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Country Results Report

The Biodiversity Finance Initiative (**BIOFIN**) programme in **GEORGIA**
REPORTING PERIOD: January to December 2024

December 2024



BIOFIN COUNTRY PROGRAMME

W: https://www.biofin.org/georgia

BIOFIN
The Biodiversity Finance Initiative

BIOFIN COUNTRY PROGRAMME PROFILE

Country: Georgia

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Executive summary

Progress toward targeted results

Biodiversity Finance Initiative in Georgia was launched in 2016 and during the first phase of project implementation (2016-2019) the following notable results were achieved:

- **The Biodiversity Finance Plan (BFP)** was elaborated and officially validated by the decree of the Minister of Environmental Protection and Agriculture of Georgia, on May 29, 2019.

- **Finance Solution RBB – "Improving state budget justification capacity at the Ministry of Environmental Protection and Agriculture (MEPA)":** Starting from 2019, the annual state budget allocations for the Biodiversity and Forestry Department (MEPA) have increased from USD 30,000 to USD 220,000 annually. In total more than USD 1,320,000 was allocated for the Biodiversity and Forestry Department for conservation activities.

- **Finance Solution Ecotourism – "Improving ecotourism offerings in state forest areas":** A 5-year eco-tourism development plan was elaborated for the Borjomi Municipality state forest. Eco-tourism infrastructure was arranged in accordance with the plan at Borjomi Plateau (cost – USD 20,000). The plan has been successfully replicated by the National Forestry Agency for larger forest areas of Georgia. Namely, Racha-Lechkhumi region (cost – USD 35,500) and Kvemo Kartli region (cost – USD 10,000).

- **Finance Solution Bankable projects - "Preparation of biodiversity related project proposals for MEPA":** Based on the project proposal "Support Eco-Tourism Development in Georgia", funds (USD 75,000) for the development of the mobile application to access eco-touristic information in protected areas of Georgia and beyond, was allocated. Ultimately, the Parks.ge app. has been developed and introduced to the general public.

Currently, BIOFIN Georgia is in its second phase of implementation. BIOFIN Georgia Phase II was initiated in August 2019 and Phase II Extended was launched in January 2021.

BIOFIN Georgia Phase II extended aims to implement 7 finance solutions by March 2025.

- **Finance Solution 1:** 'Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies'.
- **Finance Solution 2:** 'Support post-COVID financial recovery in rural areas of Georgia through sustainably used NTFPs'.
- **Finance Solution 3**: 'Develop a cost effective and sustainable timber management to increase the National Forest Agency resources and finance forest conservation'.
- **Finance Solution 4:** 'Support the new post 2020 NBSAP, through updating the Finance Needs Assessment and Biodiversity Finance Plan'.
- **Finance Solution 5:** 'Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public' (Phase 1)
- **Finance Solution 6:** 'Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public' (Phase 2).
- **Finance Solution 7:** 'Greening harmful agricultural subsidies'.

Below are the key results achieved for the finance solutions in the reporting period.

Progress toward targeted results

Finance solution 1: Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies

The FS aimed to identify biodiversity harmful subsidies in the agriculture sector, managed by the Rural Development Agency (RDA), and green or phase them out.

Implementation of the FS was successfully completed in November 2022. In total, 21 existing agricultural programs/subsidies were screened in the BIOFIN-supported analysis to identify potential negative consequences from agricultural subsidies. The total amount of funds spent by RDA-administered Agricultural Subsidies up to 2022 equals to USD 311,200,457. Five programs, having significant adverse impacts on biodiversity, were identified as a result of in-

depth analysis of RDA existing programs: (1) “Preferential Agrocredit”, (2) “Plant the Future”, (3) “Dairy Modernization and Market Access State Program” (DIMMA), (4) “Agriculture Modernization, Market Access and Resilience Project (AMMAR)” and (5) “State Programme for Supporting Agricultural Production”. The following draft targets were proposed for consideration to be introduced for RDA subsidies by 2030:

• Decrease in total pesticide use by 20%

• Decrease in total fertilizer use by 20%

• Making 10% of Georgia’s agriculture organic.

Specific guidelines and checklists were developed to assist RDA in incorporation of biodiversity considerations at key stages of implementation of agricultural subsidies. Based on the results of analyses, the Action Plan on Repurposing Selected Subsidies or Introducing New Program has been developed. It presents a plan to be considered by the Ministry of Environment Protection and Agriculture of Georgia (MEPA) in repurposing the selected agricultural subsidies administered by the Rural Development Agency (RDA) to prevent and/or mitigate negative impacts on biodiversity associated with agricultural intensification/expansion.

Based on the plan, the FS will be scaled by the new FS ‘Greening harmful agricultural subsidies’ in 2025.

Finance solution 2: Support post-COVID financial recovery in rural areas of Georgia through sustainably used NTFPs

The aim of the solution is to prevent unsustainable use of Non-Timber Forest Products (NTFPs), avoid future expenses, promote sustainable harvesting, improve income-generation for low-income households through sustainably harvested NTFPs.

The first phase of the FS was completed in December 2022. As a result of conducted analyses, three important non-timber forest products (Rose hip - Rosa canina L., Black hawthorn - Crataegus pentagyna Waldst. and Medlar -Mespilus germanica L.) were identified as priority NTFP species in the target region due to their commercial viability. The harvestable stocks of the species in Pankisi valley were determined by the experts. The specific resource assessment methodologies were developed for the target NTFPs. Series of awareness raising trainings were successfully conducted for the representatives of the engaged communities.

