



Local Economic Development Plan

Kutaisi Municipality

Georgia

"Old City with New Opportunities"

2018

The present plan has been prepared with the technical support of the European Union's Mayors for Economic Growth Initiative. The document has been reviewed by the World Bank personnel and is recognized as a document conforming to the principles of Mayors for Economic Growth Initiative. Full responsibility for the content of the plan shall rest with the City Hall of Kutaisi Municipality.

Mayor's Address

Kutaisi is a special city with its great antiquity and history, its present and promising future, with its potential of human and labor resources that make a significant contribution to the building of the country.

Kutaisi is an administrative center of Western Georgia. It can become a regional center for trade, logistics, tourism, innovations and education. This places great responsibility on every citizen of Kutaisi and local business, as well as on government agencies in order to introduce and implement effective and innovative projects focused on the development of the city through public-private partnership.

Local Development Plan of Kutaisi for 2019–2020, developed under the European Union's "Mayors for Economic Growth" Initiative, is a medium-term document, tailored to the needs of the private sector, self-government's capabilities and their common goals.

Implementation of the plan will help increase the visibility of the city in internal and external positions, improve the investment and business environment in Kutaisi by utilizing the regional potential of Imereti, develop public infrastructure for business needs, which will create new jobs and ensure consistent development of the economy.

The local self-government of Kutaisi Municipality considers the small and medium businesses as the main opportunities for creating jobs in the city; consequently, it undertakes to stimulate them through the mobilization of allocations in the local budget, as well as the implementation of the measures established by the local economic development plan, with the participation of the local private sector. Maximum involvement of private and public sectors and combining competences will contribute to the growth of the inclusive economy in Kutaisi.

Giorgi Tchigvaria



The Mayor of Kutaisi Municipality

The document is public and available to all interested parties.

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1. Executive Summary

The Local Economic Development Plan of Kutaisi Municipality has been developed as part of the EU's Mayors for Economic Growth Initiative. It is aimed at promoting entrepreneurial activities in the city, developing human skills related to doing business and increasing visibility of the city.

Kutaisi is an administrative center of Imereti Region and the second largest city of the country after the capital city. Kutaisi has a strategic location. It easily connects to other cities of Georgia and the main transport routes of the country. Currently, Kutaisi is a commercial center of Western Georgia. The largest share of active business entities (74%) falls into the commerce and service sectors. There are two Free Industrial Zones in the city, which provide jobs to the population of Kutaisi. Tourism is one of the main sectors of the economy of Kutaisi. David the Builder (Agmashenebeli) Kutaisi International Airport is located 18 kilometers from the city, which significantly contributes to the rapid growth of the tourism industry.

Despite positive conditions, Kutaisi still faces social and economic challenges, such as high level of unemployment, migration from the city, lack of entrepreneurial skills and experience, inadequately developed public infrastructure and investment environment. Consequently, the local economic development plan responds to the above challenges, and its main purpose is to improve the investment and business environment, increase human potential related to doing business, and enhance the visibility of the city. Taking into account the capabilities of the local self-government in this regard, the following measures have been planned: creating a Destination Management Organization, preparing an inter-municipal project, arranging new tourist destinations and an international business forum to help increase the visibility of the city; creating investment portfolio of Kutaisi, organizing local exhibition-fairs, installing advertising / information billboards and encouraging the use of electric vehicles in the business sector, which will improve the investment and business environment; the plan also envisages implementation of activities that include using migrants' potential, creating consulting services for start-ups, supporting micro and small entrepreneurship for large families (families with multiple children) to help them develop business-related skills.

The financial resources required for the implementation of the Local Economic Development Plan will be provided in the form of programs and subprograms stipulated in the local budget of Kutaisi for 2019–2020, as well as in the form of partnership and in association with private sector; but the local budget and projects implemented in partnership with the private sector will not be enough to stimulate the economic development of the city. Therefore, it is important to cooperate with international donor organizations to attract additional external financial resources.

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M4EG - Mayors for Economic Growth

LED - Local Economic Development

LEDP - Local Economic Development Plan

UNDP - United Nations Development Programme

SEAP - Sustainable Energy Action Plan

NNLE - Non-entrepreneurial (Non-commercial) Legal Entity

LEPL - Legal Entity of Public Law

FIZ - Free Industrial Zone

SWOT Analysis- Analysis of Strengths, Weaknesses, Opportunities, and Threats

DCFTA – Deep and Comprehensive Free Trade Area

4. Introduction

Kutaisi Municipality joined the EU's "Mayors for Economic Growth" Initiative on May 30, 2017 and assumed the obligations to implement the matters stipulated by the Memorandum.

Kutaisi, with its 3500-year history, is among ten oldest cities of the world, which still continues to develop. The city is located in the central part of Western Georgia and is an administrative center of Imereti Region.

Picture №1. Kutaisi- Administrative Center

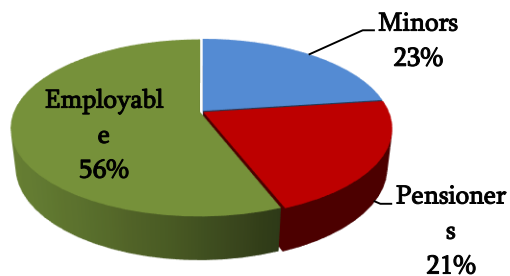


Kutaisi is the second largest city in Georgia after the capital city and occupies the area of 70 square kilometers. It is connected to all strategic places of Georgia through the road network. Travel time from Kutaisi to Batumi Sea Port takes 2 hours and 20 minutes (139 km), to Poti Sea Port – 1 hour and 15 minutes (105 km), to Anaklia Deep Sea Port – 2 hours (123 km), to capital city – 3 hours (225 km), to main railway station – 15 minutes (10 km), to David the Builder (Agmashenebeli) Kutaisi International Airport – 20 minutes (18 km).

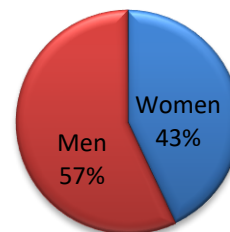
According to the general census of 2016, the population of the city is 147.2 thousand people (4% of the population of Georgia). Density of population is 2103 people per square kilometer, which is much higher than the national average. The median age of population is 38.8 years, median life expectancy – 72.9 years, for women this indicator is 77.2 years and for men - 68.6 years. The share of the urban population is 100%. As a result of migration, the population of Kutaisi has decreased by 36% compared with 1989. As of 2014, 52,414 people emigrated from Kutaisi.

Chart №1. Percentage Share of Employable Population

Age Pattern of Population of Kutaisi



Employable



In order to stop the migration processes, create new jobs, increase revenues of the population and improve the social situation, it is necessary to take measures to stimulate local economic development. In this regard, it is important to use the experience, contacts, and human or financial potential of migrants returning to their homeland; as well as encouraging and facilitating large families (families with multiple children) and other vulnerable groups living in the city to start/develop small and medium-sized businesses. Local self-government considers the EU "Mayors for Economic Growth" Initiative as a good platform for public-private cooperation at the local level. Joining this initiative provides additional financial and technical support to improve the economic situation in the city.

