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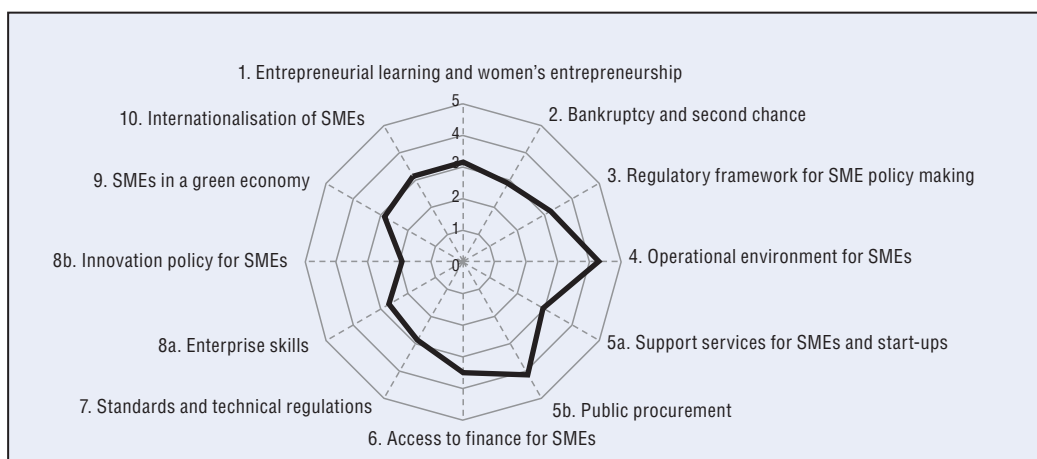
PART III
Chapter 16

SBA country profile: Georgia*

Within its economic policy reform agenda, Georgia has improved the business environment for SMEs by simplifying administrative regulation, reducing the tax burden and fighting corruption. Liberalising conditions for doing business in Georgia include simplifying regulatory practice and facilitating free trade and privatisation campaigns. The National Anti-Corruption Strategy has been an important instrument to support businesses by introducing simple rules and overcoming administrative hurdles. The SBA assessment shows high scores for responsive administration and access to finance dimensions.

The country would benefit from a more targeted approach with a stronger focus on development of enterprise skills, innovation policy and SME support services. Currently, SMEs do not play an important role on the economic policy agenda, given their small production value and turnover, but a more pro-active approach in areas of know-how accumulation, capital investments and absorption capacities for technologies would help tap their potential. Ideally, this approach should be linked to regional development objectives and sector priorities.

* This chapter was prepared with the support of Dmitri Japaridze and Nelly Dolidze.

Figure 16.1. **SBA scores for Georgia**

Note: The scores for each dimension are calculated based on assigned weights for each indicator (see Annex A for further information).

Overview

This section provides a brief economic snapshot and highlights some recent trends in the business environment. This is followed by a detailed overview of the current situation of the SME sector in Georgia.

Economic snapshot

During the period 2004 to 2008 GDP in Georgia grew considerably, with an average growth rate exceeding 9% in 2005, and peaking at 12.3% in 2007. The August 2008 war, followed by the economic crisis, slowed down these growth trends which were later restored and led to an estimated real growth of GDP of 6.3% in 2010 and of 7% in 2011. The 2010 GDP rebound was led by manufacturing, financial intermediation and the trade sectors (GeoStat). Georgia's main economic activities include industry (manufacturing of food, alcoholic and non-alcoholic beverages, tobacco, chemical products, metals, transport equipments, machinery, etc.); trade; transport and communication; agricultural cultivation (grapes, citrus fruits and hazelnuts); mining of manganese and copper; generation of hydro-power energy; and tourism and tourism-related activities. They all play an important role in Georgia's economic growth.

Georgia has a large trade deficit due to its heavy dependence on imports, particularly oil, gas, machinery, etc. Over the past years Georgian exports have been diversified in terms of trade partners and export commodities. The largest share of exports is now processed goods instead of raw materials as in the past. Transportation and tourism are also an important part of Georgia's services exports, as the country is strategically located. It represents one of the main transit corridors for the region (three pipelines run across its territory) and is also attractive as a tourism destination. Georgia benefited from increasing inflows of foreign direct investment (FDI) in the pre-crisis period, particularly due to large pipeline projects and privatisation. FDI reached its highest level in 2007 (USD 2 billion). The main investors are EU countries. Following the crisis and the 2008 Russian-Georgian war, the levels of FDI inflows declined in 2008 and 2009, but started to recover in 2010. In 2011 FDI reached about USD 1 billion.

Table 16.1. **Georgia: Main macroeconomic indicators, 2008-12**

Indicator	Unit of measurement	2008	2009	2010	2011	2012 (proj.)
GDP growth	Per cent, y-o-y	2.3	-3.8	6.3	7	5.5
CPI inflation	Per cent, average	10	1.7	7.1	8.5	2
Government balance	Per cent of GDP	-6.3	-9.2	-6.6	-3.6	-3.5
Current account balance	Per cent of GDP	-22.6	-11.3	-11.5	-12.7	-10.3
Net FDI	USD million	1 494	659	809	921	970
External debt	Per cent of GDP	44	58	62	53.1	50
Gross reserves	Per cent of GDP	11.5	19.6	19.9	20.3	17.7
Nominal GDP	USD billion	12.9	10.8	11.6	14.3	16

Source: EBRD (2011), data collected from *World Economic Outlook* (IMF), World Bank, National Statistical Agencies and Central Banks.

