule is applied to the evaluation of innovative component as well as to the detailed overview of the project. The final score attained by an applicant/group of applicants, is calculated weighing the points received based on preliminarily defined 4 criteria:

- **Innovativeness of the idea** - the criterion evaluates how innovative the project is, how it facilitates the improvement of entrepreneurial or other commercially interesting processes or whether it helps create a new product. The criterion value amounts to 40% of the total.

- **Commercialization capacity** – the criteria evaluates the capacity of commercialization of the product developed within the frames of the business project and whether it will be interesting taking into consideration the market demands and its state of affairs. The value of the criteria amounts to 30% of the total.
- **Project team** - the quality of the project team gets also assessed applying a criterion. The criterion evaluates whether the team has a potential to successfully implement the project. Its value amounts to 20% of the total.
- **Social aspect** – social impact as a result of the project implementation is also evaluated based on a criterion. The following features are considered by the criterion: the region where the business is to be run, border zone, proximity to the conflict zone, etc. Its value amounts to 10% of the total.

As it has already been noted, 6 points representing the minimum number of points based on the above four criteria is must for the project to win. However, there are the following two more blocking criteria:

- **An application must get at least 6 points for the team quality assessment** – this blocking criteria was introduced as a lot depends on the team, its members, their skills and qualifications when implementing a business project.
- **An application must get at least 6 points for the assessment of commercial and financial component of the project** - this blocking criteria was introduced since based on the objective of the innovative component, the final goal of the project is to generate income and profit.

Table 4. Age distribution of the application received within the frames of Start-up Georgia innovative component in 2018-2021⁸

| # | Age of applicants | Number of applications | Share in total (%) |
|---|-------------------|------------------------|--------------------|
| 1 | 18-29 | 1023 | 36.4 % |
| 3 | 30-40 | 984 | 35 % |
| 4 | 41-50 | 382 | 13.6 % |
| 5 | 50-60 | 408 | 14.5 % |
| 6 | 60+ | 14 | 0.5 % |
| | Total | 2811 | 100% |

Since 2016 up today, over 50 business ideas have been funded within the frames of innovative business development component of Start-up Georgia, while 25 innovative business ideas were funded in 2018-2021 amounting to GEL 1.5 million investment made by the State. It is noteworthy that out of 25 ideas only 5 belongs to the youth of the age 18-29 and the state investment totals to GEL 333,668 amounting to 22.2% of the total investment.

Table 5. Age distribution of the winning applicants of 2018-2021 within the frames of Start-up Georgia’s innovative component⁹

| # | Age of the winners | Number of the winners | Share in total (%) |
|---|--------------------|-----------------------|--------------------|
| 1 | 18-29 | 5 | 20% |
| 3 | 30-40 | 10 | 40% |
| 4 | 41-50 | 3 | 12% |
| 5 | 50-60 | 7 | 28% |
| 6 | 60+ | 0 | 0% |
| | Total | 25 | 100% |

8. Source: Startup Georgia

9. Source: Startup Georgia

Within the frames of its innovative component, Start-up Georgia received and overviewed 2811 applications. 36.4% of the applications accounts for the youth of the age of 18-29, while 35% - for the age of 30-40. Despite the number of applications submitted by the people of the ages of 18-29 and 30-40 being almost identical (the youth of the age of 18-29 submitted 39 more applications that cannot significantly affect the overview/evaluation results), the applicants of the age of 30-40 won two times more projects than those of the age of 18-29.

Conclusion and Recommendations

Innovative component of Start-up Georgia is a good opportunity for the citizens of Georgia to demonstrate their capacity and get access to financial resources. However, it has some challenges for the youth:

- The probability that the 6-point blocking score will be a problem for the youth interested in entrepreneurial/innovative activity is high. Both, international reports and National Concept of Youth Policy 2020-2030 approved by the Parliament underline the absence and/or low effectiveness of entrepreneurial education. It should also be noted that most youth doesn't have relevant working experience/competence and qualification to be competitive to participate in such projects. It will be important to lessen the burden of the 6-point blocking criterion for the team assessment when evaluating applications submitted by young people.
- Young people have less access to financial resources as well as to capital assets needed for running the business. According to the project terms and conditions, monetary share of applicants is to amount at least to 10% of the total budget. Despite 10% being a low enough share, even that might be a problem for young people. For example, if the total budget of the project is GEL 100 000, the share of the applicant will be at least GEL 10 000. Based on the existing practice, average funding for the 5 winning projects submitted by the youth of the age of 18-29, amounts to over GEL 65 000. Based on the example, the share of the winning project exceeds GEL 6000 that might turn out to be an additional barrier.