The ToR for implementation of Phase 2 of this FS was developed and agreed with MEPA. It was decided that the engagement of local NGO/CSO would ensure the sustainability of the results at the local level on the one hand and its capacity development on the other. As a result of the survey, a non-entrepreneurial, non-commercial legal entity NNLE “Kakheti” was

identified as the only relevant organization available in the target area, capable of implementing the assignment within the project budget allocation.

A non-entrepreneurial, non-commercial legal entity NNLE “Kakheti”, founded in 2001, is focused on activities related to gender mainstreaming, promoting small-scale business development and employment of the population, community development and community mobilization, awareness raising and training, and environment and agrobiodiversity in Pankisi communities, Akhmeta municipality. Additionally, the organization was involved in activities related to promoting women’s entrepreneurship.

The respective Low-Value Grant Agreement was signed by the parties in December 2024. According to the findings of the in-depth analysis, a plan for collaborative opportunities at the local level introducing revenue-generating schemes through better processed sustainably harvested NTFPs will be developed. Based on the plan, the most feasible market opportunities at a community level will be piloted in partnership with local communities.

Finance solution 3: Develop cost-effective and sustainable timber management to increase the National Forest Agency (NFA) resources and finance forest conservation

The solution aims to support the NFA in developing a long-term more sustainable vision for the wood market and a cost-efficient model for timber sales.

The FS was completed in November 2022. As a result of the FS, a Cost-efficient long-term business model was developed and submitted to the NFA and MEPA. A new business model proposed to NFA by the BIOFIN project will ensure the absorption of full-volume timber stock to be sold, resulting in sustainable revenue generation for NFA. The funds generated, as a result of the introduction of a cost-efficient model, will be re-invested into conservation through the expansion of major directions within the scope of NFA authority, including forest protection, reforestation and afforestation measures.

The gaps leading to financial inefficiency at NFA have been identified by the BIOFIN Georgia. According to the report, there is room for improvement in the auction system for timber selling. By dividing large commercial timber lots into smaller ones there is a possibility to accelerate competition. By increasing the average auction length (currently only 5 days) it is possible to increase traffic for certain lots. If the amount of firewood in the sale is increased, the financial data will deteriorate, since, according to the available data, there is almost no difference between the harvesting cost and the selling price.

The best applicable international practices to ensure stable long-term revenue generation have been identified. Based on the analysis of Austria, Latvia, Lithuania, Poland, Romania and Slovenia, it was summarized that forest ownership structure, forest administration and

management practices in these countries might be applicable for Georgia. The main similarities between these countries are that development of forestry sector resulted in a system with a somewhat complicated structure involving different agencies and companies. At the same time, the separation of functions makes it easier for the parties involved to target specific actions, as they have a clear roadmap for their activities and specific goals to meet.

The NFA and MEPA asked for additional time to consider the opportunities and timeframe for incorporating the new model. No further actions were undertaken during the reporting period.

Finance solution 4: Support the new post-2020 NBSAP, through updating the Finance Needs Assessment and Biodiversity Finance Plan

This solution aims to update the biodiversity finance needs assessment and the Biodiversity Finance Plan, based on the Kunming-Montreal Global Biodiversity Framework and relevant National Biodiversity Strategy and Action Plan (NBSAP). The BIOFIN Georgia will support the Ministry of Environmental Protection and Agriculture (MEPA) in the development of a results-oriented and ambitious NBSAP results framework corresponding to the Kunming-Montreal Global Biodiversity Framework, as well as relevant SMART indicators. The team will assess and update the financial needs associated with the implementation of the post-2020 NBSAP through consultations with all relevant stakeholders and in collaboration with MEPA. The updated Biodiversity Finance Plan will support the process of preparation for post-2020 NBSAP by proposing specific steps to close the gap in biodiversity financing by formulating priority finance solutions.

The commencement of implementation of the FS fully depends on the initiation of the process of preparing the new post-2020 NBSAP by MEPA. The ministry plans to initiate the process in 2025 by announcing the tender for selecting a service provider which will be responsible for elaborating the NBSAP document. Respectively, the actual implementation of the activities will be initiated accordingly.

Finance solution 5: Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public

This solution aims to intensify partnership with private sector to enhance sustainable forest management in the country through introducing a communication tool to provide an opportunity for voluntary targeted donations and organized activities. The National Forestry Agency (NFA),

which represents the main authority of state forest management in Georgia, aims to intensify partnership with the private sector to enhance sustainable forest management in the country. To this end, this finance solution envisaged the introduction of the concept of 'Forest Friend'.

With support of BIOFIN visual branding and a brand book of the FF have been developed. An outreach strategy has been elaborated and implementation of specific activities were initiated. Promotional and marketing materials have been prepared and distributed (forest friend promotional song).

Ultimately, a web-based platform, allowing interested parties to get engaged in various activities, was successfully developed (forestfriend.ge).

As of December 2024, 2185 volunteers were registered on the platform, and 116,000 USD was accumulated through corporate donations. NFA co-financed forest restoration projects in the Kakheti region with a total budget of USD 116,780 – bringing the total amount of funding raised to 232,780 USD. Additionally, actual works were initiated in terms of establishing a new forest near the Jvari Monastery in Mtskheta municipality, in accordance with the agreement with UNESCO and International Council on Monuments and Sites (ICOMOS).

Finance solution 6: Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public

The scale-up phase of the solution aims to support the activities under the Forest Friend platform as well as diversifying the areas of partnership with the private sector. The FS aims to examine the ways of introduction of carbon offsetting in the country, through reforestation activities. This will be an initial step towards implementation of carbon offsetting mechanism in Georgia, which is considered as a mutually beneficial mechanism for cooperation between national authorities and private companies.

As a result of consultations with the main stakeholders, the scope of work for implementing this FS was formulated and agreed.