Business environment trends

The reforms implemented during 2004-08 have significantly deregulated the economy, established free trade principles and created effective administration mechanisms to ensure the economic development of Georgia. Reforms, aiming at simplification of the business environment are still ongoing. The economic policy of Georgia has been focusing on opening, liberalising and fostering institutional deregulation of the economy. This has encouraged increased growth in the private sector through aggressive privatisation, reduced taxation through the introduction of a new tax code, abolishing import duties on approximately 90% of goods and a systematic reduction in the number of licences and permits necessary for doing business in Georgia. Georgia made excellent progress during 2004-10 in eliminating the inefficient legislation it had inherited, while the regulatory burden was limited to a minimum level. The World Bank's *Doing Business* analysis ranked Georgia as the number one economic reformer in the world in 2005-10 and its position improved from 112th in 2006 to 16th in 2011 in terms of ease of doing business.

SMEs in Georgia

In Georgia, the SME sector represents a large share of the business population. In 2010, 96% of 42 530 active enterprises were considered to be of small and medium size, based on the definition of SMEs set by the Law on Georgian National Investment Agency (Table 16.2). The majority are small enterprises (87.6%), enterprises registered as limited liability companies or individual enterprises. Moreover, during 2010, the increase in the total number of enterprises was mainly due to a 15% increase in the number of small firms, compared to a decreasing number of both medium and large firms. The size of the business population is based on business registry and therefore is not accurate – a large proportion of enterprises are not active.

Table 16.2. **Definitions of micro, small and medium enterprises in Georgia**

	Micro	Small	Medium
Definition 1			
Headcount		≤ 20 employees	≤ 100 employees
Annual turnover		≤ GEL 500 000 (EUR 0.23 m)	≤ GEL 1 500 000 (EUR 0.68 m)
Definition 2 (for tax purposes only)			
Annual turnover	≤ GEL 30 000 (EUR 13.5 thousand)	≤ GEL 100 000 (EUR 45 thousand)	

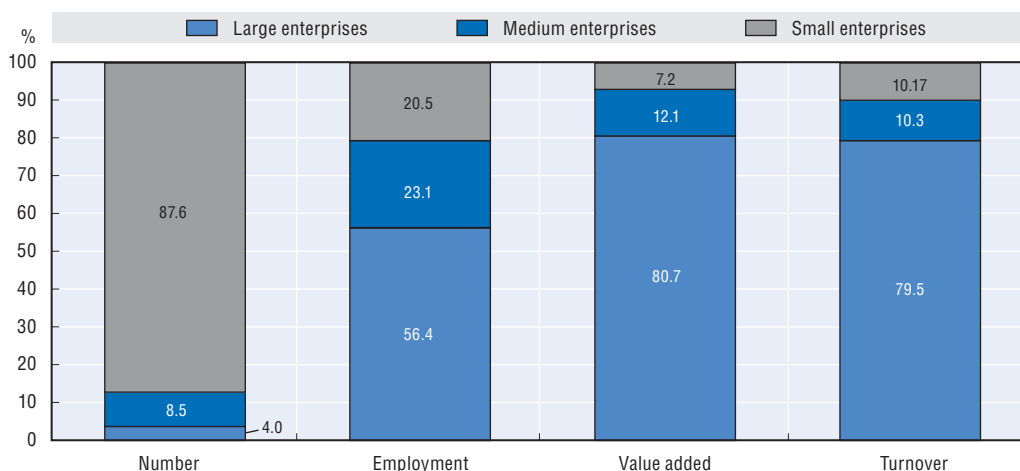
Source: Law of Georgia On Georgian National Investment Agency; Tax Code of Georgia.

Despite the growth of the Georgian economy and employment of almost half of people employed in the business sector (43.6% in 2010 and 38.3% in 2011), the SME sector still shows weak performance in terms of value added. In 2010, the SME sector in Georgia accounted for only 19.3% of value added and 16.1% of total turnover, while in 2011, the share in turnover constituted 14.4% (GeoStat). Both figures have increased since 2007, which was the result of stagnation in the large firms as a result of the crisis.

There are important disparities in the geographical concentration of enterprises across the regions of Georgia. Among the 362 683 enterprises that were registered in Georgia on 1 June 2011 (GeoStat), approximately 45% of companies were registered in Tbilisi. Tbilisi is also the undisputed leader in turnover, accounting for approximately 73% of total enterprise turnover in Georgia. The differentiation between the leaders (Tbilisi and Adjara) and the laggards is still a challenge for Georgia, but over the past years, the economic performance of several passive regions (Guria, Kakheti, Mtskheta-Mtianeti, Kvemo Kartli and Shida Kartli) has improved (Geostat).

The informal sector has been significantly reduced over the past few years as part of an extensive anti-corruption campaign by the simplification of legislative reforms. The share of the unobserved output in Georgia's total output has been reduced from approximately 32% in 2004 to 22% in 2010 (GeoStat).

Figure 16.2. **SME sector in Georgia, 2010**



Source: GeoStat.

SBA assessment results

This section outlines the main results for Georgia from the 2012 SBA policy assessment in EaP countries. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas.

Strengthening institutions and mechanisms for SME policy making

In terms of an institutional framework for SME policy development, so far there have been no targeted measures. However, Georgia pursues a pro-active policy to create favourable conditions for all enterprises.