5. Rural Development Agency (RDA)

Rural Development Agency is one of the bodies that aims at rural and agricultural development in Georgia. Presently the Agency is implementing over 10 project and programs which, based on their design and content, are not focused on entrepreneurship development. However, Rural Development Agency along with international partners implemented Young Entrepreneur Project in 2018-2020. The project is one of the rare ones that based on its declared objectives was focused on the development of young entrepreneurs in agricultural as well as in non-agricultural spheres.

5.1 Young Entrepreneur

Young Entrepreneur project was initiated by the Ministry of Environment and Agriculture and was implemented by Agriculture Project Management Agency (APMA)¹⁰. The project was implemented with DANIDA financial support and was focused on rendering support to the young people living in the villages of Georgia. Male population of the age of 18-35 and female of the age of 18-40 could participate in the project. The project design included 3 interrelated components:

10. Rural Development Agency (RDA) was established under Agricultural Project Management Agency (APMA). RDA is the result of multi-year reforms and improvements and represents a legal successor of APMA.

Aim and objectives of the program Young Entrepreneur

- Strengthening economic growth
- Development of private sector and supporting its initiatives
- Supporting youth to initiate new ventures and businesses
- Supporting investments in agriculture sector.

Technical assistance needed for the applicant to receive funding – technical assistance consisted of 3 components:

- Consultative service – at this stage, specialists and experts of the field carried out the the feasibility study of the business idea. The study included the assessment on how relevant and reasonable the implementation of some agricultural/non-agricultural activity was on a specific territory/plot of land.
- Assessment of production process – at this stage, specialists and experts of the field assessed the feasibility of the proposed production process and visions. If the experts identified specific problems, they issued special recommendations for the improvement of the process and correction of the mistakes.
- Business plan development – consultants selected in advance assisted applicants to develop good business plans. The Agency paid the consultants for their work.

Funding the project (Financial assistance) – after receiving technical assistance at the first stage and developing a business plan, the business plan got funded. Based on the funding scheme, minimum budget of the project was defined as GEL 10.000. The Agency would fund maximum 40% of the investment value of the business plan, while the rest 60% was the share of the applicant. However, maximum amount of the Agency’s co-funding did not exceed GEL 60.000.

Post-funding technical assistance – after having funded the project, the Agency actively cooperated with the winner. As a result of such assistance, the winner could get help in the directions defined in advance as well as to overcome the problems emerged during the activity¹¹. The form of post-funding technical assistance defined in advance are as follows:

- In order to sign the contract on co-funding, all the needed documents should be collected;
- Support in developing/updating action plans for business plans;
- Record all earmarked expenses planned within the frames of the project and archiving/filing all relevant documents;
- Support in the introduction of accounting software/system
- Conduct needed training session in effective management of business (in modules defined in advance as well as in the modules defined on needs based depending on the assumption of the business activity.)

Post-funding technical assistance component covers almost all parts of possible types of assistance, which is very significant factor for coping with the early stages of business activity.

The agency received 1228 applications within the frames of the program for young entrepreneurs. 27.2% of the applicants received funding. Investment in the winning business projects made by the Agency amounted to GEL 9.2 million, while the total investment in the implementation of the project was GEL 25 million.

11. The help does not mean providing additional financial/monetary assistance to the implementor of the winning business plan.

Table 6. Age distribution of the applicants within the frames of Young Entrepreneur Project during 2018 – 2020¹²

| # | Age of winners | Number of winners | Share against total (%) |
|--------------|----------------|-------------------|-------------------------|
| 1 | 18-24 | 79 | 23% |
| 2 | 25-29 | 105 | 31% |
| 3 | 30-40 | 159 | 46% |
| Total | | 343 | 100% |

Table 6 demonstrates that age distribution of the applicants within the frames of Young Entrepreneur Project is almost identical, between ages of 18-29 and 30-40. 54% of the winning projects was submitted by people of the age of 18-29, while the rest 46% - by applicants of the age of 30-40. The grants amount issued to the applicants of the age of 18-29 totals to GEL 5.3 million accounting for 57.1% of the total amount.