With the completion of the BIOFIN Programme's transition to a multi-country project set-up in October 2024, the BIOFIN Georgia team proceeded with announcing the respective RFPs based on the Terms of Reference (ToRs) for two types of activities: (a) the development of a carbon offsetting project, and (b) further support for the FF platform. The ToRs were revised,

and the timeframes were updated accordingly. Respectively, the actual work will be initiated in January 2025.

Finance solution 7: Greening harmful agricultural subsidies

This solution aims to scale up the FS 'Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies' and support the national authorities with repurposing the selected agricultural subsidies administered by the Rural Development Agency (RDA) and promoting bio/organic subsidies.

The ministry is focused on supporting and promoting bio/organic farming in the country. In this regard, RDA initiated a small-scale bioproduction supporting program, based on the Action Plan, developed with the support of the BIOFIN. During the reporting period, the key aspects of the finance solution were discussed and agreed with the RDA management. Under this solution an analysis of the best existing practices of repurposing agricultural subsidies into bio/organic ones, will be conducted. Afterward, local market opportunities for bio/organic agricultural products in Georgia will be examined. Based on the results of the studies, a new subsidy program promoting/supporting bio/organic agricultural production in Georgia will be developed.

The commencement of the implementation of this FS is planned for January 2025.

Other Results and Looking Ahead

From 11 to 13 June, the 10th Regional Dialogue on Biodiversity Finance for countries in Asia, Europe and the Pacific took place in Tsinandali, Georgia. More than 70 biodiversity finance experts and government representatives from 17 countries participated in the event to share experiences, build capacity, discuss the effective implementation of biodiversity finance plans and explore opportunities for financing solutions. The regional dialogue discussions covered topics such as biodiversity finance in agriculture, finance sector participation, positive incentives, impact investments, repurposing harmful subsidies, community engagement and national biodiversity strategies. Countries shared their experiences in biodiversity financing, from improving protected area finance to results-based budgeting and fintech.

Photo 1. Photo 2. *10th Regional Dialogue on Biodiversity Finance for countries in Asia, Europe and the Pacific*





A. Country factsheet: the country's biodiversity finance profile and the programming approach

A.1. Biodiversity finance profile

The small country of Georgia nestled on the southern slopes of the Caucasus Mountain range is home to rich biodiversity and is part of two global biodiversity hotspots. It is very high in plant and animal endemism with over 1000 plant species found only in the region.

Georgia is rich in various types of ecosystems, habitats, and associated species. 4, 130 vascular plants, 812 mosses, 7, 000 fungi species and 16, 054 fauna species have been recorded in Georgia, 758 of which are chordates (19 mammals). A high level of endemism is evident in Georgia around 21% of flora is endemic to the country.

Biodiversity and ecosystem services make a significant contribution to the Georgian economy. It also supports livelihoods and key sectors in the economy including tourism, agriculture, mining and energy (hydro-energy in particular). Unsustainable economic activities lead to

biodiversity degradation in the country. Respectively, the causes of degradation are mainly anthropogenic. Unsustainable agricultural practices, rapid development of Hydropower plants, intense tourism, and pollution of the air and of waterways have all had adverse impacts on local biodiversity.

Until BIOFIN, these biodiversity risks were not being addressed, mainly due to an industry-friendly government that heavily subsidized agriculture, energy and tourism sector.

The Biodiversity Finance Needs Assessment ("FNA") conducted during BIOFIN phase I in 2018 revealed and calculated the total amount of funding required to sustain and protect biodiversity in Georgia. FNA covered not only NBSAP, but other areas which have a significant effect on biodiversity and ecosystem services. In addition, during the course of the study, NBSAP activities were prioritized based on urgency and the scale of overall impact. Prioritization coupled with the cost-estimation by different activities enables policy makers to focus on the most critical items. Estimated funding needs were compared with the financing provided by different sources, such as public sector, international donors and private sector. The findings outlined in the Biodiversity Expenditure Review ("BER") were used as an input in the overall analysis to estimate the biodiversity funding gap. Based on the results of FNA, biodiversity protection needs in Georgia were attributed to different areas in the following way:

- Total biodiversity financing needs over the 10-year period 2013-2022 amounted to USD 390 million; - 47% of the total, or USD 208 million, was attributed to existing biodiversity related government programs, and government capacity improvement; - 26%, or USD 97 million, was attributed to NBSAP financing; - 22%, or USD 81 million, was attributed to two developing economic sectors – Hydro Power Plants ("HPPs") and Mining; - 1.3%, or USD 5 million, was attributed to donor biodiversity projects not covered by NBSAP.

After comparing the needs to available financing, the gap was calculated. Total financing gap amounted to USD 135 million over the five-year period 2018- 2022. Estimated 38% of the gap was attributed to anticipated insufficient funding of NBSAP actions, 43% was connected to inadequate spending by Hydro Power Plant and Mining sectors, while the remaining 19% was related to capacity building needs for Ministry of Environment and Natural Resources Protection of Georgia[1].

A.2. National implementation context

The seven finance solutions – namely, "Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies", "Support post-COVID financial recovery in rural areas of Georgia through sustainably used NTFPs", "Develop a cost effective and sustainable timber management to increase the National Forest Agency resources and finance forest

[1] Ministry of Environment and Natural Resources Protection of Georgia was merged with the Ministry of Agriculture by the end of 2018 forming Ministry of Environmental Protection and Agriculture of Georgia.

conservation", " Support the new post 2020 NBSAP, through updating the Finance Needs Assessment and Biodiversity Finance Plan", "Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public", "Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public" (Phase 2) and "Greening harmful agricultural subsidies" are the relevant answer given to the government's current priorities. The sectors addressed through these solutions were identified based on their potential impact on biodiversity and current financing levels. The financial resources generated (or saved as a result of avoidance of the expenditures) will support Georgia to improve biodiversity health and enhance the prospects for humanity to prosper.