Obviously, the strategy of local economic development should be consistent with the overall strategy of sustainable development of the country. With this in mind, the Local Economic Development Plan (LEDP) of Kutaisi Municipality comes in line with the Georgian Social-Economic Development Strategy - "Georgia 2020", the Regional Development Programme of Georgia for 2018-2021, SMEs Development Strategy of Georgia for 2016-2020, the Regional Development Strategy of Imereti for 2014-2021, as well as with other plans already developed

by the City Hall of Kutaisi: local budget of Kutaisi Municipality, Kutaisi Development Strategy - "Kutaisi 2021", Sustainable Energy Action Plan for Kutaisi (SEAP), Kutaisi Municipality Anti-Corruption Strategy and Action Plan for 2018-2019 (in the scope of UNDP), Kutaisi Municipality Adaptation Concept to Climate Change. The Local Economic Development Plan (LEDP) was developed specifically to join the EU's "Mayors for Economic Growth" Initiative. In turn, this is not a comprehensive document and unlike other documents existing at the self-government level it is focused on stimulating the development of private sector, boosting economic growth and creating new jobs.

The Local Economic Development Plan (LEDP) was developed in cooperation with private and public sectors and with their broad participation. Their role in developing the plan was undoubtedly valuable. Their contribution to the implementation and monitoring phase of the measures outlined in the plan will also be invaluable.

The LEDP was developed on the basis of the EU's "Mayors for Economic Growth" Initiative methodology and recommendations proposed by the Tbilisi Secretariat.

The main budget allocations for the implementation of the LEDP are envisaged in the local budget of Kutaisi in the form of programs and sub-programs that are specific, time-bound, achievable and measurable.

5. Process of Elaboration of the Local Economic Development Plan

LED group was formed at the Municipality of Kutaisi, consisting of seven members: City Hall - 3 members, private sector - 1 member, civil society organizations - 2 members and a representative of the scientific community - 1 member. The members were selected on the basis of the recommendations from relevant sectors, based on their influence and interests in the local economic development. A Local Economic Development Adviser (LED Officer) has been appointed, who is the main coordinator for the development and implementation of the plan. Together with the working group, four professional civil servants of the Municipality Economic Development Department worked on technical, organizational and informational support. To determine the needs and priorities of the city, information was collected from the following sources:

- 1) Meetings and discussions with NGOs, business and scientific communities;
- 2) Interviews and questionnaire technique with students, youth and citizens;
- 3) Strategic documents about the city and the region;
- 4) LED group discussions.

In total, the LED team conducted 24 work meetings for the elaboration of the plan.

According to the population and the business sector, to create new jobs and stimulate economic growth it is important: to modernize public infrastructure in the city, make a land use plan available for proper urban development of the city and for attracting investments, create a logistics center within the borders of Kutaisi to enhance the functioning of the city as a trade hub of Imereti, stimulate creative business in such areas as architecture, design, fashion, advertising, creativity in manufacturing, programming, and the entertainment industry.

Based on the information obtained, it became possible to identify the factors hampering the development of the small and medium business sector; they were evaluated in terms of the capacity of the municipality and taken into account when forming the LED Plan. The following key factors were identified during the needs assessment:

- 1) **The need to strengthen the tourism industry.** Tourism is considered as one of the driving forces of the local economy, but it is necessary to improve existing services and resources, expand innovative opportunities in tourism, introduce regional tourism services and products that will attract more tourists and fully utilize the local tourist potential.

- 2) **Stimulating small and medium businesses.** It is necessary to raise the awareness of entrepreneurs about the current state programs and funding sources for the long-term development of their activities. It is also important to increase the visibility of locally-made products, both in the local and international markets, which will contribute to the growth of sales and development of small and medium businesses.
- 3) **Improving the investment environment.** The municipality must improve public infrastructure within its competence in order to increase investors' interest towards attractive places for investments. At the same time, electronic products should be introduced to demonstrate the investment and economic opportunities of the city, which will help local and foreign businesses to establish business relations.

Picture №2. Process of Elaboration of the Local Economic Development Plan



To analyze and study the socio-economic indicators of the city, information was requested from various government agencies. The information received from the agencies was scarce, since the socio-economic data on the self-governing city of Kutaisi is not processed by the authorized state structures. However, it has somewhat given us a direction. In a number of points, the information recommended by the methodology of the LED plan could not be obtained due to the limited access to personal and commercial information.

6. Local Economic Analysis

- **Analysis of the Local Economic Structure**

The economy of Kutaisi of the Soviet period was mainly based on the manufacturing sector, employing about 55 thousand people. After the restoration of independence of Georgia, the process of deindustrialization had begun, followed by sharp decline of manufacturing. The introduction of market economy principles led to structural changes in the economy.

Currently, there are 20,143 active business entities operating in Kutaisi. Of these, 29.4% are micro businesses, 43.2% are small businesses, 27.3% are medium businesses, and only 0.1% of them are large businesses. The number of newly registered business entities is increasing by more than 1000 units per year, however, the process of suspension and closure of existing business entities is also underway.

Table № 1. Classification of Economic Activities as of 2017

| <i>Types of Economic Activities</i> | <i>Number of Business Units (by classification)</i> | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------------|---------------|--------------|
| | <i>Micro</i> | <i>Small</i> | <i>Medium</i> | <i>Large</i> |
| <i>Manufacturing Sector</i> | 273 | 423 | 209 | 12 |
| <i>Construction Sector</i> | | 107 | 82 | 6 |
| <i>Transportation, storage, postal and delivery services</i> | 389 | 121 | 43 | |
| <i>Hotels, Restaurants, Catering</i> | 53 | 519 | 31 | |
| <i>Information Technologies</i> | 11 | 18 | 9 | |
| <i>Finances and Insurance</i> | | 11 | 27 | 4 |
| <i>Real Property Operations</i> | 41 | 78 | 13 | |
| <i>Professional, Scientific and Technical Activities (including, Accounting, Architecture, Engineering, Research and Development, Market Research, Veterinary Services)</i> | 16 | 47 | 57 | |
| <i>Administrative and Supporting Activities (Renting, Leasing, Recruitment, Tourism and Booking Services, Security and Investigation, Administrative Service)</i> | 56 | 191 | 267 | |
| <i>Education</i> | 15 | 73 | 42 | |
| <i>Healthcare and Social Services</i> | 72 | 141 | 69 | |
| <i>Culture, Sports, Entertainment, Rest and Recreational Service</i> | 49 | 76 | 25 | |
| <i>Other types of Services (Note: This category combines all the business companies that did not specify their fields of activities in the process of entrepreneurial registration, as the indication of this information is voluntary.)</i> | 4980 | 6947 | 4540 | |

The processing industry plays an important role in the economy of Kutaisi, but it is not the main driving force of the economy, which is evidenced by the fact that 39% of the employed population in Kutaisi work in the trade and services sectors, only 11% are engaged in manufacturing industry, followed by health care - 10%, education and sports - 18% and miscellaneous - 22%.

