

# 12 Georgia: Small Business Act country profile

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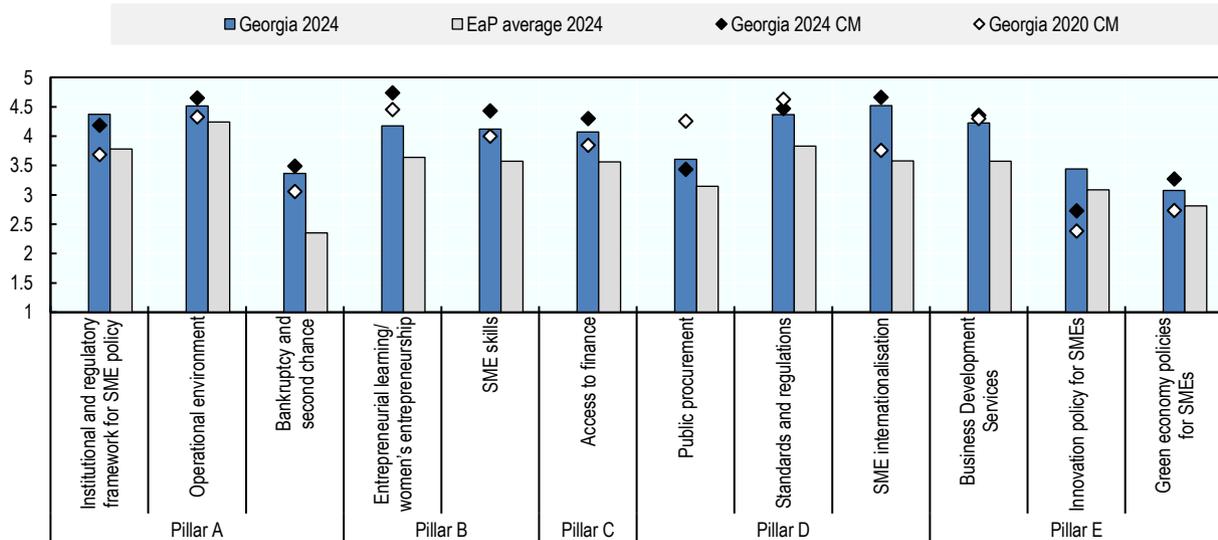
This chapter provides an assessment of the progress made by Georgia in implementing the Small Business Act (SBA) for Europe over the period 2020-23. It starts with an overview of Georgia's economic context and dives further into the characteristics of the country's SME sector. It then develops on the state of selected framework conditions for the digital transformation of SMEs. Finally, it analyses Georgia's progress along twelve measurable dimensions grouped in five thematic pillars and sets out targeted policy recommendations.

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## Key findings

**Figure 12.1. SME Policy Index scores for Georgia**

Country scores by dimension, 2024 and 2020 vs 2024 CM



Note: CM stands for comparable methodology. See the “Policy framework, structure of the report and assessment process” chapter and Annex A for information on the assessment methodology.

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**Table 12.1. SME Policy Index scores for Georgia**

Country scores by dimension, 2024 and 2020 vs 2024 CM

Pillar	Dimension	Georgia 2024	EaP average 2024	Georgia 2024 (CM)	Georgia 2020 (CM)
Pillar A	Institutional and regulatory framework for SME policy	4.37	3.78	4.19	3.69
	Operational environment	4.51	4.24	4.65	4.33
	Bankruptcy and second chance	3.36	2.35	3.49	3.06
Pillar B	Entrepreneurial learning/ women's entrepreneurship	4.17	3.64	4.74	4.45
	SME skills	4.12	3.57	4.43	4.00
Pillar C	Access to finance	4.07	3.56	4.30	3.85
Pillar D	Public procurement	3.61	3.15	3.44	4.26
	Standards and regulations	4.37	3.83	4.47	4.63
	SME internationalisation	4.52	3.58	4.66	3.76
Pillar E	Business development services	4.22	3.57	4.35	4.30
	Innovation policy for SMEs	3.44	3.09	2.73	2.38
	Green economy policies for SMEs	3.08	2.81	3.27	2.74

Note: CM stands for comparable methodology. See the “Policy framework, structure of the report and assessment process” chapter and Annex A for information on the assessment methodology.

Table 12.2. Implementation progress on the SME Policy Index 2020 policy reforms – Georgia

Priority reforms outlined in the SME Policy Index 2020	Key reforms implemented to date
<b>Pillar A – Responsive Government</b>	
<p>Elaborate a new SME Development Strategy beyond 2020.</p> <p>Ensure that the RIA SME-test is systematically applied and results are taken into consideration in the legislative and regulatory approval process.</p> <p>Streamline the insolvency framework by introducing out-of-court settlements and simplified insolvency proceedings for SMEs.</p> <p>Introduce an early warning system for detecting insolvency.</p> <p>Adopt a comprehensive second-chance strategy for bankrupt entrepreneurs.</p>	<p>Adoption of the SME Development Strategy for the period 2021-25.</p> <p>Application of the Law of Georgia on Mediation in 2020 aiming to support alternative means of dispute resolution.</p> <p>Adoption of the 2021 Law on Rehabilitation and Collective Satisfaction of Creditors, providing a new framework for insolvency.</p> <p>Establishment in 2020 of the Digital Governance Agency and Digital Governance Strategy 2023-2026 due to be adopted.</p>
<b>Pillar B – Entrepreneurial Human Capital</b>	
<p>Address the European Entrepreneurship Competence Framework (EntreComp) across the curriculum and support it through pre- and in-service teacher training.</p> <p>Consider an improved state-level intelligence framework for women's entrepreneurship.</p> <p>Reinforce Georgia's Innovation and Technology Agency's (GITA's) online training developments to widen outreach to SMEs in outlying regions.</p>	<p>Development of a methodology for the organisational assessment of vocational schools, providing further efforts on harmonising entrepreneurial modules in vocational education and training (VET) programmes with EntreComp.</p> <p>Creation of the Skills Agency, notably launching teacher networks to stimulate VET partnerships for teacher training.</p> <p>Adoption of the SME Strategy for 2021-25 with a new priority direction dedicated to women's entrepreneurship.</p> <p>Increase in online trainings for SMEs, provided by several stakeholders, including Enterprise Georgia, GITA, and the Georgian Chamber of Commerce and Industry (GCCCI).</p>
<b>Pillar C – Access to Finance</b>	
<p>Support diversification of financing instruments to enable small businesses to access funding.</p> <p>Complete the reform of the legal framework for leasing and factoring.</p> <p>Further develop a framework for crowdfunding.</p> <p>Continue efforts to reduce the level of dollarisation in the financial sector.</p>	<p>Publication of a Sustainable Finance taxonomy and related classification.</p> <p>Introduction of a requirement on commercial banks to report monthly on green loans and publication of a climate-related Risk Radar.</p> <p>Integration of ESG issues into the Corporate Governance Code for issues of Public Securities.</p> <p>Relaunch and expansion of the national credit guarantee scheme due to the pandemic.</p> <p>Adoption in 2023 of the Law on Microbanks, which creates a new 'Microbank' financial institution.</p> <p>Amendments to the Law on Securities Market in spring 2022.</p> <p>Adoption of a new National Strategy for Financial Education recognising SMEs as a target group.</p> <p>Launch of the financial education website FinEdu in 2020.</p>
<b>Pillar D – Access to Markets</b>	
<p>Increase the scope of export readiness and SME-FDI linkages programmes provided by Enterprise Georgia and ensure they are evaluated.</p> <p>Introduce financial support programmes for exporting SMEs.</p> <p>Carry out evaluations of the legislation on technical regulations, metrology and market surveillance.</p> <p>Improve the ability of contracting authorities to ensure greater competition.</p>	<p>Promotion of export growth and internationalisation of SMEs as priorities of the 2021-2025 SME Development Strategy.</p> <p>Enterprise Georgia's 2022 Export Assistance Programme to co-finance technical assistance to exporting businesses.</p> <p>Establishment of an independent Market Surveillance Agency.</p> <p>Intensification of the approximation of national legislation with the EU <i>acquis</i>: the Georgian National Agency for Standards and Metrology's GEOSTM CEN and CENELEC Affiliate status in 2023.</p> <p>Materials and trainings issued by the State Procurement Agency (SPA) for contracting authorities to facilitate SMEs' participation in public procurement.</p>
<b>Pillar E – Innovation and Business Support</b>	
<p>Develop a single information portal containing information on all institutions and agencies offering business support programmes.</p> <p>Monitor the economic impact of the financial instruments introduced.</p> <p>Strengthen linkages between businesses and research institutions/facilities.</p> <p>Increase the role of demand-side policies to incentivise diffusion of innovations.</p> <p>Create a single point of information for SMEs and an outreach body on green practices.</p> <p>Incorporate policies to support SMEs greening into overall support for enhancing SMEs' competitiveness.</p>	<p>Enterprise Georgia's growth hubs increase awareness of support programmes and provide training and services to SMEs.</p> <p>Creation of a department within Enterprise Georgia to monitor and analyse the impact of its SME support programmes.</p> <p>GITA's technology transfer pilot programme to identify scientific outputs with commercial potential and assist research teams in negotiations with businesses.</p> <p>Inclusion of the "Development of the Green Economy for SMEs" as a strategic direction in the SME Development Strategy 2021-2025.</p>