The programme's approach is guided by the principles of broad participation (across the public and private sectors as well as civil society and academia), country ownership, and social inclusion. These principles are pertinent to the successful implementation of the solutions and the country programme as a whole. Thus, the principles feature in all programme activities and are reflected in the programme's outputs.

B. Overview of key results

The BIOFIN Georgia's key objective is to help ensure that the following finance solutions (FSs) are in place and fully operational:

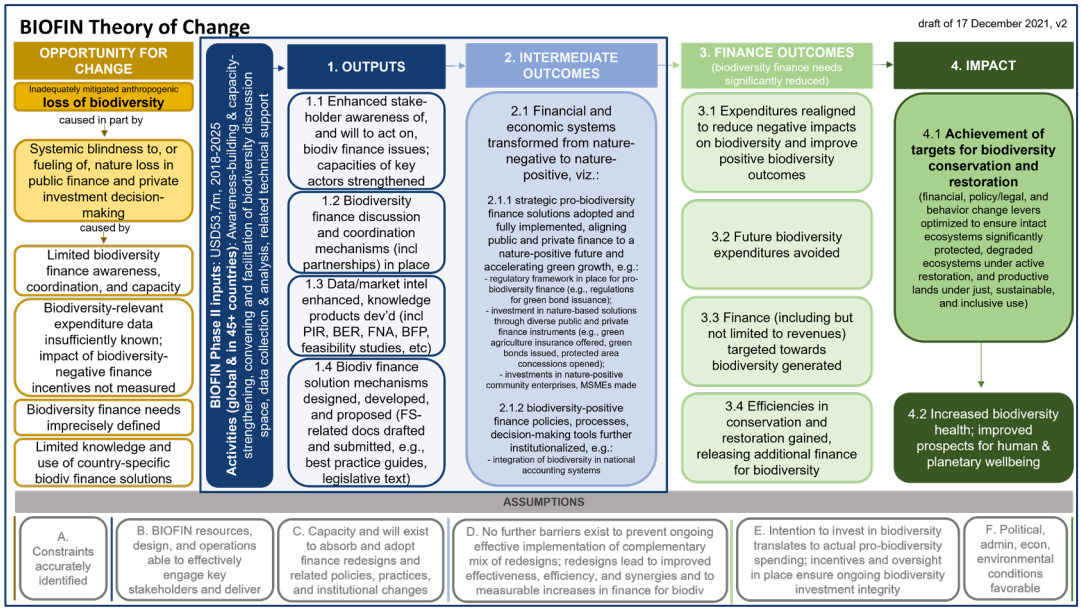
- **Finance Solution 1:** Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies
- **Finance Solution 2:** Support post-COVID financial recovery in rural areas of Georgia through sustainably used NTFPs (Phase 1 and Phase 2)
- **Finance Solution 3**: Develop a cost-effective and sustainable timber management to increase the National Forest Agency resources and finance forest conservation
- **Finance Solution 4:** Support the new post 2020 NBSAP, through updating the Finance Needs Assessment and Biodiversity Finance Plan
- **Finance Solution 5:** Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public

- **Finance Solution 6:** Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public (Phase 2)

- **Finance Solution 7:** Greening harmful agricultural subsidies

The subsections below outline the country programme's progress related to its key objective and targeted results. Progress towards the targeted results for each FS is described according to the relevant key result areas of the BIOFIN ToC, which is shown below.

Figure 1: The BIOFIN theory of change



B.1. PIR>BER>FNA>BFP (N/A)

B.2. Implementation of Finance Solutions

Since May 2024, the BIOFIN Georgia team confronted a significant challenge in initiating critical activities, envisaged under the planned finance solutions, due to ongoing operational unit changes. The transition of the BIOFIN Program to a multi-country project structure represented a pivotal step towards fostering synergy and operational efficiency between the Global and Country Projects. Noteworthy advancements encompassed the meticulous formulation of new project documentation, the establishment of novel global and country projects within the Quantum platform, and the methodical transfer of financial resources. Due to the mentioned reason, the BIOFIN Georgia team could proceed with announcing the respective RFPs only after the BIOFIN Programme's transition process has been completed in October 2024.

Finance Solution 1: Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies

The aim of the FS is to identify biodiversity harmful subsidies in the agriculture sector, reform and/or reduce subsidies with potentially adverse impacts on biodiversity, prevent future expenditures relating to eliminating of harmful consequences, develop opportunities for agricultural subsidies with positive impacts on biodiversity finance and ensure the integration of biodiversity into stimulus and post-Covid recovery measures. The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA); and
- the Rural Development Agency (RDA).

Based on analysis of existing/planned programs types and scales of potential adverse impacts on biodiversity were identified. Accordingly, different biodiversity indicators to be incorporated into the state funded programs implemented by RDA, were developed. Specific guidelines, recommendations, and checklists for incorporating biodiversity considerations into RDA programs were elaborated during implementation of the FS.

In order to build the capacity of key stakeholders, trainings of MEPA and RDA staff with the aim of developing professional capacities in terms of application new guidelines/checklists on incorporating biodiversity aspects in the process of developing new programs and/or implementing the existing ones has been conducted in December 2022. In total 36 persons were trained.

According to the results of the conducted analysis, 5 agricultural subsidies (a) “Preferential Agrocredit”, (b) “Plant the Future”, (c) Agriculture Modernization, Market access and Resilience Project (AMMAR), (d) “State Program for Supporting Agricultural Production” and (e) “State Programme of Dairy Modernization and Market Access (DIMMA)” appear to have the highest potential adverse impacts both in biodiversity and social-economic terms. Respectively, biodiversity indicators, that have to be reflected in the process of planning, implementing and monitoring of the programs/subsidies, were developed. BIOFIN Georgia team works actively with MEPA and RDA to ensure successful incorporation of biodiversity aspects in order to mitigate potential harmful effects on biodiversity.