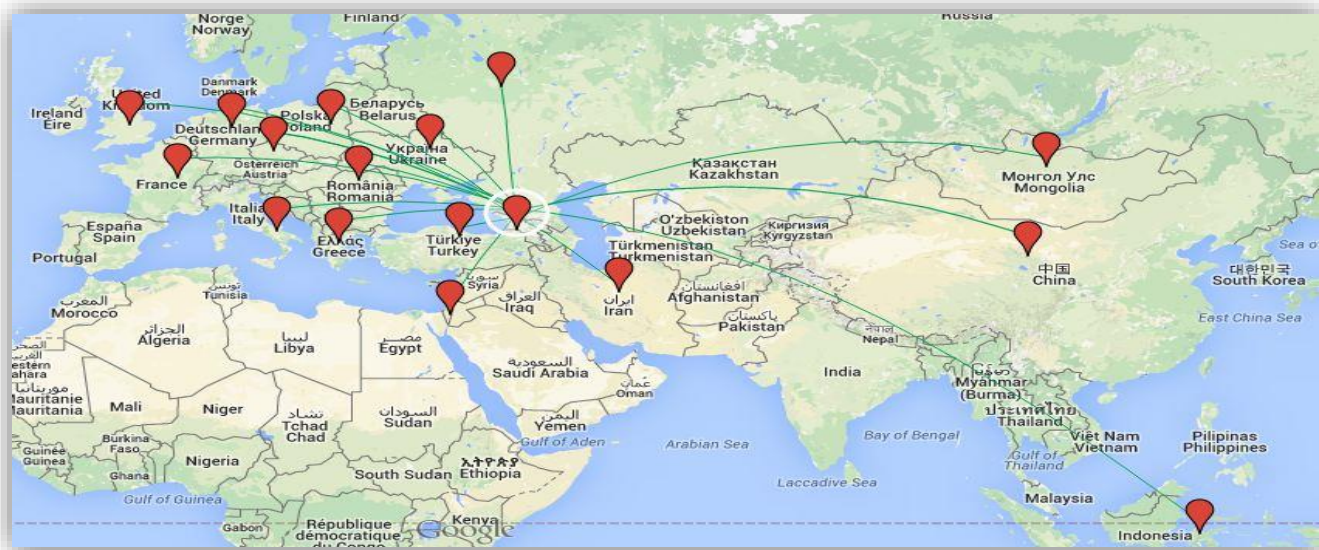
Employable citizens are mainly employed in retail and wholesale facilities, as well as in service sectors such as: beauty services, private tailor's shops, auto services, and public catering services. In small enterprises, people are mainly engaged in such sectors as bakery, confectionery, semi-finished products. In addition, a significant portion of self-employed in the construction and utilities sectors accounts for the so-called "hiring halls".

According to the organizational legal forms of businesses registered in Kutaisi, 73.2% are individual entrepreneurs, 26.4% are limited liability companies, 0.35% - joint stock companies, and 0.05% - representations of foreign companies.

Gender balance is relatively poorly represented in the development of the local economy. As of 2017, the share of women entrepreneurs was 34%.

From the products manufactured in Kutaisi, textiles, shoes and products from raw materials of plants (spices, dried fruit, bay laurel, and tea), hazelnuts, honey, household items and brushes are of international quality and 15 local medium-sized companies export them to 17 countries of the world.

Picture №3. Export from Kutaisi to 17 Countries of the World



The main factors in business that impede the growth of export potential are: lack of information about export markets, insufficient recognition of local products, incompatibility with international quality requirements, inadequate trade logistics infrastructure, and unqualified personnel.

Small and medium-sized companies lack the financial resources necessary to participate in local and international forums, conferences and trade fairs, which are important in terms of establishing contacts with foreign partners and attracting investors as well as for the popularization of their products and services. The business sector does not have the knowledge on the international standards and technical regulations of the Deep and Comprehensive Trade Area (DCFTA) Agreement.

The potential of the Georgian diaspora also remains unused in this direction, which could provide active support to the municipality through the implementation of joint economic projects, promotion of Georgian products, as well as the establishment of economic links with the business entities of their recipient countries, supporting twinning of towns and other means.

Tourism sector is one of the priority areas in the city economy. Kutaisi, using the tourist potential of Imereti Region, substantially competes with other regions of the country. The uniqueness of the region is due to its ancient historical and cultural heritage, diverse nature and natural monuments, wine and cuisine, mineral therapeutic and drinking waters, balneological and spa resorts, and great culture of hospitality. In terms of tourism, the city has the potential to become a regional management center, which will be able to create joint regional services, products, brands and promote their popularity. This will in turn enhance visibility in internal and external positions; increase the number of visitors and revenues in the tourism sector.

Medical and hotel businesses have become active in the service sector in recent years. The services offered by up to 130 medical business entities are available to both the local population and the population of the region, including those from the occupied territories. The number of foreigners who use various medical services in Georgia is increasing. Medical tourism is evolving.

The increased number of tourists in the city boosted the development of the hotel industry, but the existing 20 hotels, and over 220 family hotels/hostels with total of up to 2800 beds cannot satisfy the demand during high seasons.

Local studies have shown that the average length of stay per tourist in the city does not exceed 2 days, since the existing tourist locations are not enough, and there is a need to create new tourist locations, such as inter-

municipal locations, which will enhance the attractiveness of the city and increase the length of stay of visitors in the city.

Kutaisi is a commercial center of Western Georgia, where the current agricultural markets, trading and distribution points provide regional trading activities; however, refrigeration and storage facilities are not developed properly.

The localized markets and fairs in Kutaisi mainly serve nearby small towns and villages. Mainly, these are municipalities where agriculture is the dominant sector. There is an opportunity for the development of agricultural processing, as well as for the combination of agriculture and tourism and the development of ecotourism.

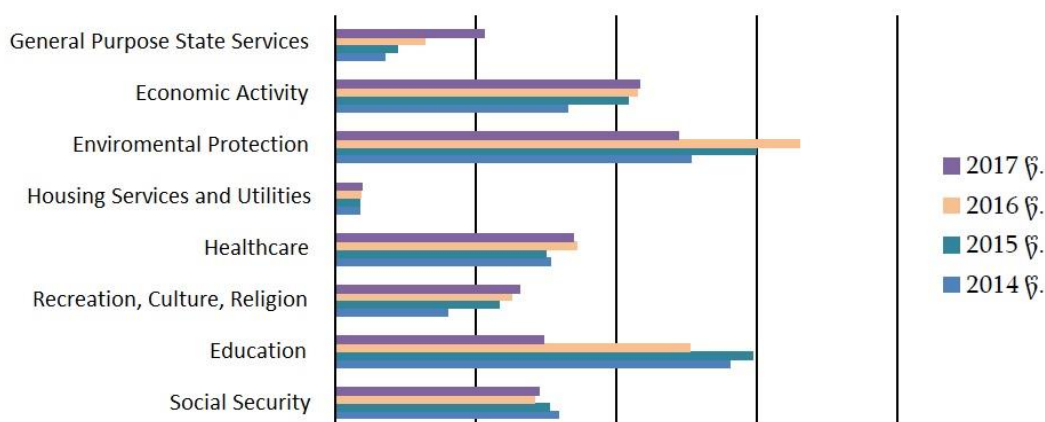
The location of Imereti region in the recreational strip, up to 50 recreational resorts, rehabilitation centers and karst caves, accessibility to natural resources, flat terrain and good climatic conditions, all contribute to the city's investment attractiveness. The city is surrounded by densely populated villages of Imereti, with approximately 300,000 people, which represent active workforce available to the city and the potential for creating small processing enterprises.

There are also two Free Industrial Zones in Kutaisi, in which more than 110 million US dollars have been invested. 107 enterprises operate inside the FIZ. Despite the preferential tax system and attractive conditions, industrial zones are loaded only partially.

The city, with its landscape and climatic conditions, provides the opportunity for using alternative and renewable energy sources. Kutaisi is located in humid subtropical area. Spring comes early here. During summer months, sunshine duration is 8-9 hours a day, and during winter months - 3.5-4 hours a day, that is approximately 2000-2100 hours of sunshine duration per year. Annual sum of windy days is around 114 days; top speed of the wind exceeds 40 meters per second. The Rioni River runs through the middle of the city and provides an inexhaustible resource of household and non-residential water supply. Two hydroelectric power plants in Kutaisi (Rioni Hydroelectric Power Plant, and Gumati Hydroelectric Power Plant) take up to 20-25% segment in the electricity generation structure. The sum of their total capacities is 115 MW.