Conclusion and Recommendations

Young Entrepreneurs Program is one of the best among the programs initiated and implemented in Georgia to increase entrepreneurial opportunities of young people and to engage them in entrepreneurial activity. The Program design and the scheme of the components fully reiterates the best international practice. For example, unlike other programs the Young Entrepreneur had pre and post funding technical assistance components. According to international statistics, 90% of start-ups and new businesses leave the market after a year from starting it. They end operations, make key changes to their approaches and products/services. Post-funding technical assistance component assists young entrepreneurs to cope with this phase with less loss. When implementing business support programs/projects oriented on young people, efficient management of the component significantly increases the opportunity for business success. However, the program faces significant challenges in the ratios of co-funding and applicants' contribution.

Young people of the age of 18-29 residing in Georgia have low access to entrepreneurial education and financial resources needed to start business activity. Pre-funding technical assistance introduced by the program removes the above challenge related to education almost completely since the applicants have the opportunity to receive high-quality consultations as well as assistance in the development of business plans, however other challenges remain as follows:

- Low access to financial resources is one of the key challenges for the people of the age of 18-29 residing in Georgia. Young Entrepreneur Program creates opportunities for the youth to receive grants and get engaged in entrepreneurial activity. However, funding proportions represent a problem. As it was noted, the program funds business plans only by 40% and applicants should seek the rest of the funds themselves. Average amount of the grant issued within the frames of the project exceeds GEL30,000 meaning that the average amount to be sought by the applicant totals to GEL45,000. Taking into consideration current challenges young people are facing, it is rather problematic to seek GEL 45, 000 for contribution. The assumption is backed by the fact that fewer than 35% of the applicants could get loans from financial institutions for the amount needed for co-financing.

12. Source: Young Entrepreneur

Based on the above data and conclusions, we can say that Young Entrepreneur Project was oriented on the development of opportunities for young entrepreneurs and young entrepreneurship. Despite some challenges in co-funding ratio and applicants' contribution, mainstreaming of the youth of the age of 18-29 was mostly relevant within the Young Entrepreneur Program.

The process of issuing grants within the frames of Young Entrepreneur Program ended in 2020. In case the program continues in future, it is important to change the percentage ratio between the grant co-funding and applicants' share in order to strengthen the focus of the program on youth. The above change should include reducing applicants' share as well as increase of their in-kind contribution opportunities.

6. Georgia's Innovation & Technology Agency (GITA)

Georgia's Innovation and Technology Agency's mission is a formation of an ecosystem which improves all kinds of innovations and technologies in our country, to promote a commercialization of knowledge and innovations, to stimulate using them in all fields of economy, to create an environment for the growth of innovations and high-tech products and developing high-speed internet nationwide.

To achieve these goals Agency develops its own infrastructural zoom to improve innovations and technologies, to provide their powerful commercialization mechanisms according to country's innovation and technology development priorities; Facilitate the growth of venture capital and even private companies' participation in the process of researches and commercialization of innovations, creating effective mechanisms for increasing competitiveness, including the active enrichments of distance learning tools.

The mission of Georgia's Innovation and Technology Agency (GITA) is to form the ecosystem needed for the development of innovations and technology as well as for the support of commercialization of knowledge and innovations. In order to achieve the goal, the Agency implements different interrelated activities. Presently, its activity includes the following 4 key components:

- **GEL 650 000 grant for innovations** – grants at the amount of GEL 650,000 are issued within the frames of the component. The above amount should not exceed 50% of the internationally agreed budget of the Project. The winner applicant has to close the investment phase in three months and attract the rest 50% from the private sector.
- **GEL 100 000 grant for innovations** – the business plan submitted by the applicant is funded by maximum GEL 100.000. Unlike GEL 650.000 program, in this case the applicant has the right to receive 90% of the budget from the Agency and attract the rest 10% from the private Sector.
- **GEL 15 000 grant for prototyping an innovative product** – the goal of the program is to make prototypes of innovative products for their future commercialization.
- **Teaching activities for youth in the sphere of innovations** – within the frames of the activity, the Agency regularly holds training sessions and teaching activities for the young people interested in innovative business. Such activities are held locally as well as in the forms of camps.