## Context

### Economic snapshot

Although Russia's war of aggression against Ukraine caused significant economic disruptions in 2022, the Georgian economy remained largely resilient and was negatively affected (in the short-term only) by supply chain disruptions, commodity price hikes and exchange-rate volatility. GDP growth for 2022 reached 10.1%, building on a strong post-COVID recovery with double-digit growth of 10.5% in 2021 driven by the gradual lifting of restrictions and expansion in the services, industry and agriculture sectors (World Bank, 2023<sup>[1]</sup>). Georgia capitalised on the large number of highly skilled individuals coming into the country, fuelling domestic consumption, and it benefitted from the relocation of businesses from Russia, as well as increasing transport flows. In the period January-November 2022, migrants accounted for 32% of rental demand and 5.5% of apartment sales in Tbilisi (TBC Capital, 2022<sup>[2]</sup>).

Despite the positive trend, Georgia has suffered from high inflation since 2021. Annual inflation remained in the double digits throughout 2022, though in December 2022 it fell to 9.8% and in June 2023 to 0.6% thanks to appropriate monetary and fiscal policy measures (Geostat, 2023<sup>[3]</sup>). The pandemic significantly affected both exports and imports in 2020, with a year-on-year change of -17.5 and -7.2 percentage points as a share of GDP, respectively (World Bank, 2023<sup>[4]</sup>). However, in 2021 trade showed signs of recovery and the strong growth continued in 2022, with Georgia's foreign trade turnover going up 33.4%, driven by exports of copper ores and concentrates, cars, ferroalloys, fertilisers, wine, and spirits (Geostat, 2022<sup>[5]</sup>).

**Table 12.3. Georgia: Main macroeconomic indicators, 2018-22**

Indicator	Unit of measurement	2018	2019	2020	2021	2022
GDP growth**	Percent, year-on-year	4.8	5	-6.8	10.5	10.1
Inflation**	Annual percent increase, consumer prices	2.6	4.9	5.2	9.6	11.9
Government balance <sup>1</sup>	Percentage of GDP	-2.3	-2.1	-9.3	-6.1	-3.1
Current account balance*	Percentage of GDP	-6.8	-5.9	-12.5	-10.4	-4.1***
Exports of goods and services*	Percentage of GDP	50.6	54.8	37.3	43.2	52.9
Imports of goods and services*	Percentage of GDP	61.2	63.8	56.6	59.6	63.0
FDI net inflows***	Percentage of GDP	7.7	7.7	3.7	6.7	8.1
General government gross debt**	Percentage of GDP	38.9	40.4	60.2	49.7	39.8
Domestic credit to private sector*	Percentage of GDP	60.5	65.6	79.9	73.8	64
Unemployment <sup>2</sup> *	Percentage of total active population	19.2	17.6	18.5	20.6	17.3
Nominal GDP**	USD billion	17.6	17.5	15.8	18.6	24.6

<sup>1</sup> General government augmented net lending/borrowing, agreed with IMF-Ministry of Finance.

<sup>2</sup> Modelled International Labour Organisation estimates.

Note: GDP: gross domestic product.

Sources: \* (World Bank, 2023<sup>[6]</sup>); \*\* (IMF, 2023<sup>[7]</sup>); \*\*\* GEOSTAT/National Bank of Georgia.

The ICT sector has become increasingly important to Georgia's economy, accounting for 4.7% of GDP and posting 49.9% year-on-year growth rate in 2022 (PMCG, 2023<sup>[8]</sup>). Mirroring global trends, Georgian businesses started adopting digital solutions in their operations during the pandemic, with 42% of firms having started or increased online business activity by October 2021 (World Bank, 2021<sup>[9]</sup>). More specifically, 40% of small, 43% of medium and 35% of large enterprises did so (World Bank, 2021<sup>[10]</sup>). In 2020, e-commerce sales increased threefold, although their share in total retail trade remained at 6.5% as of 2021. As of 2022, 17% of Georgian enterprises used digital solutions, such as cloud infrastructure, process management systems (e.g. ERP). Large companies have the highest adoption rate, at 35%, medium-sized enterprises at 26% and small companies at 16%. The Business Demand on Skills Survey also shows that the larger the company, the greater the incentive to invest in technology, with 19% of large firms indicating such intentions compared to only 3% of small firms (MoESD, 2022<sup>[11]</sup>).

### Box 12.1. Georgia's support for SMEs during the COVID-19 pandemic

During the COVID-19 pandemic, the Georgian government introduced several crisis alleviation strategies, providing several options for SMEs to access finance through Enterprise Georgia.

#### Financial support

Co-financing and credit guarantee programmes included:

- Interest rate co-financing increase from 7% to 11.5% (credit) and from 9% to 13.5% (leasing); the maximum duration of co-financing was extended to 36 months.
- The broadening of the sectoral scope of the credit guarantee mechanism, increased guarantee amounts from 70% to 90% on new loans and 30% on restructured loans.
- The Business Universal Programme allowed beneficiaries of the credit guarantee scheme to also receive an interest rate subsidy and grant.
- Micro Grants program allowed for increased amounts (from GEL 20 000 to 30 000), decreasing co-financing rate from 20% to 10%, with an additional 5% co-financing rate for beneficiaries from mountainous regions.
- A sector-specific programme for hospitality and construction industries offered a co-payment of accrued interest rate on the existing loans of micro and small-sized hotels and introduced a mortgage loan subsidy scheme.
- A mechanism of subsidising bank guarantees allowed financing a guarantor's guarantee fees for six months, used to cover the beneficiary's liabilities.