For the development of the city's economy, it is important to implement projects of socio-economic areas envisaged by the local budget. Budget revenues are not enough to solve local problems, and it depends mainly on transfers from the state budget, which make up about 55-60% of the local budget. On average, 25-30% of the budget is spent on the development of public infrastructure, 8-10% - on social security of the beneficiaries.

Chart №2 Actual Expenditures of Kutaisi's Budget



Despite the simplified registration procedures and the growing number of newly registered business entities, their viability is low. Low competitiveness and obsolete technologies that exist in production, poorly

developed infrastructure, unqualified personnel, and lack of partners at the international and national levels are the main barriers for the business sector.

Most citizens do not have sufficient financial and property resources to start small business. At the municipal level, there are no incentive measures available that could help them start their own family business, which would allow the family to develop business based on the trust and capabilities of the family members.

Kutaisi is trying to cope with social and economic problems. State investment, government programs and the local budget are not sufficient for the inclusive economic development of the city. The lack of private investments, innovations, and new technologies is becoming clearly noticeable. Resource-saving technologies and energy-efficient systems are underdeveloped in the private and public sectors. Vehicles of categories M1, M2 and M3 in the city are obsolete. The need to modernize the vehicle fleet and stimulate business activity has demonstrated the need to build infrastructure in the city for charging electric vehicles. Therefore, it is necessary to introduce discounts on parking fees at the local level in the following amount: 100% discount for electric cars and 50% for hybrid cars, and to allocate special places that will increase the use of electric vehicles in small and medium-sized businesses.

The outflow of human resources from the city and region is still ongoing. Despite the immense scale of emigration, the investment potential of migrant remittances is not used, and mechanisms for communication and cooperation with the diaspora have not been created. Professional skills and economic capabilities of highly qualified members of diaspora – development of business contacts between the local businesses and the diaspora community or foreign businesses, attracting innovative business projects/ideas and access to financial resources, new technologies and outlets - also remain unused. All of these require active measures at the local and regional levels.

Kutaisi is one of the big four cities of Georgia with an urban economy, where the local economy is growing slowly. It is possible to accelerate the growth process by developing partnerships with international firms and donor organizations that can provide technical and financial support for business development. Real estate, transportation, construction, small businesses, tourism and hotel businesses are considered attractive sectors for investment.

- **Building the Local Cooperation and Business Communication Network**

Local Self-Government of Kutaisi uses direct meetings and public dialogues for cooperation and business communication with the local private sector; advisory and consulting bodies have been created; memorandums of understanding have been signed; surveys are periodically conducted to assess public satisfaction; studies are carried out for further analysis and conclusions. However, these forms of cooperation are ineffective, which is due to the inactivity of the private sector.

The actual cooperation with the diaspora and labour migrants from the city/region in terms of their participation in economic projects has not been established. It is also necessary to develop communication with migrants (those who are abroad or have returned to their homeland), whose economic ties and professional knowledge can be successfully used for local development.

Cooperation between local businesses themselves, including communication, is limited to personal relationships. Industrial, technological, export, educational, service, mixed or other sectoral clusters are not developed that would support business to handle the needs of common knowledge, workforce, market, distribution channels, etc., which would have boosted the joint development of similar sectors in the city economy. University scientific research is not approbated in business. Industrial, construction and transport sectors are not able to use university scientific research and innovations.

- **Business-friendly, Transparent and Corruption-free Administration**

Electronic services introduced by the local self-government and the “one-stop shop” principle contribute to informational proactivity, timely response to the needs of the private sector, and effectiveness of the administration. Information on operations performed through e-services is available for any interested person. To

submit/obtain permits for building and advertising activities in a simplified manner, there is a website my.kutaisi.gov.ge.

Civil and private sectors can participate in municipal tenders and auctions through websites: procurement.gov.ge and eauction.gov.ge. An interactive map of Kutaisi's zonal development (maps.kutaisi.gov.ge) is available for people interested in real estate. In 2018, a new platform was launched to stimulate the participation of civil society in the local self-government of Kutaisi Municipality. Within the framework of USAID's Good Governance Initiative (GGI) a website volis.kutaisi.gov.ge was launched. All interested persons are given the opportunity to submit their proposals and ideas regarding the formation of local budget. Despite the various services available in the municipality, currently there are no services that would help both startups and citizens wishing to start their own business. Such services would have promoted business awareness, as well as the development of cooperation between local authorities and private sector.

Regional Chamber of Commerce and Industry of Imereti operates in Kutaisi with 200 member business entities.

In Georgia, there is a state support program for entrepreneurs - "Produce in Georgia". In Imereti this program is coordinated by "Scout Movement of Georgia". "Business Incubator" operating in Kutaisi, also provides services for obtaining grants. It is based on the Imereti representation office of LEPL - Center for Internship, Qualification Enhancement and Employment Assistance for Internally Displaced Persons from Abkhazia.

One of the most important challenges still faced by local entrepreneurs is imported goods. Locally-produced products cannot compete with relatively cheap, and in some cases, low-quality imported products available in the market. The implementation of measures to support entrepreneurs by the local government will enhance visibility of local products and increase sales.

Imereti Center of Social Service Agency is providing the services to job seekers in Kutaisi through worknet.gov.ge.

Citizens and private sector use a wide variety of services at Kutaisi Public Service Hall, which provides registration of business and property in a simplified manner, enforcement, as well as archival and online services.

Zero tolerance for corruption and good governance principles are key prerequisites for local authorities to increase trust among the private business community and civil society. Kutaisi Municipality is the first municipality in Georgia to have developed Kutaisi Municipality Anti-Corruption Strategy and Action Plan for 2018-2019 in cooperation with the UNDP.

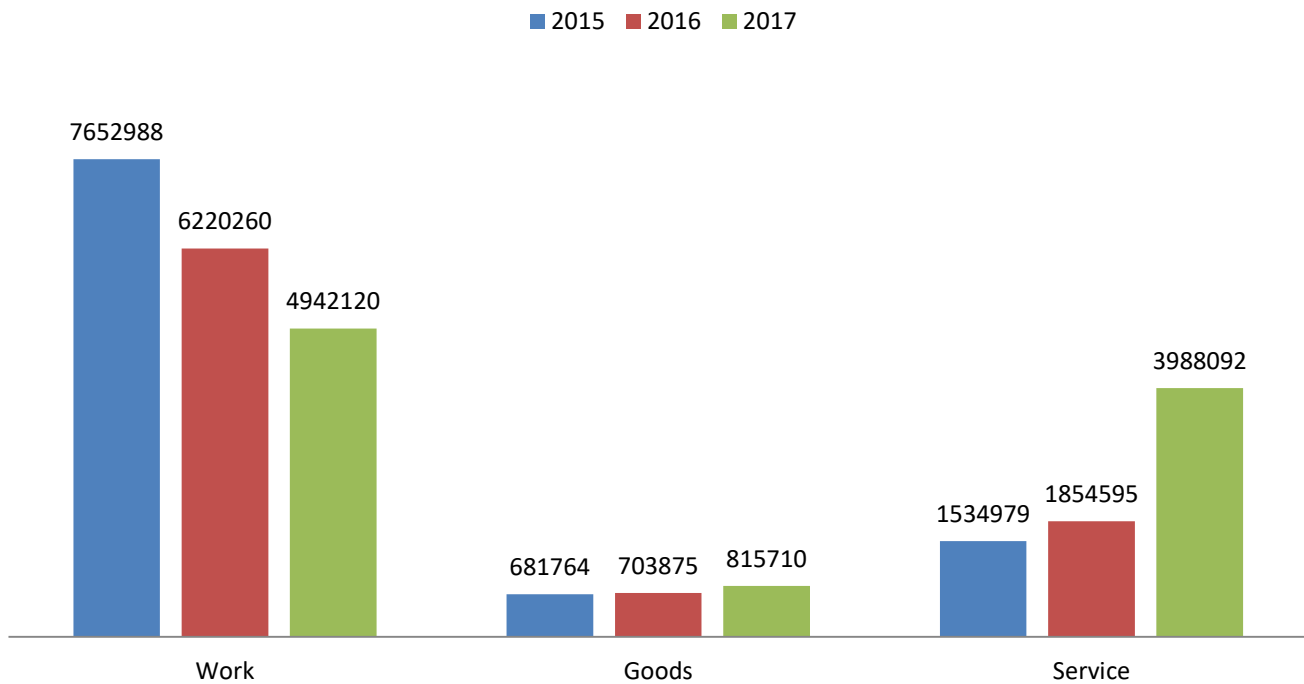
Despite various public services available in Kutaisi, local residents and the private sector are less informed about these services and are indifferent to the benefits they offer.