Furthermore, GITA administers Techparks and innovative centers in Tbilisi and regions which are focused on the development of technologies and innovations ecosystems in Georgia. Techpark is a physical space where the technological, educational and professional resources are accumulated and it aims to serve the development of knowledge based economy in Georgia. Techpark, through its infrastructure, facilitates the establishment and growth of high-tech businesses that are competitive in both local and global markets. Innovative centers are mini-techparks and it offers customers the same services that techparks do but locally and on a relatively small scale. With technologies and general infrastructure, as well as with international experience and knowledge accessed by recognized mentors, Techpark is a place where a comfortable environment has been built to help the working process from the business ideas until it's establishment as a business model.

In the light of the present overview format, the subjects of research among the programs implemented by GITA are GEL 650.000 and GEL 100.000 grant programs. These programs are very similar in terms of content and goal. Respectively, they will be analyzed as a whole.

Applicants participating in the grant program have to go through two stages. At the first stage, the best 40 projects are selected out of the received ones. Business plans are evaluated by international experts. At the second stage, an intensive training sessions are held for the selected 40 applicants to get them ready to develop projects to be submitted to the Investment Committee. The final decision on funding is made by the Investment Committee which is comprised by foreign entrepreneurs and CEOs of international business companies. The submitted business projects are evaluated based on the following two key criteria at the first and second stages: (1) how innovative the project is and its commercialization potential; (2) Relevant qualification of the project team. There are no specific criteria defined in advance or methodology at the stage of business plans evaluation since it is impossible to use any criteria to evaluate innovativeness. Based on this, the Investment Committee makes its decision based on interviews with applicants. At this stage, over GEL 13 million has been granted within the frames of this component. It should also be noted that in 2020 year the funded start-ups attracted GEL 28 million and GEL 150 million only during 5 months of 2021.

The main goal of the programs implemented by GITA is to reveal applications that are innovatively and commercially attractive. The Agency does not apply strictly defined criteria during the evaluation process that would take into consideration the challenges that the youth at the age of 18-29 face. No youth mainstreaming is observed in GITA grants schemes.

7. Final Conclusions and Recommendations

International and local practice clearly reveals that people from 18-29 faces plenty of challenges to engage in entrepreneurial activities. Youth is the key driver for future development and proper economic growth rate of Georgian economy, and the government should take decisive measures to support them. Below are the majority of challenges for youth eager to start entrepreneurship/or participating in competitions, namely:

- Poor access to financial resources;
- Poor access to entrepreneurial education;
- Lack of entrepreneurial experience;
- Low income;
- Small amount of tangible and intangible assets that could be used in entrepreneurial activity.

Recommendations

Recommendation 1 – The Government of Georgia and its respective agencies should take into consideration the problems youth face and adjust the designs of their direct support mechanisms/programs to make it more youth oriented. Georgia can share the experience of some EU countries that have successful schemes of development of integrated approach to entrepreneurship that includes development of skills, awareness-raising of youth, coaching and mentoring to improve access to information and financial means.

Recommendation 2 – Development of the specific entrepreneurship support program for 18-29 aged youth group, under the umbrella of Youth Agency of Georgia. As a model/base for developing youth entrepreneurship support program can be considered Young Entrepreneur implemented by RDA. The program incorporates best international practice, its design covers all basic components of youth-oriented DSM and entrepreneurship support programs (prefunding technical assistance, support in business plan development process, post funding technical assistance and trainings). For ensuring success of the program, it is crucial to set right proportion between funding (grant) and applicants' financial and non-financial contributions.

Representatives of all target agencies (Enterprise Georgia; GITA; RDA; Startup Georgia) declared their openness to jointly elaborate program for youth groups, with local or international organizations that has sufficient financial resources and expertise/experience in designing and implementation of youth-oriented DSM (Direct support mechanisms) programs.

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