#### Regulatory flexibility

In 2020-21, the Georgian government introduced temporary measures in terms of its tax policy:

- An income tax exemption for individuals with a monthly income not exceeding GEL 1 500 (EUR ~530), with the exemption applied to GEL 750 (EUR ~260) out of GEL 1 500 (EUR ~520).
- A property tax exemption for businesses in tourism and postponed income tax.
- The fully automated VAT refund system was launched to support economic activity.

#### Workforce support

Targeted support measures were launched for female employees and entrepreneurs (198 000 beneficiaries) and minimal compensation offered to self-employed individuals who lost their incomes.

#### Market support

The "Business Support" Programme offered co-financing of interest rates on loans and leases (between GEL 10 000 and GEL 10 million (EUR ~3 500 and EUR ~3.5 million); a credit guarantee maximum of 60% of the approved loan for up to 10 years; and a grant covering up to 15% of the approved loan. In 2022, the programme was expanded to include technical assistance to exporter companies, in areas such as product licensing and certification, branding, and stimulation of international sales.

#### Measures to improve access to digital infrastructures

Vocational education and training (VET) institutions were supported by creating distance learning modules and a unified e-database for teachers and programme managers, including by holding information sessions and workshops.

Source: (Enterprise Georgia, 2023<sup>[12]</sup>).

Even though Georgia has achieved a significant level of macroeconomic stability, further reforms are needed to ensure inclusive growth and competitiveness in the long run. Key priorities include education reform to strengthen human capital and ensure skills for the labour market and innovativeness, as well as strengthening physical infrastructure including transport and green energy infrastructure to facilitate access to global value chains (European Commission, 2022<sup>[13]</sup>).

### **SME sector**

Georgia's National Statistics Office has not changed its approach to classifying businesses according to their size since 2017. Georgia's SME thresholds differ from EU criteria, as microenterprises are placed under the small enterprise category (Table 12.4).

**Table 12.4. The SME definition in Georgia**

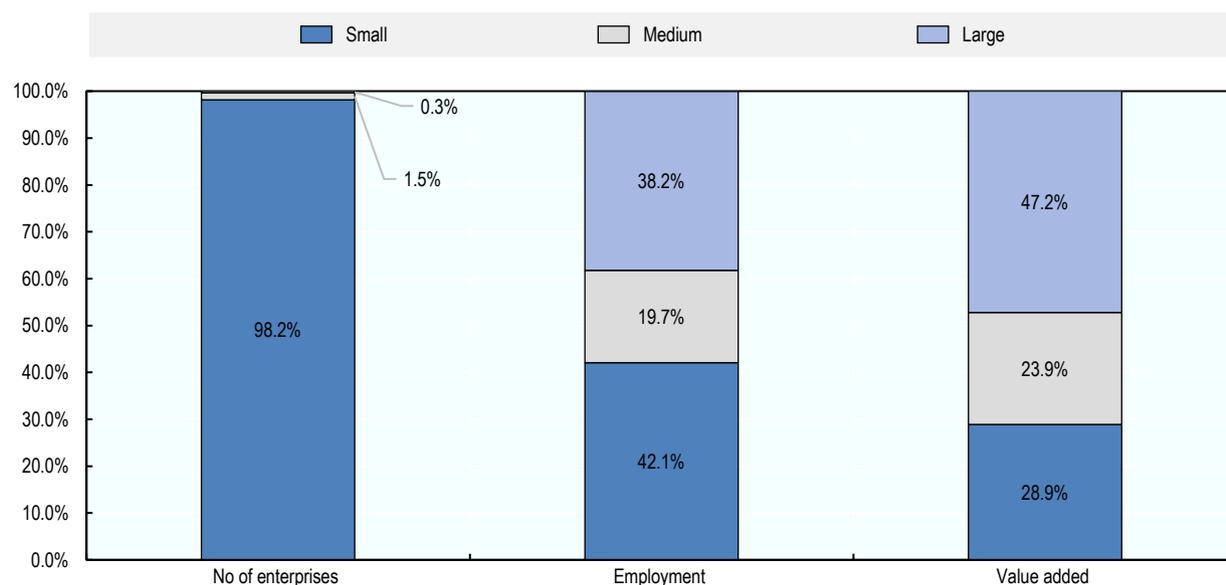
	<b>Small</b>	<b>Medium</b>
Employment	≤ 50 employees	≤ 250 employees
Turnover	≤ GEL 12 million (EUR ~4 217 880)	≤ GEL 60 million (EUR ~21 089 400)

Note: Exchange rate as of 28 September 2023 (OANDA, n.d.<sup>[14]</sup>).

Source: (Geostat, 2023<sup>[15]</sup>).

SMEs constitute a large segment of the business sector, making a significant contribution to the turnover, value added and employment. In 2021, small businesses represented 98.2% and medium-sized enterprises 1.5% of the total business sector. While the number of employees in SMEs has been increasing since 2015, there was a significant drop in employment in 2020 (-10.1%) due to the pandemic and, despite the post-pandemic recovery in 2021, employment in SMEs is still lower than pre-pandemic levels. In 2021, SMEs employed 61.8% of the workforce in the business sector (Figure 12.2). In terms of turnover and value added, SMEs experienced an upward trend in the 2015-21 period, except in 2020 when turnover declined by 1.8 percentage points and value added by 2 percentage points. SMEs' share in the total business sector value added varied between 53% and 61% during the observed time frame, with the lowest share, 53%, in 2021.

**Figure 12.2. Business demography indicators in Georgia, by company size (2021)**



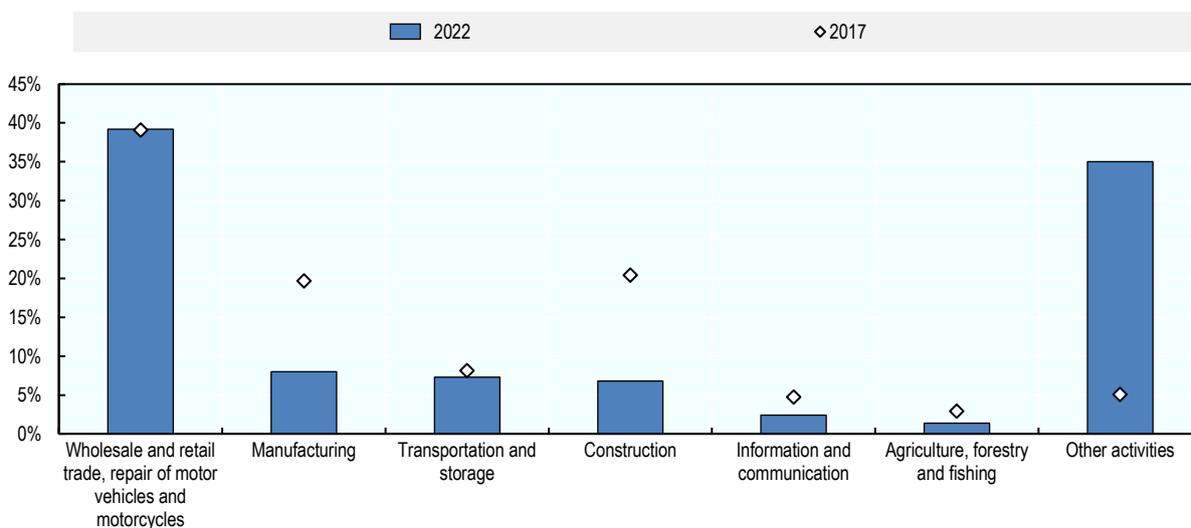
Source: (Geostat, 2022<sub>[16]</sub>).