Institutional framework

The Ministries of Finance and Economy and Sustainable Development of Georgia lead and co-ordinate horizontal activities on issues related to entrepreneurship, small business and regulatory reform. At the same time, no special institutional arrangements have been created for SME policy. Line ministries communicate with each other on an *ad hoc* basis which seems to be a functioning mechanism for the co-ordination of activities within the framework of joint public projects. The Tax Ombudsman plays an important role in mediation between government and the business community and communicates with businesses on an ongoing basis.

While there is no SME strategy *per se*, the State Strategy for Regional Development of Georgia for 2010-17 states its support for the development of innovation, new technologies and entrepreneurship as one of its objectives. An action plan for the strategy has recently been adopted, and funds have been allocated, including for several measures that would target the development of entrepreneurship.

There is no single definition for SMEs which is used across all public institutions in Georgia. The main definition of SMEs, which is also used for statistical purposes, is stated in the Law on Georgian National Investment Agency. A separate definition, based on turnover only, is used for tax purposes and is in force since 1 January 2011. It is used to offer special/preferential treatment to small and microenterprises.

Anti-corruption measures are recognised as one of the most successful parts of the reform policy since 2004. The government has succeeded in reducing the shadow economy and eradicating corruption through radical law enforcement measures and tax reforms. Liberalisation of the regulatory sphere has led to a business environment free of bureaucratic pressure and administrative burden. Accordingly, Georgia has been ranked as a top reformer country by the World Bank's *Doing Business* report in recent years. Georgia has also adopted the National Anticorruption Strategy and Action Plan.

Legislative simplification and regulatory impact analysis (RIA)

Georgia has already completed an extensive review of its business-related legislation and regulations. From 2006 to 2010, approximately 21 000 legal acts were reviewed; of these over 12 000 were abolished. The legislative review and guillotine process is ongoing on a permanent basis, and is included in the Georgian National Anticorruption Strategy. The plan includes measures to streamline legislation in strategic areas such as public and administrative services, public procurement, public finance, company/entrepreneurial legislation and tax and customs systems. However, the government does not explicitly identify SMEs as a priority in the legislative review process.

The Ministry of Economy and Sustainable Development of Georgia has also established the Business Activity Regulatory Impact Assessment Division, dedicated to analysing the impact of laws and regulations on the business environment. Georgian legislation also requires that a brief assessment of the impact on key stakeholders is included with every draft law. Currently the Strategy and Action Plan of implementation of RIA in Georgia has been drafted and a pilot RIA has been carried out for several laws. A light form of RIA will be implemented based on German experience. For the purpose of RIA implementation, an intragovernmental working group will be established with the participation of different government institutions, such as the Ministry of Justice, the Ministry of Economy and Sustainable Development, the Prime Minister's Office, the Ministry of Finance and GeoStat.

Furthermore, there is no official requirement to undertake the SME test when drafting new laws and regulations, but RIA will be applied to all enterprises including SMEs, given that they constitute a significant share of the total number of enterprises.

Public-private consultations (PPC)

Despite the lack of a mechanism for regular PPCs, the business community and the public administration are maintaining frequent constructive dialogues in the areas relevant to enterprise development and growth. The consultations are held when needed (but generally not less frequently than once a month), the business community is well informed about upcoming consultations, and the outcomes of the meetings are published on the websites of their respective ministries.

Some of the main organisations representing business interests are the Georgian Chamber of Commerce and Industry, the Business Association of Georgia, the Employers' Association of Georgia, the International Chamber of Commerce, etc. Associations are organising the process of voicing business concerns in terms of legislative initiatives and other forms of policy advocacy. The recently established Tax Ombudsman's Office in particular has become the main mediator between the government and private enterprises.

Despite the active role that PPCs play in contributing to the friendly business environment in the country, small and medium-sized enterprises are not properly represented and their needs and concerns are not entirely reflected in the activities of these associations. The dialogue is mostly focused on the needs of large companies as the source of a substantial contribution to GDP. The challenges encountered by SMEs could be more actively brought to the attention of policy makers. This would facilitate participation of SME representatives in dialogue with these associations.

Establishing a conducive operational environment

The regulatory environment has undergone considerable reform and restructuring in recent years, with the result that Georgia has developed the most advanced service delivery model in the Eastern Partner (EaP) region. The integration of government services within Public Service Halls, the introduction of electronic identification cards and the development of e-government services are some of the most significant developments. Nevertheless, additional reforms are needed to introduce an online registration system, and to integrate electronic signature within the current offer of e-government services.

Company registration

Georgia has the most efficient and straightforward company registration process in the EaP region. Companies and individual entrepreneurs spend just one day to pay the registration fee, obtain a company identification number, open a corporate bank account, and obtain a registration certificate and tax registration. These procedures can all be completed at the National Agency of Public Registry (NAPR). The Ministry of Justice has also recently introduced Public Service Halls offering various services for entrepreneurs in a single location. In addition to company registration, Public Service Halls give citizens centralised access to the Civil Registry Agency, the National Archives of Georgia, the National Bureau of Enforcement, the Notary Chamber of Georgia, registration of immovable, movable and intangible assets and cadastral services.

Georgia has established a state-of-the-art company registration system, with widespread availability of one-stop-shops, and a well-functioning and efficient electronic

company register. The government issues a single identification number during the registration process, without requiring entrepreneurs to register with additional authorities. However, online registration for companies and individual entrepreneurs is currently lacking, and the government has not drawn up any plans to develop a website for online registration. The approval of a law allowing for online registration would be an important and necessary first step in this direction.