- **Access to Finance**

In Kutaisi, there are 11 banks, 9 microcredit and 6 insurance companies offering various financial products to businesses. Despite the reduction of long-term interest rate (in national currency from 20% down to 15.7% and in foreign currency from 15.6% down to 10.6%), it still remains high for small and medium entrepreneurs. Moreover, they are not able to meet the requirements of the loan collateral. In addition, small and medium-sized businesses lack knowledge of capital growth instruments and alternative sources of financing. Small and medium-sized businesses are limited to participating in grant programs of donor organizations and become beneficiaries of the grant.

Access to finance is possible through state and municipal procurements.

Chart №3. Finances in the Local Budget Available for State Procurement (Euro)



According to the statistics of the state program “Produce in Georgia”, 54% of business applications filed from Kutaisi are related to start-ups in the field of small-scale production. Over the past three years, support has been provided to 175 business companies with an investment volume of 3,853,570 EUR, and grants have been issued in the amount of 373,200 EUR, which totals to 4,226,770 EUR.

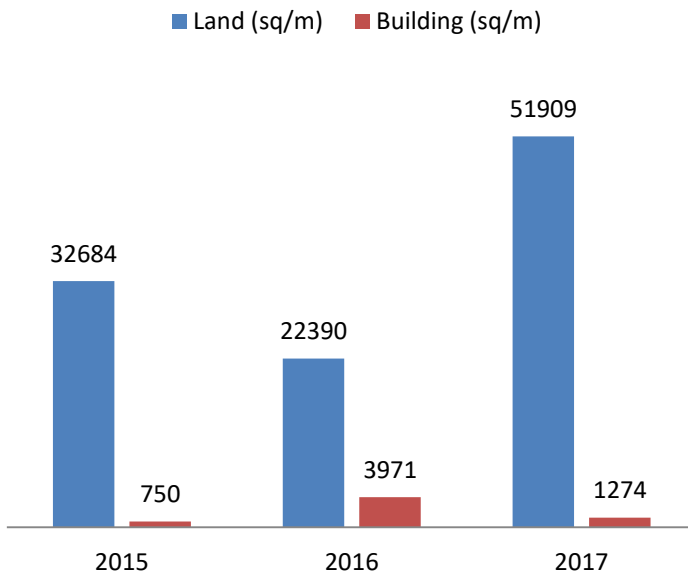
Table №2. Funding Under the 2015-2017 Program "Produce in Georgia" (Euro)

| | 2015 | 2016 | 2017 |
|-------------------------------------------------------|---------|-----------|-----------|
| Small-scale non-agricultural service (66 projects) | 25 665 | 67 262 | 60 760 |
| Small-scale non-agricultural production (94 projects) | 25 682 | 92 095 | 97 265 |
| Small-scale Agricultural Service (1 project) | 0 | 0 | 1 767 |
| Small-scale agricultural production (6 projects) | 3 730 | 9 542 | 3 533 |
| Hotels (2 projects) | 0 | 0 | 786 309 |
| Large-scale production (6 projects) | 168 835 | 1 095 743 | 1 846 864 |

The main objective that still remains is to develop financial products and mechanisms for migrant workers and representatives of the diaspora living abroad in order to attract and use their financial resources as investment capital. This objective is one of the main directions of cooperation between financial and public sectors.

- **Land and Infrastructure**

Chart №4 Privatization of Municipal Property (Land and Building), 2015-2017



2/3 of the city is developed, but the lack of a master plan for land use is an obstacle both for the development of the city and for investors. The ongoing public infrastructure projects in the city have increased interest towards real property. The majority of vacant land plots within the borders of Kutaisi are owned by the state. Often, there are cases when the interests of self-government are not taken into account when administering such property. Registration of vacant land plots is also a problem, since they mostly fall under state ownership. The municipality annually identifies the unused real property objects under its possession, approves the privatization plan and transfers the state property into private hands

through an electronic auction. Such property may still remain unused, since investment conditions and liabilities are not clearly identified in the process of privatization. Adoption of the land use master plan would boost investment activities and provide equal urban development of the city. Considerable attention should be paid to clarifying the investment conditions of the privatization property and monitoring their implementation. Modernization of public infrastructure is important for stimulating the growth of inclusive economy. Local businesses do not invest in introducing modern technologies and systems that would help improve the environment and implement new business initiatives, as well as have distinguished economic and ecological effects.

For performing economic activities, the city has functional communal infrastructure: electrification - 100%, gasification 98%, water supply - 99%, Internet access - 63%.

- **Legislative and Institutional Frameworks**

As a result of meetings with the business sector, the LEDP Working Group identified the major problems faced by business sector in terms of the legislative and institutional frameworks. Although Kutaisi has introduced low tariff rates for local taxes and duties to stimulate economic activities, local entrepreneurs consider them inflexible and unfair. Local business demands further improvement and refinement of taxes and regulations, such as the rules for calculating and administering and minimizing bureaucratic barriers in obtaining permits. Besides, business still requires the improvement of the laws that regulate national currency, import, export, healthy competition, state procurement, use of financial resources, etc. There is also a need to popularize electric cars; in order to achieve greater efficiency, business and citizens should be encouraged with appropriate benefits within the competence of self-government.

- **Skills and Human Capital, Inclusiveness**

There are 2 scientific universities in Kutaisi, which create significant labour resources in different directions. The construction of a new technological university for estimated 60 thousand students is under way, the concept and syllabi of which are being developed in cooperation with the Technological University of Munich. Despite the potential of labour resources, the local labour market displays poor balance between the supply and demand. Qualified personnel leave the city in search of better working conditions and high paid jobs. Such personnel usually comprises of university graduate young people and individuals with professional skills. And the rest of the employable population remaining in the city has to bring their skills into line with the requirements of the employer. The city lacks coordination between the municipality, the private sector and educational institutions

in terms of training needs-based personnel. The link between higher education institutions and the business community is poor. Knowledge in academic community is poorly distributed in the productive sectors of the economy, and, conversely, knowledge accumulated in business sector is poorly distributed in universities. Despite the lack of jobs in the city, there are several sectors that have expanded their activities through funding obtained from various state programs and created new jobs. On the one hand, it is difficult for an employer to find qualified personnel, and on the other hand, job seekers show no interest in law wages and social guarantees offered to them.