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Looking at the sectoral distribution, most SMEs in Georgia are concentrated in low value-added sectors, such as wholesale and retail trade (39.4%), followed by transport and storage (7.5%) and construction (7%) (Figure 1.3). While the share of SMEs in wholesale and retail trade remained nearly stable in the period between 2017 and 2022, the share of construction and manufacturing decreased substantially, by almost 14 and 12 percentage points respectively.

**Figure 12.3. Sectoral distribution of SMEs in Georgia (2022)**

Share of SMEs by type of economic activity



Note: "Other activities" includes NACE Rev. 2 sectors B, D, E, I, K to U, and activity unknown.

Source: (OECD, 2020<sub>[17]</sub>); (Geostat, 2023<sub>[15]</sub>).

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## SBA assessment by pillar

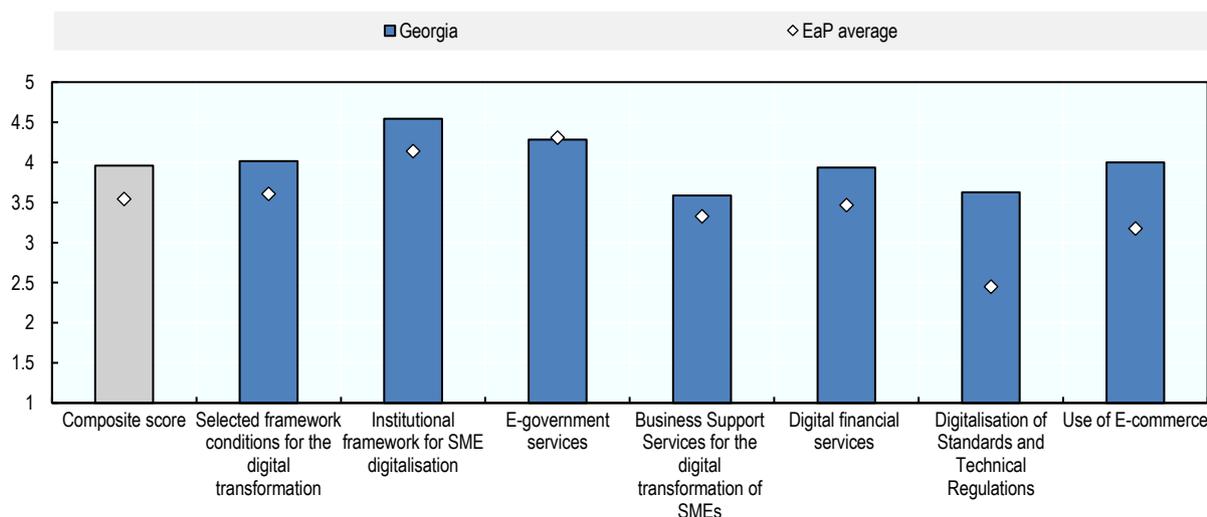
### SME digitalisation policies

Creating an environment conducive to the digital transformation of SMEs requires a comprehensive policy approach based on sound framework conditions for the digital economy as well as targeted support to help SMEs reap the benefits of digital solutions. Framework conditions refer to pre-requisites for the digital transformation, such as affordable access to high-speed broadband, a satisfactory level of digital literacy among citizens, and a well-co-ordinated and coherent policy approach and governance system for digital policies. In the context of SME development, those fundamentals need to be complemented with specific business support services, digital financial services for SMEs, and tailored support to engage in e-commerce to reach new markets.

Reflecting the multi-faceted nature of the topic, this round of SBA assessment evaluates EaP countries' policy approaches to SME digitalisation through i) a dedicated pillar on selected framework conditions for the digital transformation, as well as ii) six new sub-dimensions, incorporated in the pre-existing dimensions of the SBA assessment, to delve deeper into specific thematic policies to foster the digital transformation of SMEs. The weighted average of the scores for the new pillar and digitalisation-oriented sub-dimensions results in a composite score for SME digitalisation policies presented below (Figure 12.4).<sup>1</sup>

Georgia appears as top performer in SME digitalisation policies, with a composite score reaching 3.96. The country scores above 4 for four of the seven aspects evaluated, and almost systematically above the regional average, apart from e-government services. This performance reflects Georgia's overall substantial efforts to accelerate the digital transformation, with the development of a strong institutional and policy framework and dedicated initiatives. Support services for SME digitalisation have notably been recently launched in the new Growth Hubs. Moving forward, this could be complemented by additional measures such as digital skills development programmes directed specifically to managers of SMEs and the establishment of a network of certified consultants that can provide advisory services on business digitalisation in your country. Strong co-ordination should also be continuously ensured between Enterprise Georgia and GITA on these topics.

**Figure 12.4. Scores for SME digitalisation policies in Georgia**



Note: Further details on the assessment and calculation methodology can be found in the "Assessment framework" section in the Digital Economy for SMEs chapter, in the "Policy framework, structure of the report and assessment process" chapter and in Annex A. Additional information on institutional framework for SME digitalisation and e-government services can be found in Pillar A; on digital financial services in Pillar C; on use of e-commerce in Pillar D; and on Business support services for the digital transformation of SMEs in Pillar E.

The following section details Georgia's performance in developing selected framework conditions for the digital transformation, while more information on digitalisation-oriented sub-dimensions can be found in the sections on the pillars they respectively belong to.

### ***Selected framework conditions for the digital transformation***

Individuals and firms, notably SMEs, cannot fully reap the benefits offered by the digital transformation without the existence of robust framework conditions, such as comprehensive digitalisation policies, access to high-speed Internet and well-rounded ICT skills among the population. Accessible, affordable and stable broadband connection is indeed the *sine qua non* to ensure widespread participation of citizens and businesses in the digital economy, and to stem the widening of the connectivity gaps between urban and rural territories, and between firms of different sizes. Furthermore, fostering digital skills development at all stages of life through formal education and lifelong learning initiatives for adults is essential to help the working-age population acquire the skills they need to embark on the digital transformation, produce tech-savvy consumers, and build a talent pool of IT specialists.

#### *National digital strategy*

Georgia does not yet have a comprehensive national digital development strategy as a standalone document. The Ministry of Economy and Sustainable Development (MoESD), with the technical assistance of the World Bank, has developed a draft strategy (*Long-term National Strategy for the Development of the Digital Economy and Information Society*) and an implementation plan, but the document has not yet been adopted. The latest update suggests that the document has been proposed to the government and approval is pending. According to the government, the strategy will act as an umbrella document and cover several digital economy objectives: digitalisation of the public and private sectors, increasing digital literacy, facilitating the formation of an information society, boosting high-tech exports, developing research and innovation, and increasing Georgia's competitiveness in the global digital economy.

So far, digital economy objectives and strategic actions have been integrated into several policy documents. First, Georgia's primary long-term strategic document – Vision 2030 – establishes the digital economy and information technologies as one of the 13 key aspects of the country's economic development. The strategy envisions positioning Georgia as a globally integrated "digital hub". Several priority directions are defined to achieve this goal: providing high-speed Internet access to businesses and government institutions; increasing competitiveness in the broadband market; attracting investments; developing skills; and enhancing digital literacy, generating demand, developing e-commerce platforms, boosting high-tech exports, etc. The strategy also envisions increasing digital economy access for people with disabilities. Moreover, advancing cybersecurity is a critical aspect of the information society, with a key role in the development of the digital economy.