Specific guidelines and checklists were developed to assist RDA in incorporation of biodiversity considerations at key stages of implementation of agricultural subsidies. Based on the results of analyses, the Action Plan on Repurposing Selected Subsidies or Introducing New Program has been developed. It represents a plan to be considered by the Ministry of Environment Protection and Agriculture of Georgia (MEPA) in repurposing the selected agricultural subsidies administered by the Rural Development Agency (RDA) to prevent and/or mitigate negative impacts on biodiversity associated with agricultural intensification/expansion.

RDA initiated The Bioproduction Promotion Program. The goal of the program is to support bioproduction in the country, to ensure the growth of production of bioproducts. The program provides financial support to potential beneficiaries who aim to initiate bioproduction. The program envisages compensation for the following purposes during the conversion period: (a) Bioproduction certification, (b) Consulting services; (c) Services related to the laboratory analysis of honey and wax; (d) Purchase of organic fertilizers and/or biological preparations against pests and diseases allowed for the use in organic viniculture farming; (e) Purchase of the medical biopreparations for bees and the bio honeycomb.

Based on the Action Plan, the FS will be scaled by the new FS 'Greening harmful agricultural subsidies' in 2025.

Efforts to continue work on the topic are covered in Finance Solution 7, below, on Greening harmful agricultural subsidies.

Finance Solution 2: Support post-COVID financial recovery in rural areas of Georgia through sustainably used NTFPs

The aim of the FS is to prevent unsustainable use of NTFPs, avoid future expenses, promote sustainable harvesting, improve income-generation for low-income households through sustainably harvested NTFPs. The FS targets households in pilot area engaged in NTFP collection and trading as well as benefiting organizations (Ministry of Environmental Protection and Agriculture of Georgia (MEPA) and its respective units - National Forestry Agency (NFA), Biodiversity and Forestry Department).

The trainings of target households were conducted on the topic of sustainable use and harvest of NTFPs. In total, three training sessions were conducted covering 47 participants at local level. The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA); and
- the National Forestry Agency (NFA).

After determining sustainable harvesting volumes of target NTFPs in pilot areas,to ensure awareness raising of rural population on sustainable use of target NTFPs, a series of trainings, with specific focus on women, were conducted in November, 2022.

Target groups from each community were trained separately, in total – 3 trainings. In Sakobiano, the training was held in the building of the Community Center, 20 people attended, including 15 women. Residents of the Duisi and Khalatsani communities gathered together at the Duisi "Community Center". A total of 20 people were present, all 20 women. In the community of Jokolo, the training was held in the building of the local government, where 8

members attended, 4 of them women. The total number of women in the target groups attending the trainings was 80%. Additionally, 5 representatives of the local municipalities were supported through networking during the implementation of the FS.

The FS also targets benefitting organizations (Ministry of Environmental Protection and Agriculture of Georgia (MEPA) and its respective units - National Forestry Agency (NFA), Biodiversity and Forestry Department).

The country-specific comprehensive methodologies for the three most commercially viable NTFP species (Hawthorn (Crataegus), Medlar (Mespilus germanica), and Rosehip (Rosa canina L.) were successfully elaborated in the reporting period.). The resource assessments for these species were carried out to ensure sustainable use of NTFP resources. Additionally, analysis will be conducted to identify target NTFPs market, regulatory and economic incentives opportunities in 2023. Based on the findings of the analysis of the NTFPs market and potential economic incentives, a plan for collaborative opportunities at local level to introduce revenue generating schemes through better processed sustainably harvested NTFPs, will be elaborated.

The BIOFIN project seeks to build on the experience gained during Phase 1 and create market opportunities for local households during Phase 2 of the FS. More specifically, under this particular assignment the contractor is expected to a) Conduct an in-depth analysis to identify the market, regulatory, and economic incentives opportunities; b) Develop a plan for collaborative opportunities at the local level to introduce revenue-generating schemes through better processed sustainably harvested NTFPs; c) Conduct awareness-raising activities on collaborative opportunities to ensure cost-efficiency and effective delivery; d) Pilot market opportunities at a community level to enhance financial recovery in partnership with local communities.

The target region (Pankisi Valley communities) and target NTFP species (Rosehip (Rosa spp.), Small-flowered Black hawthorn (Crataegus Pentagyna W. et K) and Common Medlar (Mespilus Germanica L)) remain the same as were in the first phase of the FS.

The survey to identify the capable service provider in the region was conducted considering the following key criteria:

1. The organization should be based in the Kakheti region and have previous experience of working specifically in Pankisi Valley;

2. The organization should have implemented biodiversity-related projects in the target area;

3. The organization should have implemented project(s) related to women empowerment in the target area;

4. The organization should have implemented project(s) to support the development of the local entrepreneurship;

Additional important factors:

1. the combination of ethnic composition, cultural practices, historical context, economic and social factors imply that without previous experience and networking the organization will not be able to deliver high-quality results;

The survey was conducted considering all the mentioned factors. As a result of the research, a non-entrepreneurial, non-commercial legal entity NNLE “Kakheti” was identified as the only relevant organization available in the target area, capable of implementing the assignment within the project budget allocation.