The silence-is-consent principle has been introduced in the Law on Licences and Permits, the General Administrative Code, the Civil Code, and the Law on Securities Market, which are areas where procedures take time. Silence-is-consent is not applied in case of registration, given that after the streamlining and simplification of registration procedures, companies can receive their registration immediately.

Interaction with government services (e-government)

The Revenue Service of the Ministry of Finance in Georgia has developed a sophisticated system for online filing and payment of corporate income tax, property tax and VAT. Furthermore, as part of reforms to the new Tax Code enacted in 2005, social security contributions were reduced from 31% to 20% in 2005 and were entirely abolished in January 2008. Consequently, there are no compulsory requirements for businesses to pay social security contributions from employee wages. Other e-government services are also available in Georgia, including online cadastre, procurement and customs declarations.

The development of a system allowing for online reporting of enterprise statistics is underway in Georgia, and is envisaged in the National Strategy for Statistics Development. At present, statistical surveys are available for download on the website of the National Statistics Office of Georgia (GeoStat) and can be submitted by email.

A Law on Electronic Signature and Electronic Documents was adopted in March 2008. According to the legislation, the Georgian Accreditation Center under the Ministry of Economy and Sustainable Development is responsible for the accreditation of companies and responsible for issuing certification for e-signatures. Although e-signature has not been implemented in all areas of interaction with the public administration, SMEs are able to use alternate means to validate electronic documents. For instance, the Revenue Service of the Ministry of Finance assigns a unique username and password to each taxpayer, facilitating effective online filing of tax returns. Increased implementation of the law on electronic signature would make e-government services more widespread in Georgia.

Direct connections have been established between various institutions operating under the Ministry of Justice, including the public and business registry, cadastral data, national archives and enforcement services. In addition, the database of the National Agency of Public Registry (NAPR) is fully available for use by the Ministry of Economy and Sustainable Development and the tax administration office. Electronic identification documents were also released for citizens on 1 August 2011, paving the way for further development of e-government services.

Bankruptcy procedures and second chance

Bankruptcy procedures in Georgia are established by the 2007 Law on Insolvency Proceedings. An amendment was adopted in January 2012 to further streamline procedures and speed up insolvency proceedings. The main purpose of the law is to equally protect the rights of a debtor and of a creditor, to resolve future financial problems

and, if necessary, to satisfy creditors' claims through the sale of assets (Article 1). Over the past two years, 19 companies have undergone bankruptcy procedures.

According to the EBRD Insolvency Law Assessment carried out in 2009, the law is only "low-compliant" with international standards due to a number of weaknesses, such as the lack of a "balance sheet" test for insolvency, vague pre-bankruptcy avoidance provisions and insufficient treatment of re-organisation procedures (EBRD, 2009). According to the World Bank, the 2007 law succeeded in bringing down the cost of proceedings to only 4% of the estate's value. Nevertheless, Georgia still only ranks 109th (out of 183 economies) in *Doing Business 2012* on the indicator Resolving Insolvency. This is due to the relatively long time required (3.3 years) and the low proportion of assets claimants will recover from an insolvent firm (25.5 per cent on the dollar).

In order to streamline the Law on Insolvency Proceedings (2007), the Georgian government has undertaken a follow-up reform aimed at the elimination of shortcomings that have come up in practice, as well as the streamlining of insolvency proceedings.

Public authorities in Georgia could play a more supportive role in debt settlement if tax debts were to take lowest priority in a bankruptcy. Currently this is not the case as unsecured claims and claims presented after the deadline for filing claims take lower priority over tax debts. Even secured claims take priority only if tax authorities have not registered a tax lien (Law on Insolvency Procedures, Article 40). Recent amendments to the Georgian Tax Code (Article 239) and to the Law on Enforcement Proceedings (Article 823) further weakened the position of secured creditors as tax authorities were granted the right to retroactively impose a lien based on the date a tax obligation arose and no longer based on the date a lien was actually registered against a taxpayer's property.¹

The approach towards re-starters is non-discriminatory with regards to registration procedures. There is no bankruptcy register and companies are removed from the business registry after final court decisions. To further strengthen creditors' interests, Georgia would benefit from introducing a bankruptcy register, however, with clearly defined discharge procedures and maximum time for removal from any black list kept by public authorities.

Facilitating SME access to finance and developing the legal and business environment

Georgia has made significant progress regarding the legal and regulatory framework that supports lending to SMEs. Although public financial support for SMEs has been modest, private sources of finance such as bank lending and microfinance facilities are available. A real estate cadastre is fully operational. A central collateral register and credit information systems are in place and available to the public. The legal framework and enforcement of creditors' rights could be improved.

Sources of external finance for SMEs

Bank lending to the SME sector has increased with the rapid growth of Procredit Bank, contributing to significant competitive pressure in this segment of the market and increasing the number of banks developing SME lending. The entry of foreign banks and the listing of the largest bank, Bank of Georgia, on the London Stock Exchange in 2007 have contributed to strengthening the banking system, increasing competition and improving the range of financial services offered by banks. Nevertheless, only some financial intermediaries have developed sustainable SME lending. The banking system in Georgia is

quite concentrated. Indeed, the top five of 19 banks operating in Georgia control close to 80% of assets. Only about 21% of domestic credit to the private sector goes to SMEs as large banks that dominate the market focus on financing large enterprises. The economic slowdown and the global financial crisis have affected bank lending, particularly to small and new businesses. However, credit growth has picked up since 2010 after a contraction of 13% between 2008 and 2009. Credit to the private sector as a percentage of GDP amounted to 33% at the end of 2011.