In addition, the *National Broadband Development Strategy of Georgia* (NBDS) and its Action Plan for 2020-2025 aim at maximising broadband coverage. Digitalisation is also included in the *SME Development Strategy of Georgia 2021-2025*, which notably seeks to increase SMEs' access to information technologies, develop digital skills among entrepreneurs, develop broadband infrastructure and promote e-commerce. Finally, several policy documents envision the digitalisation of the public sector, including the *Public Service Development Strategy of Georgia 2022-2025* and the Georgia Revenue Service's *Services Development Strategy 2021-2024*. The *Public Service Development Strategy of Georgia 2022-2025* establishes "mostly digital" as a core principle for the development and provision of government services. Moreover, the *Digital Governance Strategy 2023-2026* has been developed and will soon be adopted. In this regard, Georgia has already made progress in recent years, with the share of individuals using the Internet to interact with public authorities steadily increasing – from 11.8% in 2018 to 17% in 2021.

In terms of institutional framework, Georgia has worked on developing a multi-stakeholder approach. The draft *Long-term National Strategy for the Development of Digital Economy and Information Society* and its

implementation plan were developed by a multi-stakeholder working group, which included private sector representatives, notably business associations, NGOs and World Bank experts. The MoESD has a clear mandate to lead digitalisation policies through its Communications, Information and Modern Technologies Department. With regard to the implementation of existing policy documents, further efforts have been made to foster co-ordination among stakeholders: the NBDS, for instance, is co-ordinated by a dedicated high-level steering committee made up of deputy ministers and heads of state agencies.

However, the co-existence of several policy documents covering digitalisation increases the risk of overlap. The upcoming National Digital Strategy would be a good opportunity to ensure policy coherence and offer an overarching vision. Moreover, while Georgia's IT sector has been booming, the existing policy documents entail fewer measures for the digitalisation of SMEs in non-IT sectors – a few initiatives have been implemented and the topic is mentioned in the SME strategy, but the measures so far have been mostly limited to digital skills development. Enterprise Georgia is, however, working on developing a new, comprehensive support programme.

Moving forward, Georgia should adopt its National Digital Strategy, ensuring its comprehensiveness and setting clear objectives, actions, resources and task allocation. Thereafter, it should ensure suitable measures for monitoring and evaluating the strategy. It should also grant greater consideration to the digital transformation of firms in non-IT sectors in policy documents and related initiatives, and encourage the development and uptake of more advanced technologies such as artificial intelligence, big data analytics and blockchain – to further advance on Georgia's ambition to become a “digital hub”.

### *Broadband connectivity*

The development of a high-speed access appears as a priority in the government's agenda. In 2020, the country adopted its first national broadband strategy – the above-mentioned NBDS and its Action Plan for 2020-2025, which is in line with the EU's Gigabit Society Objectives 2025. The NBDS was developed by the MoESD with technical assistance from the European Commission, the World Bank and EU4Digital. The strategy has three key policy objectives: 1) increasing competition; 2) attracting investments; and 3) building digital skills and demand.

Monitored by the dedicated high-level co-ordination group mentioned above, the implementation of the strategy is further fostered by annual multi-stakeholder consultations and various meetings, including with local municipalities and telecom operators. The MoESD and the Communications Commission (ComCom) organise such meetings to get feedback about the programme implementation. The results of these evaluations are discussed and reflected in the strategy. Moreover, Georgia collects indicators to track progress, many of which are publicly available on ComCom's website ([comcom.ge](https://comcom.ge)).

Data reveal that Georgia's policy efforts have already borne fruit: the country is one of the most connected EaP countries, registering an increase of about 50% in both fixed and mobile broadband subscriptions between 2015 and 2020. Moreover, the digital divide between urban and rural areas more than halved over that period (-64%), down to 12.6% in 2021. This figure remains considerable, ranking above the regional average and EU values – but additional measures are planned to tackle the remaining gap. The NBDS has a target to eliminate the remaining divide and cover 99% of the Georgian territory with 4G by 2025. This objective is also mirrored in the mission of the Open Net – a government programme in charge of the project Log-In Georgia, which foresees the development of the high-quality broadband infrastructure in Georgia's regions. Other measurable targets set under the NBDS for 2025 include: pilots for 5G services in three municipalities; all institutional entities having access to 1 Gbps connectivity; and all households and enterprises having access to high-speed (100 Mbps+) broadband networks.

However, subscriptions for both fixed and mobile broadband remain below OECD and EU levels. This might be partly due to persisting challenges in terms of affordability: prices for fixed broadband have come down in recent years, but remain slightly above the ITU's 2% target, amounting to 2.35% of gross national income (GNI) per capita in 2022. Internet speed in firms could be further improved, as the majority of

connected firms have an average Internet speed below 30 Mbit/s (61% in 2023). This poses a particular problem for SMEs, who lag behind broadband uptake compared to large firms: 79% of large firms benefit from high-speed Internet (above 30 Mbit/s), while only 54% of medium ones and 38% of small ones do. Further targeted actions are therefore needed to close this substantial gap.

Moving forward, Georgia could foster competition, investment, and innovation to ultimately support faster Internet at lower prices; strengthen the demand side by ensuring consumers' access to information on broadband services and quality; and promote SMEs' uptake of high-speed Internet.

### *Digital skills*

The development of digital skills is a key aspect of several policy documents integrating digital economy objectives. The NBDS, for instance, establishes building digital demand and skills as one of its three priority areas. In accordance with this objective, the action plan defines relevant actions in several directions: support of digital skills/digital literacy development programmes and state campaigns, including awareness-raising about cybersecurity; promotion of broadband service utilisation across socially vulnerable households; targeted programmes to ensure adapted Internet content is available for people with disabilities. Additional policy efforts are being provided to foster digital skills development among businesses, with the SME Strategy 2021-2025 entailing two objectives to this end. The topic should also be covered by the upcoming National Digital Strategy.

So far, ICT skills have been given increasing importance in vocational education and training (VET) education. Embedded in the VET development strategies 2013-2020 and draft for 2023-27, they already constitute a mandatory competence to acquire in VET curricula and should be further fostered by efforts to establish co-operation between educational organisations and businesses: the ICT cluster, together with its member companies, is developing a model that will support educational organisations to come up with practical approaches tailored to the current needs of the private sector.

Beyond education systems, Georgia has successfully implemented several lifelong learning initiatives, provided by both the public and private sectors, to promote ICT skills development among the general population. Georgia's Innovation and Technology Agency (GITA) is one of the main stakeholders in that regard, offering a number of free online trainings and certifications on its dedicated platform [ict.gov.ge](http://ict.gov.ge). GITA also led a *Digital Economy Skills Development Programme* to train and certify 3 000 Georgian citizens in the most demanded digital skills by March 2023. Many of these opportunities benefit from donor support, such as the *Industry-led Skills Development Programme*, led by the US Agency for International Development (USAID), and the World Bank-financed *Log-in Georgia Project (2020-2025)*. The latter encompasses a Digital Adoption Programme, implemented by the National Communication Commission, to equip citizens with basic digital skills, notably in rural areas through training seminars based on the Community Needs Assessment. It has already been launched in four municipalities and has so far resulted in the conduction of 180 training seminars on digital literacy and safe use of the Internet. Additional activities are being carried out regarding e-government services, e-Auction and online consumer protection. The Programme has benefitted over 2,000 individuals so far.