Studies aimed at identifying the skills required by the employers showed that 51% of people employed in private sector have higher education, 28% - secondary education, and 21% - vocational education. The distribution of employed people according to the level of education shows that the employment rate of people with higher education is high, however, they are less likely to hold positions that match their diploma qualifications; on the other hand, people with vocational education have a low rate of self-actualization, since employers inadequately require mandatory higher education for some positions. The main problems for filling job vacancies include: on the part of an employer – low qualification of applicants, lack of experience; and on the part of the applicants - filling vacancies based on friendship and acquaintanceship, low wages and inadequate social guarantees, as well as unpaid overtime. The followings are the positions most commonly demanded by the private sector: construction engineer, design architect, program developer, IT specialist, sales manager, guide, and administrator, assistance, and maintenance personnel.

The priority for a number of employers is not to further develop the skills of their employees. Accordingly, participation of the municipality in the study of supply and demand and the assessment of labour force, supporting business cooperation with vocational education institutions, active participation in the elaboration and implementation of vocational training and retraining state programs for job seekers, elaboration and implementation of targeted programs for general skills of job seekers, etc., are of central importance. The capabilities of Georgian diaspora can be successfully used in this direction (temporary invitation of qualified members of diaspora as consultants; assisting them in developing mechanisms for communication and cooperation with specialized educational institutions in recipient countries). For this, international and diaspora organizations operating in Georgia and abroad should be used.

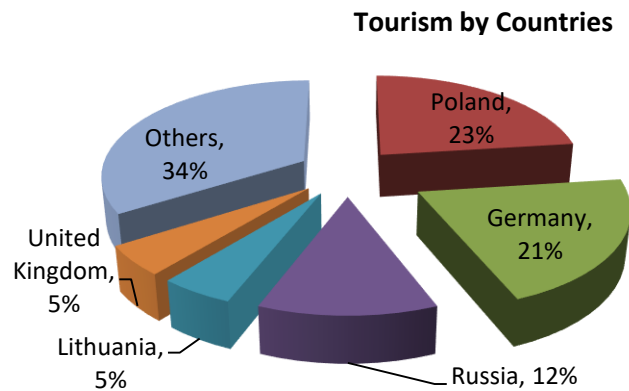
Large families (families with multiple children) and other vulnerable groups cannot acquire or develop entrepreneurial skills; this is a deterrent that prevents them from starting new start-ups or expanding existing ones.

Local business community also lacks the availability of flexible services that will allow them to receive information in one space in a short period of time, develop skills to search for potential investors and obtain information on existing regulatory acts.

- **External Positioning and Marketing**

Kutaisi is located close to the transport corridor connecting Europe and Asia, which makes the city even more attractive and competitive for business development. Low-budget flights from Kutaisi Airport have increased the passenger traffic flow and made it necessary to expand the airport, which in turn adds opportunities to the city in terms of tourism and investment attractiveness.

On the local and international arenas, the positioning and visibility of the city are promoted by the largest multifunctional tourist informational center in Georgia (NNLE Tourist Information Center). The Center participates in international tourism exhibitions every year, periodically organizes informational tours for foreign tour operators and media representatives. A platform has not been introduced for the achievement of one of the goals of Kutaisi development strategy – Kutaisi Regional Tourist Hub, that would contribute to the organized development of the tourism industry and raise visibility of the city using the potential of Imereti.



Cooperation with 22 towns twinned with Kutaisi in the areas envisaged by memorandums also contributes to the external positioning. Activities in external positions increased the number of visitors by 19.6% compared with the last year's data.

With the signing of the Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA) Agreement with the European Union, the role and importance of the country, including the economy of Kutaisi, have increased. On the one hand, it helps local businesses get access to the European market, increase sales, employ more people, and on the other hand, it increases the interest of foreign investors. Kutaisi, due to its proximity and easy access to transport corridors, has the prospect of becoming an attractive place for investment in Western Georgia.

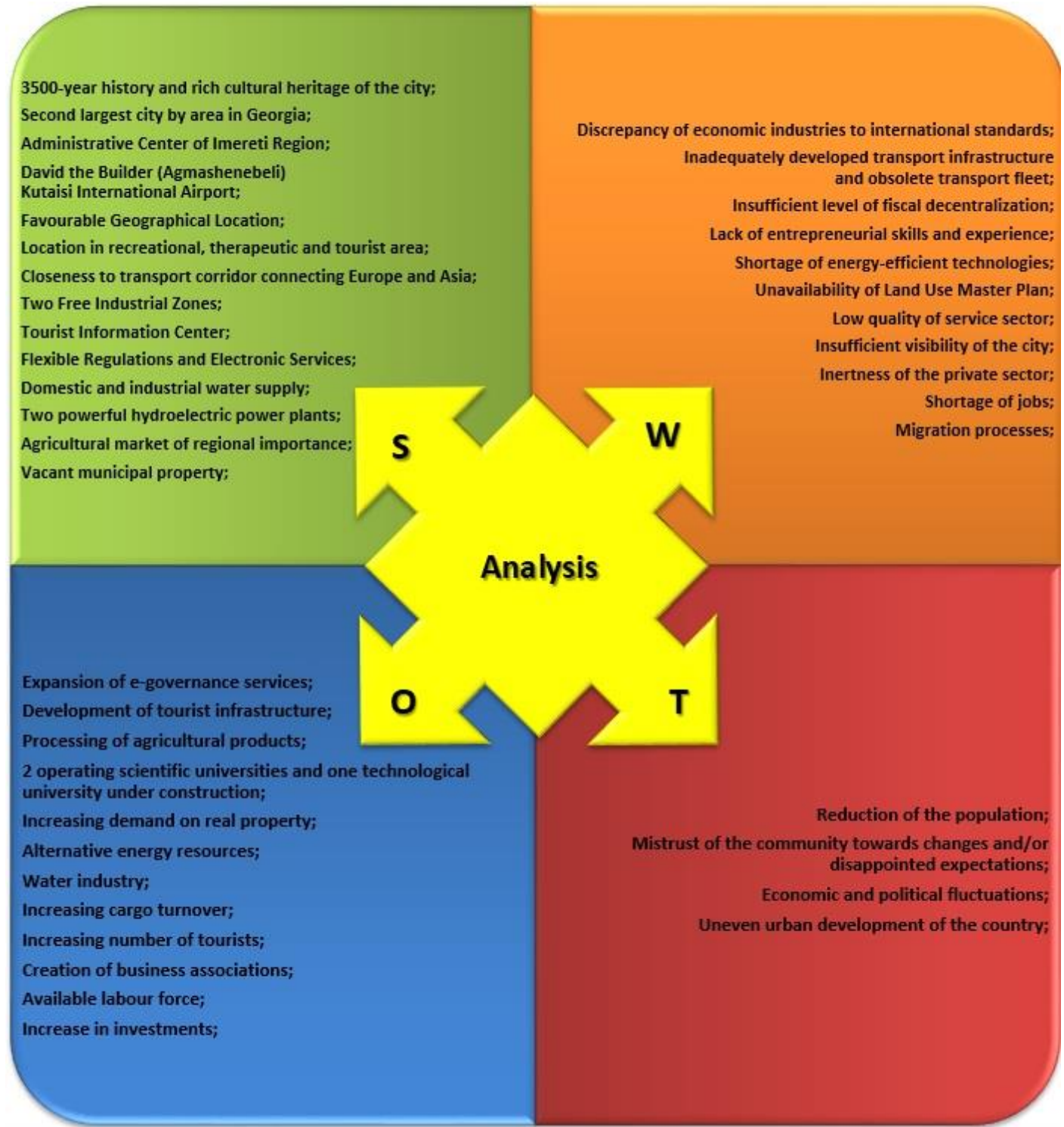
Existence of 2 Free Industrial Zones operating in Kutaisi contributes to economic attractiveness at the external level. About 250 commercial companies operating in the field of trade, services and production are functioning in FIZs located on 63 hectares of land. 70% of manufactured products are transported to Asian countries.