A non-entrepreneurial, non-commercial legal entity NNLE “Kakheti”, founded in 2001, is focused on activities related to gender mainstreaming, promoting small-scale business development and employment of the population, community development and community mobilization, awareness raising and training, and environment and agrobiodiversity in Pankisi communities, Akhmeta municipality. Specifically, the organization has implemented projects related to bee-keeping, rabbit breeding, mushroom reproducing, and fish-pond farming – all supporting local entrepreneurship, specifically in Pankisi Valley. Additionally, the organization was involved in activities related to promoting women’s entrepreneurship.

During the reporting period, consultations with the selected NGO were ongoing to detail the activity schedule and respective budget. Ultimately, the respective LVG was signed by the parties in December 2024.

Finance Solution 3: Develop a cost effective and sustainable timber management to increase the National Forest Agency resources and finance forest conservation

The FS aims to support NFA in the development of a long-term vision for the formation of a wood market and cost-efficient model for timber sales to improve forest conservation. NFA’s increased and more sustainable revenues will ultimately be re-invested into biodiversity, including forest planning measures, forest protection measures, reforestation and afforestation measures. The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA); and
- the National Forestry Agency (NFA).

The targeted persons directly supported by FS are relevant staff of the Ministry of Environmental Protection and Agriculture of Georgia (MEPA) and its respective units - National Forestry Agency (NFA), Biodiversity and Forestry Department. The key objective of the FS is

the development of a sustainable cost-efficient long-term timber business model, ensuring sustainable forest use and sustainable income generation.

The country-specific analysis of the existing set-up of the wood sales supply chain was conducted during the reporting period. National Forestry Agency is entitled to timber production according to new Forest Code. Harvesting is carried out only for sustainable forest management purposes (e.g. sanitary logging). Harvested timber is sold/distributed by NFA through Business yards and auctioning serves as the only mechanism for selling, which is implemented on ad-hoc basis. According to the report, the existing institutional set-up and legal framework does not create favourable conditions for the NFA to undertake sustainable, cost-effective timber management practices. Specifically, human, technical and financial resources of the NFA are limited, absence of management plans/annual operational plans hinders undertaking effective management by the NFA, existence of social felling for provision of local population with heating sources is huge load for the NFA, existing coverage of Business yards do not meet the existing requirements on services, they are supposed to provide, while the majority of wood resources are burnt every year, Georgia imports a 3-4 times larger amount of wood products than exports them.

The structural gaps leading to financial inefficiency were also identified through the respective analysis, conducted during the reporting period. According to the report the following gaps were observed: Due to a lack of information on timber resources, the NFA fails to create forest use plans (forest management plan, annual operational plan), which makes it difficult to develop in advance a clear strategy for the operation and sale processes; The existing auctioning system needs to be rearranged. By dividing large commercial wood lots into smaller ones, the NFA is more likely to generate higher revenues through accelerating competition; The prices for logging services and for the timber are underestimated; Most of the annual budget is funded by NFA operations. The agency is currently focused on generating cash flows from sales rather than optimizing the operating and revenue model to become financially more efficient. New business model proposed by BIOFIN project will ensure absorption of full volume timber stock to be sold, resulting in sustainable revenue generation for NFA. The funds generated, as a result of introduction of cost-efficient model, will be re-invested into conservation through expansion of major directions within the scope of NFA authority, including forest protection, reforestation and afforestation measures.

The best applicable international practices to ensure stable long-term revenue generation, were identified through the research, conducted during the reporting period. Based on the analysis of existing practices in Austria, Latvia, Lithuania, Poland, Romania and Slovenia, it was observed that: Forest policy making and implementation are executed by respective national ministries in all 6 countries; The management of public forests is conducted by publicly-owned forest enterprises or companies; The supervision and control are usually concentrated at the central governmental level; The forest management planning is obligatory both, for state and private forests; Logging service provider companies are involved in timber harvesting in state forests; The BIOFIN Georgia team proposed to adapt the institutional set

up of the discussed countries to the Georgian situation along with clear division of functions among different stakeholders involved in forestry management and administration.

A specific long-term cost-efficient business model for NFA was developed. The proposed business model relies on the assumption that forest management is based on principles of sustainable management and that financial interests do not take precedence over these principles. At the same time, the model aims to demonstrate that forestry activities can become more financially profitable without sacrificing the forest ecosystem. This can be achieved by optimizing the use of timber resources being harvested in the forest, diversifying sales channels, overcoming harvest-related shortcomings, and setting prices in line with market conditions. Diversification of the sales channels considers the introduction of long-term contracts as an additional practice for lumber selling. Taking into account the flaws found in the harvesting process, the model considers the modification of current practice in a way that the logging operators cannot trace round logs they produced. It can be achieved when, after sorting, the timber is divided into equal-sized lots and mixed with the timber produced by the different logging operators in the lots to be delivered to the end user. As for the pricing method proposed by the team, it is an important component of the activity of the Agency and creates an opportunity for creating healthy incentives for manufacturers. Finally, a large part of the financial resources generated by the Agency will be assigned to reinvestment – aimed at forest conservation, forest maintenance, restoration arrangements, and development of forestry infrastructure.

Two alternative scenarios of timber resource management were developed. The scenarios mainly differ in the amount of timber produced and sold by the Agency. The first alternative is identical to the situation in which the NFA operates today. The difference is only in the approaches related to timber production, pricing, and sales. In other words, under the conditions of this alternative, the forest harvesting areas allocated by the Agency are segregated according to commercial and social purposes.

New cost-effective business model will be introduced to the wider range of stakeholders for validation. BIOFIN Georgia team will continue intense cooperation with MEPA, NFA and the Parliament of Georgia to ensure institutionalization of the new business model by NFA to support the process of stable long-term revenue generation, to be spent on biodiversity and forest ecosystems protection.

The NFA and MEPA asked for additional time to consider the opportunities and timeframe for incorporating the new model. No further actions were undertaken during the reporting period.