Moreover, Georgia regularly collects data on ICT skills levels at the national level and among university and VET graduates, which facilitates monitoring and evaluation of policy measures. Students' progress in acquiring digital competences is reportedly assessed.

However, digital skills levels in Georgia remain below OECD and EU values, with 36% of Georgians having only basic digital skills in 2021 (a share similar to that of Ukrainians). Moreover, efforts on digital literacy in education systems have been focused on VET so far, with digital competence being included only in VET curricula. Despite the number of educational programmes and initiatives available, the country does not yet have a framework for certification comparable to the EU E-Competence Framework. As the dissemination of ICT skills advances in the population, the absence of such a framework can potentially lead to inconsistencies in digital skills assessment, difficulties in recognising digital competences and

limitations for career development. Finally, in terms of monitoring and evaluation, key performance indicators assessing digital skills policies could be improved to better capture impact.

Moving forward, Georgia could implement digital competence as a key competence at all levels of education, also providing for relevant teacher training; introduce a digital competence framework to establish a standardised set of criteria and standards for assessing, certifying and recognising digital competences; complement existing skills assessment and anticipation tools with aspects on digital skills; and complete the adoption and implementation of a National Digital Skills and Jobs Coalition to foster the inclusion of all relevant stakeholders, including education providers and teachers, in the design and implementation of digital skills policies.

## **Pillar A: Responsive government**

### *Institutional and regulatory framework*

Georgia has continued strengthening its already advanced institutional framework and made further progress in aligning its practices to EU standards. With the launch of a new SME Strategy 2021-2025, the priority scope has been broadened to include the development of entrepreneurial skills, green economy and SME digitalisation support.

#### **Institutional setting**

According to the 2020 EaP SME Policy Index, Georgia had already established a well-structured and advanced institutional and regulatory framework for SME policy. Since the previous SBA assessment, Georgia has approved and is currently implementing its second multi-year SME Development Strategy for 2021-2025 and related Action Plans for 2021-2022 and 2023-2025. The strategy was built upon the achievements and progress made by the previous SME Development Strategy for 2016-2020, which was implemented successfully, with all defined targets having been achieved.

The new strategy for 2021-2025 was elaborated in the same inclusive manner as the previous one. A Steering Committee and a Working Group were established to involve representatives of state institutions, civil society and business associations. The document was elaborated in co-operation with the OECD and GIZ, with the support of the EU.

The new strategy is articulated along seven strategic directions: i) refining legislation, institutional strengthening and improving of the operational environment for SMEs; ii) promoting the development of entrepreneurial skills and raising the entrepreneurial culture of SMEs; iii) improving access to finance for SMEs; iv) promoting the export growth, access to the market, and internationalisation of SMEs; v) promoting electronic communications, information technologies, innovation, and research and development for SMEs; vi) promoting the development of women entrepreneurship; and vii) promoting the development of a green economy for SMEs. It involves 42 objectives and 84 corresponding outcome indicators. The document identifies three quantitative targets at the aggregate level related to SME growth, employment generation and increasing productivity.

Like the previous strategy, the new SME Development Strategy 2021-2025 includes an evaluation and monitoring system. To determine the progress of the activities defined by the accompanying action plans, the Economic Policy Department of the MoESD regularly monitors implementation. The annual reports on the implementation of the strategy and corresponding action plans are published on the ministry's website. Currently, implementation is advancing as planned, despite the disruptions caused by the COVID-19 epidemic and economic shocks created by the war in Ukraine.

The MoESD, along with two key public agencies – Enterprise Georgia and GITA – is in charge of SME policy implementation. Both agencies were established in 2014. Enterprise Georgia has substantial

operational autonomy and is in charge of overall SME support services. GITA leads the innovation and technological development component of the strategy.

Since 2020, Georgia has made progress in updating and completing the legal framework for SME policy. In 2021, the parliament adopted the new Law on Entrepreneurs, which entered into force in 2022. The new law aims to fulfil the requirements of the association agreement and association agenda and the approximation of Georgia's corporate law to EU legislation. The Law of Georgia on Mediation entered into force on 1 January 2020. It aims to support alternative means of dispute resolution to develop the legislative framework related to mediation. In addition, the Law of Georgia on Rehabilitation and Collective Satisfaction of Creditors, adopted in 2020, has been enacted since April 2021. By adopting this mentioned law, a progressive framework governing the insolvency process was established in Georgia, incentivising the rehabilitation of enterprises (see below).

### **Legislative simplification and RIA**

Georgia has also made significant progress towards the systematic application of regulatory impact assessments (RIA), even though the use of the RIA mechanism is not fully institutionalised. In addition to the unit in charge of RIA within the MoESD, established in 2007, the Parliamentary Secretary of the Government Administration of Georgia was assigned the mandate of RIA quality control. In line with the obligation to perform RIA for legal amendments initiated by the government concerning 20 typologies of laws defined by the Organic Law of Georgia on Normative Acts, the government of Georgia has adopted the RIA methodology, defining the technical guidelines for implementing RIA evaluations and elaborating the relevant reports. However, despite important steps made so far, there are still concerns about public agencies' lack of willingness and capacity to provide quality RIA reports and incorporate the mechanism into their daily policy making.

Although RIA is formally mandatory, the methodology provides the possibility of avoiding it for significant legal initiatives by setting a list of exceptions and excluding legal acts initiated by members of parliament. The methodology for SME-specific RIA tests has still not been adopted and is currently under development.

### **Public-private consultations**

Public-private consultations (PPCs) are regularly conducted, and public-private institutions, including the Business Ombudsman, the Investors Council and the Private Sector Development Advisory Council, are actively engaged in promoting public-private dialogue. In 2022, the government approved the Instruction on Public Consultations, which is Annex N11 of the Ordinance of the Government "On Rules for Policy Elaboration, Monitoring, and Evaluation". According to this instruction, consultations are a crucial procedure and need to consider the extensive involvement of all stakeholders not only for the purpose of being informed on planned changes/reform but also to be actively engaged in elaborating policy priorities and completing the development of the policy cycle.

### **Institutional framework for SME digitalisation**

The SME Development Strategy 2016-2020 and the SME Development Strategy 2021-2025, and related action plans, cover a complex range of issues. In terms of SME digitalisation, most attention has been focused on fostering digital innovation through relevant objectives and targeted activities. "Promotion of Electronic Communications, Information Technologies, Innovations and Research and Development for SMEs" is one of the priority directions of the Strategy 2021-2025, with a view to increasing the competitiveness and productivity of SMEs. The objectives set in the Strategy include: innovative financing, in order to increase the productivity and innovation capacities of SMEs, as well as to increase the level of innovation in the country; supporting the development of e-commerce in SMEs through consulting and training activities; and fostering access to high-speed Internet for SMEs.

In order to step up support for the digital transformation of SMEs in non-IT sectors, which had received limited attention before, Enterprise Georgia has provided efforts to this end through a project conducted under the Georgia Relief and Recovery for Micro, Small, and Medium Enterprises project: Regional Consulting Centers (Growth Hubs). To achieve the goals of the project, Enterprise Georgia has centrally hired Digital Transformation Experts, who create tailored and detailed digital transformation plans for SMEs. The plans include recommendations for trainings on the specific digital skills needed, as well as which digital tools need to be acquired to improve internal processes. SMEs may benefit from a co-financed grant of up to 25 000 GEL (EUR ~8 800).