Analysis of local marketing research and meetings with the private sector showed that, despite a number of favorable business conditions, it is difficult for local residents to start entrepreneurial activities and independently actualize their capabilities for self-employment and for earning additional income, since they have low incomes, have no access to beneficial banking products for individuals, and it is difficult for them to establish themselves in the market. Accordingly, the working-age population, especially young people with higher education, considers the migration from the city to be an alternative opportunity. In order to stop migration, it is necessary to increase investment activities in the city to encourage its economy and create new jobs.

The Local Economic Development Plan was developed taking into account the analysis of the economic situation, the needs of SMEs and the business environment improvement in Kutaisi. The implementation of activities planned by the Action Plan in the framework of public-private partnership will contribute to the achievement of the goals by 2020. Relevant actions are set out in the Annex to the Action Plan and include monitoring and evaluation mechanisms.

7. SWOT Analysis - Analysis of Strengths, Weaknesses, Opportunities, and Threats

The SWOT Analysis given below includes strengths, weaknesses, opportunities and threats of the economic, investment and entrepreneurial environment of Kutaisi. Historical and geographical heritage, as well as the possibility of turning the city into logistics, tourism, educational and shopping and service center is the foundation for the development of an inclusive economy and growth of entrepreneurial activities in the city.



8. Vision and Goals

Taking into account the proposals, recommendations and needs of citizens and private sector identified during the LEDP elaboration process, a strategic vision of the city and corresponding goals were developed, achievements of which are planned for 2019-2020. Kutaisi will become more recognizable, human skills related to doing business will develop, and the investment and business environment will improve as a result of planned activities.

Strategic Vision

Kutaisi aims to become a city in which a developed investment and business environment makes the city more visible internationally and contributes to the growth, development and employment of the local economy.

Strategic Goals:

- 1. Improvement of Investment and Entrepreneurial Environment;**
- 2. Development of Human Skills Related to Doing Business;**
- 3. Increase the Visibility of the City**

9. Action Plan for 2019-2020

| <i>Topical Units</i> | <i>Main Goals</i> | <i>Actions</i> | <i>Duration (start time/end time)</i> | <i>Participating Partners</i> | <i>Estimated Cost in National Currency (Equivalent in euro)</i> | <i>Output (Product) indicators and targets</i> | <i>Outcome (Result) Indicators and targets</i> |
|------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| External Positioning and Marketing | 1.Improvement of the entrepreneurial and investment environment | 1.Creating Destination Management Organization (DMO) | January 2019 - December 2020 | Implementers: Kutaisi Local Self-Government; NNLE Kutaisi Tourist Information Center; Partners: The State Representative-Governor's Administration; Georgian National Tourism Administration; | 1 340 000 GEL (447 000 EUR) | Output: A flexible and competitive regional product in the international tourism market was created; Indicator: Amount of the tourist products created; | Outcome: Increased number of international visitors; Indicator: Statistical data on visitors (data from Kutaisi International Airport and Tourism Regional Center) |
| | 2 Increasing City Visibility | 2. Creating an Investment Portfolio of the City | February - December 2019 | Implementer: Kutaisi Local Self-Government; Partners: Imereti Regional Chamber of Commerce and Industry; USAID; | 45 000 GEL (15 000 EUR) | Output: Real estate and locations for investment have been explored in the city; Indicator: Number of real estates and locations for investment have been explored in the city; | Output: Investment proposals have been prepared for at least 10 locations; Indicator: Number of printed and electronic versions; |
| | | 3. Organization of Annual International Business Forums | March 2019- November 2020 | Implementer: Local Self-Government; Partners: Ministry of Foreign Affairs; The State Representative-Governor's Administration; Imereti Regional Chamber of Commerce and Industry; Free Industrial Zones; Local Business Sector; | 200 000 GEL (67000 EUR) | Output: International Business Forum has been held;; Indicator: Number of participations in forums; | Output: Visibility of the City has increased; Indicator: Number of participating international organizations; |

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|--|--------------------------------------------------------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| | 4. Organization of annual exhibition-fairs of local products | April 2019-September 2020 | Implementer: Kutaisi Local Self-Government; Partners: Local business sector; Imereti Regional Chamber of Commerce and Industry; | 10 000 GEL (3 500 EUR) | Output: Exhibition-fairs have been held; Indicator: Number of exhibition-fairs held; | Outcome: Visibility of local products increased; Indicator: Sales volume of local products; |
| | 5. Installing advertising / information billboards | July 2019 - December 2020 | Implementer: Local Business Sector; Partners: Local Self-Government of Kutaisi; LEPL „Produce in Georgia“; Imereti Regional Chamber of Commerce and Industry; | 50 000 GEL (16 700 EUR) | Output: Advertising / information boards have been organized to increase sales of local products; Indicator: Number of billboards; | Outcome: Visibility of local products increased; Indicator: Number of business advertisements placed on billboards; |
| | 6. Inter-Municipal Project – New Tourist Location | July-December 2020 | Implementer: Local Self-Government of Kutaisi; Tskaltubo Municipality; Partners: Business Sector; | 300 000 GEL / 100 000 EUR | Output: Feasibility study and cost estimate for the development of the new location have been elaborated; Indicator: Tender documents; Tender results; | Outcome: Donor/partner has been identified; Indicator: Contracted; |

| | | | | | | | |
|------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Skills and Human Capital, Inclusiveness Access to Finance | 1. Developing skills related to doing business | 7. Use of migrants' potential to accelerate local development | March 2019-December 2020 | Implementer: Local Self-Government of Kutaisi; Partners: International Organization for Migration (IOM); Banks and Microfinance Organizations; Diaspora Department of the Ministry of Foreign Affairs; Local Business | 68 000 GEL (22 700 EUR) | Output: Local authorities recognized the economic potential of migrants; Indicator: Number of trainings held;; | Outcome: Meetings held with the representatives of diaspora; Indicator: Number of meetings held with the representatives of diaspora; |
| | | 8. Supporting micro and small entrepreneurs hip for large families | January 2019 - December 2020 | Implementer: Local Self-Government of Kutaisi; | 60 000 GEL (20 000 EUR) | Output: Large families have been trained on entrepreneurial skills development; Indicator: Number of trainings and participants; | Outcome: Large families received assistance to start micro and small business; Indicator: Number of beneficiaries; |
| 1. Legislative and Institutional Frameworks | 1. Improvement of investment and entrepreneurial environment | 9. Carry out facilitating measures to popularize electric vehicles; | July 2019-December 2020 | Implementer: Local business sector; Partners: Local Self-Government of Kutaisi; LLC Parking Service; NNLE Kutganateba Service; | 50 000 GEL (16 700 EUR) | Output: Electric charging stations have been installed and electric cars have been fully exempted from parking fees; Indicator: Number of charging stations and vehicles using them; | Outcome: Usage of electric vehicles increase in small and medium business; Indicator: Number of electric vehicles; |

| | | | | | | | |
|----------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Access to Finance | 1. Improvement of investment and entrepreneurial environment | 10. Creating consulting services for business activities on the basis of economic development department | July 2019-December 2020 | Implementer: Local Self-Government of Kutaisi; Business sector; Partners: LEPL “Produce in Georgia”; Imereti Regional Chamber of Commerce and Industry; | 10 000 GEL (3 500 EUR) | Output: Business Consulting Service has been created Indicator: Number of topical units of services | Outcome: Enhanced awareness of people interested in entrepreneurship on funding sources; Indicator: Number of people using the service; |
| | 2. Developing skills related to doing business | | | | | | |

Note: Participation of partners in the implementation of the measures outlined in the Action Plan is limited to consultation, information and organizational support, except for the sources of funding mentioned in Table N10 (10 Funding Mechanism).