Public credit guarantee schemes have been rather small. Some state programmes, such as Cheap Credit in 2008-09, supported the development of SMEs by providing loans to entrepreneurs on preferential terms. Credit guarantee facilities have been developed by international financial institutions. The Development Credit Authority (DCA), established by USAID, has developed different guarantee programmes in partnership with local financial institutions in order to enhance access to finance for SMEs.

Financial support for start-ups is scarce. Some public programmes are available to assist start-up enterprises but have only limited impact. Financial support to start-ups is provided by the Tbilisi City Hall under the Local Business Development Support Programme, which has made available GEL 1 million to start-ups in 2010 followed by the second largest city that also launched start-up financial support in 2012.

A business angels network is being established in Georgia. The Georgian government has also involved in a pilot project that investigated the environment in which business angels operate.

Other providers of finance, such as microfinance institutions (MFI), are important and operate throughout the country. They provide loans in both rural and urban areas across the country. Most clients are small-farmers and individuals. However, despite a well developed network and institutional structures, MFIs lack the financial capital to meet the demands of microlending. Fifty-seven microfinance organisations are currently operating in Georgia. According to the Microfinance Information Exchange (MIX) microfinance lending reached 4% of GDP at the end of 2010.

Leasing operations are gradually developing but represent only a small fraction of financing activities. The sector's penetration is 0.5% of GDP, with only three leasing companies operating in the market. On October 2011 the Parliament of Georgia adopted leasing-related amendments to the Tax and Civil Code, Law on Commercial Banks and Law on Bankruptcy, proposed by USAID experts. These amendments envisage simplifying the tax requirements in order to improve business conditions for leasing activities and to promote the acquisition of equipment and modern technologies by Georgian companies.

Private equity is in the early stages of development with very little active capital and capital available for commitments in 2010. The Georgia Regional Development Fund (GRDF), established in 2006 by Millennium Challenge Georgia, focuses on investments in small and medium-sized enterprises. The USD 30-million fund invests in businesses operating in regions outside Tbilisi and specialising in agribusiness and tourism. In March 2012, small Enterprise Assistance Funds (SEAF), within the Caucasus Growth Fund established by IFIs (EBRD, IFC, FMO, BSTDB) raised USD 42 million to boost private investment focused on Georgia and the broader Caucasus region. SEAF is the first institutional quality private equity fund dedicated to providing debt and equity capital to small and medium enterprises in the region. The aggregate capital of other private equity funds operating in Georgia is less than USD 15 million.

Although Georgia has a functioning stock exchange, the Georgian Stock Exchange (GSE) regulated by the Law on Security Markets, the level of trading activity is low even by emerging market standards. The GSE has an electronic trading infrastructure allowing for floor and remote trading by the eight registered brokers. At the end of 2011, 135 companies were listed on the GSE, with a total market capitalisation of 5.5% of GDP and a low turnover ratio.

Legal and regulatory environment

An effective National Agency of Public Registry (NAPR) is in place since 2004. There has been significant improvement in its efficiency in recent years. A computerised multifunctional countrywide cadastre and land registration system was created in 2007, which has led to rationalisation of land use and increased protection of property rights. Companies are able to obtain online information on real estate and use it in connection with bank financing.

A private credit information bureau, CreditInfo Georgia, is in place and information is accessible online. Banks, leasing companies and other organisations providing credit can access information about a potential borrower. A positive credit history is kept for seven years and a negative history is stored in the database for five years. Individuals can access their credit history and be alerted to its changes on payment of a fee.

The system for registration of movable assets is maintained by the NAPR and registrations of motor vehicles are carried out by the Service Agency of the Ministry of Internal Affairs of Georgia. The system for registration of pledges on movable property, created in 2009, enables authorised users to register such pledges online. This online registry is centralised and fully operational throughout the country. The law allows businesses to grant a non-possessory security interest in a single category of movable assets, without the requirement of a specific description of the secured assets. Any business may use movable assets as collateral while retaining possession of assets.

There are no rigid provisions applicable to collateral requirements and banks define their own requirements. These requirements are usually in the range of 50 to 100% of the loan amount, depending on the borrower's credit history and a general risk assessment.

Debtors' and creditors' rights are governed by the Law on Enforcement Issues (together with the Law on Insolvency Proceedings). The law does not allow for the suspension or cancellation of the enforcement procedures or the removal of the sequestrated property from the register list in the absence of written consent of the creditors. Secured creditors are, nevertheless, not able to seize their collateral after a filing for insolvency.

Other factors that affect demand and supply of finance

Georgia appears to be better positioned in terms of financial literacy than its regional peers. This is also evident from the individual accounts (313.2 commercial bank accounts per 1 000 adults at the end of 2010). However, this level is lower than the levels in OECD countries.

There is no national strategy on financial literacy, although certain information regarding financial products is accessible in Georgia. The Rule on Provision of Necessary Service Information to Bank Customers of the National Bank of Georgia (NBG) regulates relationships between commercial banks and their customers in relations to consumer protection.

Promoting a culture of entrepreneurship and skills development

This section considers the human capital dimensions of the SBA in Georgia: lifelong entrepreneurial learning and SMEs skills development.

Considering human resources as one of the most important pillar for a country's competitiveness, Georgia has taken steps to enhance the quality of its education and reinforce the entrepreneurial culture.