### **The way forward**

To further improve the institutional and regulatory framework for SMEs, Georgia should guarantee a high-level of co-ordination between Enterprise Georgia and GITA to ensure that programmes supporting SME digitalisation and ICT sector development are developed in synergy. In addition, Georgia should consider the elaboration of specialised development strategies for sectors such as tourism, hospitality, or ICT, which inherently require a co-ordinated approach and the development of a supportive eco-system to thrive effectively.

#### *Operational environment for SMEs*

Georgia has achieved notable global recognition for establishing a high-standard regulatory and business environment through a consistent and ongoing reform process and the establishment of several robust and autonomous institutions. Over the past year, the focus has shifted towards the provision of a wide set of government services via digital platforms, simultaneously improving accessibility, transparency, speed of delivery and cost efficiency.

### **E-government services**

The implementation of the e-Georgia strategy (2014-2018) and its related action plans led to a number of achievements with regards to the development of advanced government platforms. The platforms [my.gov.ge](https://my.gov.ge) and [data.gov.ge](https://data.gov.ge) were already recognised in the previous EaP SME Policy Index assessment. [my.gov.ge](https://my.gov.ge) incorporates up to 730 e-government services, including business registration, reorganisation and bankruptcy registration, while [data.gov.ge](https://data.gov.ge) is an open data portal integrating public information on government activities or the decentralised system of public halls offering a number of services to citizens and organisations.

It should be noted that the e-Georgia 2014-2018 strategy dedicated to digital governance has not been updated. However, since the previous assessment, the Public Administration Reform (PAR) Strategy for 2023-2026 and related Action Plan for 2023-2024 have been adopted, covering the aspects of digital governance relevant to SMEs. Moreover, the Public Service Development Strategy 2022-2025 and related Action Plan 2022-2023 were also adopted in 2021. The strategy is based on several fundamental principles, including transparency, flexibility (timeliness and adaptability), mostly digital, etc. In addition, the accessibility of information technologies is one of the objectives within one of the priority directions of the SME Development Strategy of Georgia for 2021-2025.

In 2020, the Digital Governance Agency was established following the merger of two agencies under the Ministry of Justice – Smart Logic and the Data Exchange Agency. The agency is committed to providing safe, efficient, “one-stop” delivery of state electronic services to citizens, businesses and the non-governmental sector; to operating the unified government services portal [my.gov.ge](https://my.gov.ge); and to achieving a form of governance based on the digital trust principle. The Digital Governance Strategy 2023-2026 is due to be adopted in 2023; a draft is already available.

## Company registration

Georgia has one of the easiest company registration processes in the world. Company registration procedures have been further optimised since the previous assessment. They can be fully conducted online, require a single operation and are completed in one day.

## Business licensing

Georgia's regulatory reform policy is characterised by a substantial reduction in the number of business licenses, as noted in the previous assessment. In addition, the system of licenses and permits is also based on the "silence implies consent" principle. Most remaining licenses are requested and granted through the electronic portal [eauction.ge](http://eauction.ge). Electronic management of licenses enhances flexibility, efficiency and the transparency of procedures. Several changes have been implemented over the past four years to further simplify the license administration process.

## Tax compliance procedures for SMEs

Georgia has introduced a preferential taxation regime for micro and small enterprises. Microenterprises with an annual turnover under GEL 30 000 (EUR ~10 500) are exempt from income tax. Enterprises with an annual turnover less than GEL 500 000 (EUR ~175 000) have the possibility to acquire a small business status and pay turnover tax at a rate of 1% instead of 20% of net income/profit. Since the corporate income tax reform in 2017, all firms operating in Georgia's non-financial sector pay 15% only on distributed profit and are subject to a dividend tax of 5%. The corporate income tax (CIT) on retained/reinvested profits has been abolished. Extension of this CIT model to the insurance sector is planned from January 2024. As for the value-added tax (VAT), the threshold is set at GEL 100 000 (EUR ~35 000). Importantly, the government of Georgia has introduced an automatic VAT refund system which positively affected the financial standing of Georgian enterprises. The introduction of automatic refunds is one of the key steps to improve tax administration. Notably, good practices for VAT refund claims were established in 2019, but automatic payment became operational in the following years. The most recent tax reforms also relate to the simplification of tax administration. The Revenue Service of Georgia recently launched the Informational and Methodological Hub<sup>2</sup> to ease the burden of tax compliance in general and for enterprises in particular. This is expected to reduce tax disputes by making tax administration more predictable.

In addition, the Ministry of Finance is considering the implementation of the tax dispute resolution reform to improve the efficiency of tax dispute resolution by developing a new system and a fully dedicated, qualified and independent tax dispute resolution government body. Furthermore, the Revenue Service is currently working with the World Bank to improve SMEs' tax compliance using insights from behavioural economics.

## The way forward

In order to continue improving the operational environment for SMEs, Georgia should i) complete the approval of the Digital Governance Strategy 2023-2026; ii) increase co-ordination among the different agencies and branches of the public administration, in order to achieve a high level of inter-operability among public sector data banks and to facilitate the exchange of data within the public administration; iii) increase cybersecurity in order to reduce the risks of hacking and sabotage; and iv) systematically calculate the effective tax rate imposed on different types of SMEs and review the impact of preferential tax regimes on enterprise growth.

### *Bankruptcy and second chance*

The adoption of the new "Law on Rehabilitation and the Collective Satisfaction of Creditors' Claims" in September 2020 significantly transformed and improved the Georgian insolvency regime. The newly

enacted legislation, effective since April 2021 and developed in high compliance with international standards, superseded the previous Insolvency Law adopted in 2007. This updated legal framework brought a noteworthy shift of focus from liquidation to rehabilitation, thereby efficiently addressing one of the main shortcomings of the previous regulatory regime. The new law introduced different mechanisms that incentivise the initiation of preventive reorganisation procedures at early stages of financial distress, including an out-of-court proceeding (the Regulated Agreement). Moreover, under the new regime, a moratorium on creditors' claims is automatically applied when an insolvency case proceeding is initiated, and tax debts no longer take the highest priority during bankruptcy proceedings. In addition, the law sets provisions to establish an electronic case management system for official information and documentation. However, the system is yet to be developed. Finally, the newly established insolvency practitioners are regulated by the National Bureau of Enforcement, which operates under the direction of the Ministry of Justice (EBRD, 2021<sub>[18]</sub>).

The insolvency reform is monitored and evaluated under the project ReForMeter, a reform-tracking tool supported by the USAID Economic Governance Programme and implemented by ISET Policy Institute.<sup>3</sup> According to a preliminary assessment of the reform carried out in this context, while under the previous law the share of cases that started under the rehabilitation regime as opposed to the bankruptcy regime represented only 10% of all cases, under the new law the share increased to 35%. Moreover, the new reform is expected to drastically reduce the average duration of completed insolvency cases, which was considered to be a major issue under the old insolvency regime (ISET Policy Institute, 2023<sub>[19]</sub>). However, it is important to note that monitoring activities appear to be fully externalised. Although the government actively participated in the assessments conducted by ISET, its involvement was limited and it had no ownership over the analysis.

In terms of measures to prevent insolvency, although a systematic and institutional approach has not yet been adopted, some relevant initiatives are in place. For instance, a web guide for businesses<sup>4</sup>, developed by the EBRD in partnership with Enterprise Georgia (EG) and the Rural Development Agency, provides advisory services and generic guidance to Georgian SMEs experiencing financial difficulties. Moreover, the Business Rehabilitation and Insolvency Practitioners Association (BRIPA), founded in November 2018, offers legal advice to businesses facing financial difficulties and fearing failure, including via the hotline service INSOLAID.