10. Funding Mechanism

| Actions | Probable Expenses (EUR) | Funding Sources (GEL/EUR) | | | | | Funding Gap (EUR) | Notes |
|---------------------------------------------------------------|-------------------------|---------------------------|--------------|-------------------|----------|--------|-------------------|-------|
| | | National Programs | Local Budget | Top Level Budgets | Business | Donors | | |
| 1. Creating Destination Management Organization (DMO) | 446 700 | | 366 700 | | | | 80 000 | |
| 2. Creating Investment Portfolio of the City | 15 000 | | 5 000 | | | 10 000 | | |
| 3. Organization of Annual International Business Forums | 67 000 | | 67 000 | | | | | |
| 4. Organization of annual exhibition-fairs for local products | 3 500 | | 3 500 | | | | | |

| | | | | | | | | | |
|-------------------------------------------------------------------------------------------------------|---------|--|---------|--|--------|--------|--------|---------|--|
| 5. Installing advertising / information billboards | 16 700 | | | | 16 700 | | | | |
| 6. Inter-Municipal New Tourist Location | 100 000 | | | | | | | 100 000 | |
| 7. Use of migrants' potential to boost local development | 22 700 | | 22 700 | | | | | | |
| 8. Supporting micro and small entrepreneurship for large families | 20 000 | | 20 000 | | | | | | |
| 9. Carry out facilitating measures to popularize electric vehicles; Installment of charging stations; | 16 700 | | | | 16 700 | | | | |
| 10 Creating consulting services for local businesses; | 3 500 | | 3 500 | | | | | | |
| Total: | 711 800 | | 488 400 | | 33 400 | 10 000 | 80 000 | 100 000 | |

Note: Funding Sources “Other” implies participation of 11 municipalities of Imereti Region through co-funding;

Funding Source “Business” implies the partnership participation of private sector in funding.

Funding Source “Funding Gap” implies insufficient funds for the implementation of measures, for which donor organization will be sought.

11. Activities Monitoring Plan

The coordination and monitoring of the implementation of the Local Economic Development Plan of Kutaisi Municipality will be carried out by a local economic development officer, along with the monitoring team composed of 5 members, of which 1 will be from local self-government, 2 from the civil sector, and 2 will be representatives of local business. Gender balance will be observed when staffing the monitoring group. The monitoring will be carried out at least once every 3 months. The monitoring team will evaluate the implementation of activities outlined in the LED plan, in accordance with the results and indicators of monitoring.

| <i>Activity</i> | <i>Duration (start time/end time)</i> | <i>Expected Outcome Months 1-6</i> | <i>Expected Outcome Months 7-12</i> | <i>Expected Outcome Months 13-18</i> | <i>Expected Outcome Months 19-24</i> |
|-----------------------------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| 1. Creating Destination Management Organization (DMO) | January 2019-December 2020 | 1. Promotional video clip has been prepared 2. 3 informational tours have been held 3. City representatives have participated in 5 international exhibitions | 1. 4 informational tours have been held 2. City representatives have participated in 2 international exhibition-fairs | 1. 3 informational tours have been held 2. City representatives have participated in 5 international exhibition-fairs 3. Kutaisi tourist web site has been created | 1. 4 informational tours have been held 2. City representatives have participated in 3 international exhibition-fairs |
| 2. Creating Investment Portfolio for Kutaisi | March -December 2019 | Sector studies have been conducted to explore the investment potential | Investment portfolio of Kutaisi has been created and printed | | |
| 3. Organization of Annual International Business Forums | March 2019-November 2020 | International Business Forum has been held | Relations with investors and international organizations have been established. | International Business Forum has been held | Relations with investors and international organizations have been established. |
| 4. Organization of annual exhibition-fairs for local products | April 2019 - October 2020 | The exhibition-fair of local products has been held | The exhibition-fairs of local products has been held, which are attached to cultural events planned in the city | The exhibition-fair of local products has been held | The exhibition-fairs of local products has been held, which are attached to cultural events planned in the city |
| 5. Installing advertising / information billboards for business | July 2019-December 2020 | | 1. The sites for locations have been allocated; the normative act has been adopted 2. Communication with business sector has been established and the concept has been developed | Advertisement/information billboard has been installed | In the framework of public-private partnerships business advertisements have been placed |

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|------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. Inter-Municipal New Tourist Location | July - December 2020 | | | | 1. Feasibility study and cost estimate for the new location structure have been developed;; 2. Donor/partner has been found and contract signed. |
| 7. Use of migrants' potential to accelerate local development | March 2019 - December 2020 | The awareness of local authorities on migration and development issues has been enhanced (Information meetings and trainings have been held with local government representatives) | Business visits have been paid to the countries with relevant experience in attracting diaspora investments and the use of remittances of migrants | Cooperation with the financial sector for the management of remittances took place (training on the development of migrant-oriented banking products and services has been conducted) | Cooperation between the private sector of Imereti and representatives of diaspora took place (a forum has been organized with the participation of diaspora and business sector representatives) and qualified members of the diaspora have been temporarily assigned to private and public sectors, based on the relevant needs of qualified personnel. |
| 8. Supporting micro and small entrepreneurship for large families | January 2019- December 2020 | The normative administrative legal act of the City Assembly (Sakrebulo) has been created and the commission has been formed | Large families have been trained with the purpose to develop their entrepreneurial skills | The normative administrative legal act of the City Assembly (Sakrebulo) has been created and the commission has been formed | Large families have been trained with the purpose to develop their entrepreneurial skills |
| 9. Carry out facilitating measures to popularize electric vehicles; Installment of charging stations | July 2019- December 2020 | | Adoption of local regulatory norms. | Competition procedures | Electric charging station has been installed and electric cars have been fully exempted from parking fees; |

| | | | | | |
|----------------------------------------------------------------------------------------------------------|-----------------------------|----|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| 10. Creating consulting services for business activities on the basis of economic development department | July 2019- December 2020 | | Raising awareness of citizens interested in small and medium business (through consultation meetings and trainings) | Raising awareness of local business (through consultation meetings and trainings) | Developing cooperation between local government officials and private sector |
| % of the total budget spent (estimated) | | 30 | 15 | 30 | 25 |



Mayors for
Economic Growth

7 December, 2018

The administration of
Kutaisi City Municipality
Imereti Region
Georgia

On behalf of the Mayors for Economic Growth (M4EG) Secretariat, I herewith officially confirm, that the Kutaisi City Municipality, in full accordance with the commitments it took upon themselves when joining the Mayors for Economic Growth Initiative, elaborated and submitted the Local Economic Development Plan (LEDP), which was reviewed by staff of the World Bank and considered in line with the principles of the M4EG Initiative.

On this ground, the Kutaisi City Municipality has been promoted to the status of **Acting M4EG member** (effective of the date of this official notification).

I am pleased to state that the M4EG Secretariat appreciates the commitment and effort demonstrated by the Kutaisi City Municipality in establishing local public-private dialogue and conducting joint strategic planning processes, which resulted in its steady positive performance to date. We are looking forward to the successful implementation of the approved Local Economic Development Plan during the years 2019-2020.

The M4EG Secretariat stands as ever committed to providing top-notch support to the M4EG members on the issues related to their LEDP implementation, which I hope would result in impressive progress for your municipality and be one of the “Mayors for Economic Growth” success stories to share.

Looking forward to our further fruitful cooperation,

Peter R. Korsby
Team Leader
M4EG Secretariat