First, with the establishment in 2009 of the National Vocational Education and Training Council (NVETC) the government launched an unprecedented platform for policy dialogue and co-ordination of development of the vocational education and training (VET) sector. The participation of all relevant ministries, social partners and the non-governmental sector in the NVETC creates wide potential for structured dialogue; however the process is still in the development stage. Vocational education promotes entrepreneurial learning, teaching of a dedicated subject and support for students' entrepreneurship projects in vocational education and training colleges.

Second, a wide range of initiatives on entrepreneurial learning (EL) in non-formal learning system is provided by different national and international business development centres (IOM, UNDP, Norwegian co-operation, etc.). The Adult Education Association of Georgia gathers many national training NGOs in support of non-formal EL, social entrepreneurship (training and support to start-ups). Of importance here will be how the formal education system and the non-formal education environment could be improved and synergised. More specifically, the partnership developed in vocational education and training through the NVETC needs to be extended to other secondary levels. The non-formal initiatives would gain by becoming part of a national lifelong entrepreneurial learning (LL EL) strategy.

Thirdly, a policy framework incorporating gender-sensitive policy improvement has been approved recently, backed by an action plan (2011-13). The action plan includes specific measures supporting business education and training and proposes actions to identify and support women leaders.

Summarising, the ground is paved to build a national LL EL concept, with entrepreneurship as a key competence adequately incorporated into ongoing curriculum reforms.

The SME Skills Development dimension benefits from ongoing dialogue to establish a national training needs analysis (TNA) framework, involving the Ministry of Education and Sciences, social partners and the business sector within the NVETC thematic groups and with support of donors. These initiatives largely depend on the activities of international organisations and donors (IOM, GIZ, USAID), involving career guidance and employment centres.

In parallel, business service providers and NGOs (AYEG, USAID, IOM, UNDP, GIZ, GNIA, Georgian Rural Development Fund, etc.) cover a wide range of training for SMEs (start-up, growth, management, etc.) while the technical (trade) training for SMEs is generally provided by vocational education and training centres. The government supports online training, notably through universities. The Revenue Service (under the Ministry of Finance) conducts local seminars on taxation and micro and small business issues (according to the new Tax Code). Such seminars are planned for all regions of Georgia.

A lack of data compromises Georgia's performance, particularly on the indicators addressing start-up and SME growth training.

Georgia has a good level of quality assurance (QA) through the National Center for Educational Quality Enhancement (NCEQE), which authorises and accredits public and private training providers on a voluntary basis. Private business service providers apply their own quality assurance tools and some are certified according to international standards, such as the Georgian Federation of Professional Accountants and Auditors (GFPA), but they can also receive accreditation through NCEQE.

The state voucher system in vocational education and training was introduced in March 2012. The vouchers can be used by beneficiaries with public and private business service providers. As it stands now the voucher system benefits learners irrespective of age or level of education, but with a preference for vulnerable groups. However, citizens may benefit from only one voucher, which limits the possibilities for continuing training.

Finally, to move forward on the SME Skills Development dimension, the wide range of training for start-ups and SMEs growth needs to be optimised through a systematic training needs analysis and a consolidated information system on training providers. This would lead to a more responsive training market and improved efficiency in the training effort to meet the evolving requirements of enterprises.

Enhancing SME competitiveness

Georgia is following a pro-active approach to enhance the competitiveness of Georgian business, but co-ordination between the various initiatives is still limited. Innovation is the focus of the current enterprise policy, and a number of initiatives such as the Technology Transfer Centre are expected to foster the development of innovative technological firms. Georgia also aims to build firm capabilities for exporting and investment.

Business information and services

The spectrum and quality of business services provided on the Georgian market have generally improved in recent years. Currently, more than 30 private business service providers are operating throughout the country. In addition, a number of programmes have been implemented by the government and donor organisations to establish SME support services. These programmes are delivered through a network of business support centres which are in most cases receiving support from donor organisations. The services provided range from informational support to the provision of equipment for rent. For example, within the framework of EBRD's BAS programmes, part of the costs for business services is covered by the programme. Other examples are Agriculture Mechanisation Centers, set up by USAID in 2010, which are equipped with various types of agricultural equipment and machinery for local farmers. Consultations for farmers were also provided under programmes implemented by CARE. As of 2012, extensive development centres have been created by the government of Georgia to provide advisory services and technical support to farmers. The various initiatives are scattered and there is no co-ordination between them to ensure efficient allocation of resources or to avoid overlap. No strategic approach has been taken to encourage the development of the private business services market, and currently the market is highly dependent on donor support.

A comprehensive guide on how to conduct business in Georgia, with detailed information about the steps required to start a business, current regulations, a list of

business services providers and other useful information, is available for download on the website of the Ministry of Economy and Sustainable Development of Georgia, as well as in paper form (brochure) at regional information centres. However, it should be noted that there is no single web portal dedicated to SMEs. Given that a website is easier to update and allows interactive activities such as forums to discuss new legislative developments or to share problems encountered in business, creating a unified portal covering all spectrums of SME-related topics could further improve access to information for SMEs. The Tax Ombudsman's Office has an online portal, which serves as a platform for businesses to send questions and to identify their problems, if any; they are responded to and addressed by the Ombudsman's Office.

There are limited support schemes for start-ups, and so far, few start-ups have been achieved. Start Business with the help of the City Hall is one of the municipal initiatives that aim to support people who want to start a business. They provide advice, information and funding. In 2011, another programme, Get employed and employ with the Mayor of Tbilisi provides financing to projects and ideas based on a competition. Kutaisi City Hall started its SME financing programme in 2012. Other organisations provide support to start-ups as well. For example the Association of Young Economists of Georgia, the chambers of commerce and industry and business associations all provide general informational support. This area needs to be strengthened in terms of expertise and better promotion among entrepreneurs.