Finance Solution 4: Support the new post 2020 NBSAP, through updating the Finance Needs Assessment and Biodiversity Finance Plan

This solution aims to update the biodiversity finance needs assessment and the Biodiversity Finance Plan, based on the Kunming-Montreal Global Biodiversity Framework and relevant National Biodiversity Strategy and Action Plan (NBSAP). The BIOFIN Georgia will support the Ministry of Environmental Protection and Agriculture (MEPA) in the development of a results-oriented and ambitious NBSAP results framework corresponding to the Kunming-Montreal Global Biodiversity Framework, as well as relevant SMART indicators. The team will assess and update the financial needs associated with the implementation of the post-2020 NBSAP through consultations with all relevant stakeholders and in collaboration with MEPA. The updated Biodiversity Finance Plan will support the process of preparation of post-2020 NBSAP by proposing specific steps to close the gap in biodiversity financing through formulating priority finance solutions.

The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA);

BIOFIN Georgia will provide direct assistance by training and networking measures aimed at benefitting the relevant staff of Ministry of Environmental Protection and Agriculture of Georgia (MEPA) and its respective units in their personal or professional capability to address assessment of finance needs and costing of specific activities related to achieving the biodiversity conservation goals.

The commencement of implementation of the FS fully depends on the initiation of the process of preparing the new post-2020 NBSAP by MEPA. The required documentation for the respective decree on the official initiation of the NBSAP development process and formation of the steering committee has been submitted to the Government of Georgia by MEPA in December 2023. The ministry developed the Terms of Reference to select the service provider, which will be responsible for the development of the NBSAP document. The announcement of bidding for selecting of a service provider is planned for 2025. Accordingly, the actual implementation of the activities will be initiated in 2025.

Due to the delay with the initiation of the NBSAP preparation process, no knowledge products related to the FS were developed in the reporting period.

Finance Solution 5: Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and

forest conservation activities through the participation of the private sector and the general public

The FS aims to support carbon offsetting mechanism implementation through (a) Providing donating options for reforestation and forest conservation activities, redirecting CSR funds towards biodiversity; (b) Coordinating voluntary activities for reforestation and forest conservation purposes; (c) Raising awareness on role and functions of forest ecosystem services and sustainable forest management practices. Visual branding and a brand book for the Forest Friend platform have been developed. The structure, technical features and tools of the FF platform were successfully agreed upon with the beneficiaries in December, 2022.

The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA); and
- the National Forestry Agency (NFA)

After development of the web-based “Forest Friend” donating platform, BIOFIN Georgia will provide on-the-job training for the relevant staff of the Ministry of Environmental Protection and Agriculture of Georgia (MEPA) and its respective units - National Forestry Agency (NFA) and the IT department responsible for platform operation and maintenance.

The “Forest Friend” brand visual identity was created through the "Forest Friend" brand book. An integrated marketing communication strategy, aiming at promoting the “Forest Friend” label, and raising awareness of the sustainable forest management in the country, was elaborated. "Forest Friend" brand book was developed in the reporting period. A comprehensive marketing communication strategy was developed. BIOFIN Georgia’s efforts for the Phase 2 implementation period will be focused on developing the pro-biodiversity finance mechanism (web-based donation platform) and ensuring its full institutionalization. With support of BIOFIN an outreach strategy has been elaborated and implementation of specific activities were initiated. Promotional and marketing materials have been prepared and distributed (forest friend promotional song). Ultimately, a web-based platform, allowing interested parties to get engaged in various activities, was successfully developed (forestfriend.ge).

Since the launch of the FF platform, the NFA has allocated 3 staff members for the platform administration (total annual salary – 27,000 USD); in June-July, 2023 NFA financed the promotional campaign of the FF platform for 31,000 USD. During the reporting period, two major businesses in Georgia, TEGETA Holding and ICR Georgia, have expressed their willingness to become Forest Friends. These businesses will provide financial support for various reforestation activities. TEGETA Holding has already allocated 50,000 GEL (approximately 20,000 USD) for reforestation. This support will increase during 2024,

especially in the autumn planting season. Furthermore, the National Forestry Agency (NFA) has allocated around 75,000 GEL (approximately 30,000 USD) from the state budget for fencing the designated area for the Forest Friend reforestation project in the Mtskheta-Mtianeti region.

As of December 2025, 2185 volunteers were registered on the platform, and 116,000 USD was accumulated through corporate donations. NFA co-financed three forest restoration projects in the Kakheti region with the total budget of USD 116,780. Additionally, actual works were initiated in terms of establishing a new forest near the Jvari Monastery on 31,1 ha, in accordance with the agreement with UNESCO and International Council on Monuments and Sites (ICOMOS).

Finance Solution 6: Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public (Phase 2)

The aim of the FS is to scale up the FS ‘Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through participation of the private sector and the general public’ is planned by the second phase to be initiated in the first half of 2024. The scale up phase of the solution, aims to support the activities under Forest Friend platform as well as diversifying the areas of partnership with the private sector. The FS aims at examining the ways of introduction of carbon offsetting in the country, through reforestation activities. The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA); and
- the National Forestry Agency (NFA)

This solution will be an initial step towards implementation of carbon offsetting mechanism in Georgia, which is considered as a mutually beneficial mechanism for cooperation between national authorities and private companies.

During the reporting period, the discussions between main stakeholders were held and together with NFA the scope of the second phase of the FF solution, namely creating an enabling framework to channel carbon offsets through the platform was agreed.

The ToR for selecting the service provider to implement the FS on Redirecting efforts towards conservation through "Forest Friend" – A Platform to catalyze reforestation and forest conservation activities through the participation of the private sector and the general public (Phase 2) was developed by the BIOFIN team.