As in the case of business services, Georgia does not have a strategy on business incubation; most business incubator projects have been initiated by international organisations. Currently, there are around 10 active business incubators in Georgia. Successful incubation projects in Georgia have been implemented by UNDP, USAID, GIZ and other donor organisations. The sustainability of business incubators is now in question because of a lack of interest on the part of those with informal venture capital which is indispensable to ensure the longevity of the project.

Public procurement

The Law of Georgia on Public Procurement allows for cutting tenders into lots which is a common practice. Furthermore, the law foresees the possibility of joint bidding. As for the setting of proportionate qualification levels and financial requirements, it is not specified whether the law provides for specific provisions related to SME, but it stipulates that the requirements for qualifications should be fair and non-discriminatory, and conducive to healthy competition. It is also specified that all documents to be obtained from public institutions shall be provided only by the winning company.

There is no specific law addressing late payment. At the same time state institutions have no problem with timely payments. However, it is not known whether this holds true in other public areas outside procurement. The e-procurement system is also linked to the e-treasury system, through which all procurement-related transactions financed through the state budget are managed.

The procurement market is fully open for foreign economic operators.

All tenders are carried out electronically, using the centralised e-procurement web portal (www.procurement.gov.ge). All information is freely available, including a specially dedicated helpdesk. The State Procurement Agency carries out special training for suppliers. The entire procurement system is designed to operate exclusively by electronic

means; this includes tender documentation, tender notices, annual procurement plans, bidding documents, all decision of the tender commission, all relevant correspondence and an electronic dispute resolution module for submitting complaints.

Innovation policy

The State Commission for Regional Development is responsible for the development of innovation policy and schemes to support new technologies and entrepreneurship in Georgia. The commission is chaired by the Minister for Regional Development and Infrastructure, and is supported by the Task Force for Regional Development and seven well-structured working groups. The working group on Innovation, new technologies and entrepreneurship forms recommendations for the strategic direction of innovation policy in Georgia by bringing together policymakers, experts from the task force secretariat, and representatives from Georgian universities and public institutions.

Elements of Georgia's approach to innovation policy are included in the Regional Development Strategy of Georgia for 2010-17, developed by the Governmental Commission on Regional Development. Within the Ministry of Regional Development and Infrastructure, the Department of Reforms and Innovations supports the implementation of this strategy. In addition, the National Intellectual Property Center (SAKPATENTI) implements projects in the fields of technology transfer and intellectual property rights, and the Ministry of Economy and Sustainable Development develops targeted initiatives to support innovative start-ups. However, there is currently no comprehensive innovation strategy in Georgia, and increased institutional co-ordination is needed to develop a coherent and effective strategic approach to innovation policy.

In co-operation with GIZ, SAKPATENTI opened the Georgian Technology Transfer Center (GTTC) in February 2012. Although a number of privately owned innovation and technology centres have been established in Georgia, there is limited co-operation between universities, technological centres and industry in the development and commercialisation of innovative knowledge and ideas.

There are a limited number of donor-financed initiatives in place to provide technical assistance to SMEs in Georgia. For instance, the EBRD provides advisory and consulting services to SMEs within the framework of its TAM/BAS programmes. Financial support schemes for innovative SMEs are also available through various programmes to foster R&D partnerships between scientists and industry. Examples include the Joint Business Partnership Grant Programme, supported by the Georgian National Science Foundation (GNSF) and the Science and Technology Entrepreneurship Program (STEP), financed by the Georgian Research and Development Foundation (GRDF). However, innovation support schemes are presently unable to satisfy the growing demand from the private sector for innovation support services.

Green economy

In Georgia, green growth concepts have been developed by the government and focus in particular on sustainable development and greening of the economy, eco-efficient businesses and eco-innovation.

Information on environmental legislation and specific programmes is provided by various organisations, ministries and NGOs. The government organises and supports multiple forms of co-operation such as seminars, capacity building support and various

environmental education projects. Several NGOs are providing support to farmers and entrepreneurs in bio-production.

Environmental management standards (EMS) from ISO 14000² are available at the Georgian National Agency for Standards, Technical Regulations and Metrology (GEOSTM). Several companies have already been certified by ISO 14000 standards and the growing focus on exports increases the popularity of this scheme.

Export promotion

Export promotion activities in Georgia have been integrated with investment promotion since 2010 and are co-ordinated by the Georgian National Investment Agency (GNIA). The GNIA was established by the government in 2002 under the Ministry of Economy and Sustainable Development of Georgia to promote investments. The export promotion activities conducted by GNIA include provision of information such as export procedures, foreign market requirements, trade regimes and legislation for firms willing to export. GNIA also organises meetings, exhibitions and training seminars for managers and staff responsible for export sales. The web portal www.tradewithgeorgia.com was created by GNIA to increase awareness about Georgian products and to provide potential foreign buyers with comprehensive information. It contains a database of Georgian producers and a catalogue of Georgian products. Several contacts have already been established between Georgian and foreign companies. In addition, both GNIA and the Ministry of Agriculture of Georgia provide informational and financial support for participation in international trade fairs. There is no special support for SMEs and assistance is provided to all firms irrespective of their size.