The ToR for selecting the digital marketing expert to support the NFA with the implementation of the FF digital marketing plan was developed by the BIOFIN team.

With the completion of the BIOFIN Programme's transition to a multi-country project set-up in October 2024, the BIOFIN Georgia team proceeded with announcing the respective RFPs based on the Terms of Reference (ToRs) for two types of activities: (a) the development of a carbon offsetting project, and (b) further support for the FF platform. The ToRs were revised, and the timeframes were updated accordingly. Respectively, the actual works will be initiated in January 2025.

Finance Solution 7: Greening harmful agricultural subsidies

The FS aims to scale up the FS 'Measuring and addressing potential adverse impacts on biodiversity from agricultural subsidies' and support the national authorities with repurposing the selected agricultural subsidies administered by the Rural Development Agency (RDA) and promote bio/organic subsidies. The most relevant public institutional stakeholders for this FS include:

- the Ministry of Environmental Protection and Agriculture of Georgia (MEPA); and
- the Rural Development Agency (RDA).

During the reporting period, consultations on the scope of works and the main deliverables with the newly appointed senior management of RDA and the representatives of MEPA were held. The key aspects of the finance solution were discussed and agreed. The TOR and respective timeframe were revised and updated accordingly. The commencement of the implementation of this FS is planned for January 2025.

C. Social inclusion

One of the Finance Solutions to be implemented in Georgia, namely “Support post-COVID financial recovery in rural areas of Georgia through sustainably used NTFPs” directly contributed to social inclusion objectives together with biodiversity objectives. This solution aims to support local communities by introduction of new revenue generation opportunities, resulting in biodiversity-friendly financial recovery from COVID-19 on the one hand and sustainable use of NTFPs from other.

D. Lessons learned and shared, and related adaptations

During the implementation of the FS on harmful subsidies, it was revealed that Biodiversity and Forestry Department was not involved in the process of planning of state agricultural subsidy programs, leading to disregarding biodiversity aspects in the program cycle. Additionally, while acquiring background data for analysis of existing agricultural subsidy programs, it became clear that the Rural Development Agency does not possess a systematized database, indicating specific information regarding each subsidy and its beneficiaries.

During the implementation of the FS on new cost-effective business model for NFA, it was observed that there were no similar models that could be directly replicated to Georgian situation, meaning that the project should develop a new model, adapting best international practices and to the national context and national capacity.

E. Risks: programmatic risks and social and environmental risks

E.1. Programmatic risks (risks *to* the programme)

The transition of the BIOFIN Programme to a multi-country project structure represents a pivotal step towards fostering synergy and operational efficiency between the Global and Country Projects. Noteworthy advancements encompass the meticulous formulation of new project documentation, the establishment of novel global and country projects within the Quantum platform, and the methodical transfer of financial resources. However, amidst these

strategic endeavors, BIOFIN Georgia confronts a significant challenge in initiating critical activities due to ongoing operational unit changes. This obstacle underscores the pressing need for prompt coordination and targeted assistance to navigate hurdles effectively, ensuring seamless project advancement and the delivery of impactful results.

BIOFIN Georgia's programmatic risks are documented in the table below:

Table 1: Risk register for BIOFIN Georgia

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
	Enter a brief description of the risk	When was the risk first identified?	Environmental Financial Operational Organizational Political Regulatory Strategic Other (In Atlas, select from list)	Describe the potential effect on the project if this risk were to occur Enter probability on a scale from 1 (low) to 5 (high) P = Enter impact on a scale from 1 (low) to 5 (high) I =	What actions have been taken/will be taken to counter this risk?	Who has been appointed to keep an eye on this risk?	Who submitted the risk?	When was the status of the risk last checked?	For example: no longer relevant (i.e., P and/or I would = 0, if 0 was an option), reducing, increasing, no change
1	Change in government/agency leadership and/or priorities, insufficient support for key decisions	June, 2021	Political	Probability 3 Impact 3	Close monitoring of the political processes by BIOFIN project team and suggest immediate actions to mitigate/avoid risks; In case of the management change, the BIOFIN project team will conduct immediate consultations with the new management, in order to renew the commitments from MEPA and main partner.	BIOFIN Georgia Project National Coordinator	BIOFIN Team	December, 2024	Occurred. Since the identification of the risk, the chairman of National Forestry Agency have been changed three times.
2	Reluctance of key partners to cooperate	June, 2022	Strategic	Probability 1 Impact 5	Active coordination with key beneficiaries to ensure their inclusion in the process from the initial phase; Conducting activities in participatory manner – with all stakeholders on-board, encouraging and facilitating their participation in the activities, considering/listening to their opinions, needs and views.	BIOFIN Georgia Project National Coordinator	BIOFIN Team	December, 2022	No change
3	COVID-19 related risks (restrictions on conducting face-to-face meetings, travel restrictions, staff health issues)	June, 2022	Other	Probability 1 Impact 3	Following the guidelines of National Centre for Disease Control. Re-scheduling/re-planning meetings based on the COVID-19 restrictions, conducting meetings online as necessary.	BIOFIN Georgia Project National Coordinator	BIOFIN Team	December, 2022	Reducing

E.2. Social and environmental risks (of the programme)

The BIOFIN country programme does not generate additional social and environmental risks. Indeed, the programme works to mitigate existing risks by integrating UNDP's programming principles for strengthening social and environmental sustainability (SESP), and the programme is directly aligned with Standard 1 of the project-level standards therein, viz., Biodiversity Conservation and Sustainable Natural Resource Management.

List of annexes and related notes

The following annexes are included in this report:

Annex 1: Indicator Tracking Table (in Excel)

Annexes

Annex 1: Indicator Tracking Table


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The Biodiversity Finance Initiative