The budget and human capacity of the GNIA is relatively limited. With a staff of only 23, GNIA has been given the mandate to undertake export promotion with only two additional staffing slots. In 2011, the budget was increased to USD 1.5 million, compared to approximately USD 500 000 *per annum* in previous years. However, the bulk of the new budget is dedicated to non-staff related promotional efforts. The agency is expected to undergo structural changes to both staff and organisation and is moving towards a more strategic approach to investment and export promotion. So far, a strategy does not exist, but the need to develop a relevant complex state programme for the purpose of encouraging export-orientated entrepreneurship is stated in the National Strategy for Regional Development 2010-17.

International organisations are also active in supporting Georgian SMEs that export. The German Chamber of Commerce organises free seminars on export promotion for firms. East Invest, a three-year programme which started in January 2011, promotes economic co-operation and facilitates investment between the European Union and the EaP countries, and among the EaP countries themselves. The project is expected to provide support to Georgian SMEs through training and coaching on the EU *acquis* and internationalisation, elaborating their sectoral strategies and investment mapping, participating in EU trade fairs, etc.

Single Market opportunities

In the context of the launch of negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU at the beginning of 2012, Georgia has made considerable progress in the area of addressing technical barriers to trade.

In 2011, the government submitted to parliament a Code on Safety and Free Movements of Goods. Furthermore, an institutional gap assessment was organised for regulatory bodies resulting in an Institutional Reform Plan. In 2010-11 Georgia became a corresponding member of the International Organization of Legal Metrology (IOLM), an affiliate member of CENELEC and an associate member of the International Electrotechnical Commission (IEC) and an associate member of the European Co-operation for Accreditation. Georgia is also member of the following international organisations in the field of standardisation – the International Organization for Standardization (IOS) (corresponding member from 2006), CEN (affiliated member from 2008)– BIPM (associate member from 2008) and the Euro-Asian Cooperation of National Metrological Institutions (COOMET) (member from 2006). In the area of sanitary and phytosanitary rules (SPS), Georgia started full implementation of its food strategy and also initiated legislation on SPS including the preparation of a framework law. The Food Safety Agency's statute was adopted and agency staff were trained with EU support.

SMEs are informed by the Georgian National Investment Agency (GNIA) on export conditions and opportunities for Georgian enterprises that are planning to engage in the EU.

The way forward

Based on the SBA assessment, Georgia could consider the following steps to ensure continuing progress in the area of SME development:

- Having successfully created a favourable operational environment for business activities, Georgia would benefit from consulting with the private sector to assess whether there is a need to develop and adopt an **SME strategy** that would identify strategic directions and objectives for future development of the SME sector, including for export promotion. Ideally, such a strategy would be based on a thorough assessment of the current performance of SMEs in the economy to identify policy barriers in those strategic sectors that have a high potential for SME growth. Such a strategy should also cover green economy elements.
- Similarly, the government could consider moving further towards evidence-based policy making by **systematically applying regulatory impact analysis (RIA)** to assess the positive or negative impact of regulatory changes on the SME sector. A major challenge that needs to be addressed in this process is to introduce a permanent consultative mechanism to assess and discuss implications of legislative proposals on SMEs. If appropriate, the results could be considered in the draft laws.
- Both the public administration and the private sector would benefit from an increased **scope of public-private consultations**, especially in priority sectors of the Georgian economy, such as agribusiness, light manufacturing and tourism. Although there are numerous business associations and an intensive network of chambers of commerce in Georgia, the capacity of associations in representing SME interests is limited.
- Export-oriented SMEs and SMEs with export potential would benefit from receiving updated, timely and **comprehensive information about export possibilities** and foreign market requirements. To strengthen the competitiveness of Georgian SMEs, it would also be important to further develop national quality infrastructure institutions and support their integration into the relevant international and EU institutions. International

recognition of Georgian conformity assessment results is essential for export-oriented SMEs, and will decrease the expenditures for companies carrying out export-related procedures.

- Ongoing **improvements in the legal and regulatory framework** would support further development of leasing activity as an alternative source of finance for SMEs. A more competitive banking sector will facilitate sustainable access to finance for SMEs. Better enforcement of creditors' rights to allow secured creditors to seize their collateral after re-organisation would help bank lending in general and SMEs in particular.
- The Georgian government has started to introduce sophisticated mechanisms such as technology transfer centres to strengthen the absorption capacities of SMEs for innovation and focus research outcomes on practical applications needed by the market. However, active policy measures are needed to increase **consultancy services and innovation support schemes** in Georgia. To make financing more available to SMEs, the private sector contribution to financing should be stimulated, thus creating more synergies between public-funded innovation and the needs of firms. The innovation process would also benefit from greater co-operation between universities, technological centres and industry in the innovation process. Developing a well-functioning innovation policy on the basis of the State Strategy on Regional Development 2010-17 would help to co-ordinate stakeholder activities and establish measurable objectives.
- Based on the important steps taken to enhance the quality of education and reinforce the entrepreneurial culture, Georgia could easily move forward to a **national lifelong entrepreneurial learning strategy** and optimise a systematic Training Needs Analysis (TNA). With a consolidated information system on training providers, this would lead to a more responsive training market and improved efficiency in training efforts to meet the evolving requirements of enterprises.

Notes

1. <http://transparency.ge/en/blog/pnew-regulations-concerning-tax-lien-explainedp>.
2. ISO 14000 requirements are an integral part of the EU's environmental management scheme (EMAS) and concern performance improvement, legal compliance and reporting duties.

Reference

EBRD (European Bank for Reconstruction and Development) (2009), *EBRD Insolvency Law Assessment Project – 2009*, EBRD.