To conclude, Georgia would benefit from adopting initiatives to promote a second chance for bankrupt entrepreneurs. Although there are no formal barriers for bankrupt entrepreneurs to make a fresh start, there are no explicit incentives either, no dedicated strategy is in place, and there are no information campaigns or relevant programmes to promote entrepreneurial second chance.

## **Pillar B: Entrepreneurial human capital**

### *Entrepreneurial learning*

Since the 2020 SBA assessment, there has been a significant shift in the co-ordination of policies related to entrepreneurial learning in Georgia. Previously, an inter-agency working group created by the Ministry of Education and Science, held this responsibility. However, since 2021, most of its functions have been transferred to the newly established Skills Agency. This agency, through a partnership between the ministry and the Georgian Chamber of Commerce and Industry (GCCCI), aims at promoting the development of modern skills, inclusive vocational education and the internationalisation of human capital development policy through public-private partnerships. The Skills Agency is also focused on developing entrepreneurial competences.

Entrepreneurial learning is currently included in several policy documents in Georgia, and benefitted from a dedicated action plan, which is a considerable improvement since 2020. The *Action Plan for the Implementation of Lifelong Entrepreneurial Learning at All Levels of Education 2019-2020*, however, has

not been updated since 2020, resulting in the absence of a separate policy document that specifically coordinates entrepreneurial learning in Georgia. This direction is now incorporated within the *Unified Strategy for Education and Science 2022-2030* and the *SME Development Strategy 2021-2025*, and their related action plans. The *Unified Strategy for Education and Science* emphasises the importance of supporting the development of creative and entrepreneurial skills among teachers, pupils, students and adult learners across all levels of education. In line with the strategy's 2022-2024 Action Plan, entrepreneurial learning is considered in introducing renewed entrepreneurial modules within all vocational education programmes and updating training curricula to strengthen entrepreneurial skills and competences in higher education institutions.

During the assessment period, the Georgian government took several steps to promote entrepreneurial learning, primarily through the vocational education system. This included supporting the development of educational institutions, updating entrepreneurship modules, and providing capacity building activities for teachers.

For instance, with the support of the United Nations Development Programme, and in co-operation with the Vocational Skills Agency and the Center for Counseling and Training (CTC), a methodology for the organisational assessment of vocational schools was developed to promote the introduction of internal institutional entrepreneurship. Based on this methodology, a new organisational structure of eight professional educational institutions has been prepared. Further efforts were also provided regarding the harmonisation of entrepreneurial modules in VET programmes with the European Entrepreneurship Competence Framework (EntreComp): in 2019, the ministry launched a project to promote entrepreneurial education through the development of a new training module. The module and supporting materials were revised in accordance with the project-based teaching methods. Georgia also made steps towards fostering innovative learning through the establishment of Fablabs in 14 VET institutions.

Additional progress has been made with regard to teacher training, notably through courses and the Skills Agency's plans to develop teacher networks. Moreover, new regulations are reportedly being developed to stimulate VET teacher partnerships and school-to-school co-operation, with the aim to shift the centralised training system to a more co-operative and practice-based model.

However, Georgia's approach to entrepreneurial learning could be complemented by additional activities to promote it in general schools. While significant progress has been made in developing entrepreneurial learning in vocational education, there has been comparatively little advancement in incorporating this approach into general and higher education, resulting in not all students engaging in practical entrepreneurial experience. The Fundamentals of Entrepreneurship module is optional for schools, and entrepreneurial courses are primarily offered in business and technology faculties at the tertiary level. Further efforts are required to ensure more systematic development of entrepreneurship across the country's university network. There is notably a lack of collaboration between general schools and SMEs, and career guidance services remain underdeveloped and rather fragmented, although a Strategy 2022-2026 has been developed to address this issue.

Moreover, policies provide for the assessment of students' learning outcomes, and students are tracked after graduation, but teacher competences on entrepreneurship are not formally evaluated. Overall, data on the development of entrepreneurial learning in schools and higher education institutions is limited; Georgia would therefore benefit from a systematic assessment and collection of statistical data to better evaluate policy development.

In the future, Georgia could further promote entrepreneurial learning in general educational institutions, including entrepreneurship key competence at all education levels, helping students in general schools engage in practical entrepreneurial experience, encouraging non-formal learning and improving career guidance services. Business-school co-operation could also be stepped up between general schools and SMEs, but also strengthening industry-VET school linkages. Indeed, only 18% of Georgian firms had employees with VET backgrounds in 2022, and only 3% of businesses co-operated with VET schools –

although 8% expressed the need and/or wish for collaboration in the short-term (Labour Market Information System, 2022<sup>[20]</sup>). Georgia could also further develop teacher training on entrepreneurship by including entrepreneurship as a compulsory topic in pre-service teacher training, developing courses in in-service training for teachers in general and higher education, and expanding such learning opportunities to schools'/university managers. Finally, monitoring and evaluation could be improved, notably through data collection and evaluation of teachers' competences to ensure training impact. Recommendations from the monitoring and evaluation of previous policies should feed into the development of new policy documents.

### *Women's entrepreneurship*

Women's entrepreneurship policies in Georgia are enhanced by multiple policy documents, initiatives, and a strong institutional framework, although there have not been any significant policy changes since the last SBA assessment. The establishment of the Sub-Council of Women Entrepreneurship Promotion under the Private Sector Development Advisory Council (PSDAC) in 2017 has served as a platform for strengthening public-private dialogue in this area. The sub-council's primary objective is to identify and address issues related to women's entrepreneurship and develop relevant recommendations.

Georgia has adopted a new SME Strategy for 2021-2025, which includes, for the first time, a dimension dedicated to women's entrepreneurship, and appears as the main national document promoting the development of women's entrepreneurship in Georgia. Additionally, the *State Concept on Women's Economic Empowerment* and the *Rural Development Strategy 2021-2027* recognise the importance of promoting and supporting women entrepreneurs in Georgia. The SME Strategy is, however, the only policy document that defines concrete objectives and activities to support women's entrepreneurship.

Women entrepreneurs benefit from various support programmes, primarily implemented by Enterprise Georgia and GITA. They have been well represented among the participants of Enterprise Georgia's "Micro Grants" and GITA's small grants programmes, with the share of female beneficiaries amounting to 50% and over 30%, respectively, in 2021. Additionally, since 2021, Enterprise Georgia has started accounting for female founders and directors in the Industrial Component Programme, with plans to further improve statistics. The agency also launched a pilot programme to integrate economically inactive women into society in selected municipalities, stimulate the involvement of women in agricultural activities and improve their socio-economic status. Information sessions and e-commerce training were organised for women entrepreneurs. The Rural Development Agency (RDA) has also been supporting agricultural entrepreneurs, including women beneficiaries, e.g. through specific support for the establishment of greenhouses by women. These efforts are complemented by the very active involvement of the private sector on this topic. Business associations and international organisations, for instance, have implemented several initiatives, such as UN Women's project "A Joint Action for Women's Economic Empowerment in Georgia" (JAWE), carried out with the support of two partners: the Business Leaders' Federation "Women for Tomorrow" (W4T) and the GCCI. Through this project, the GCCI actively works with the private sector, government agencies and women entrepreneurs, offering guidance to businesses on how to promote gender equality and women's empowerment in the workplace, marketplace, and community.

Moreover, Georgia has provided policy efforts to reduce women's participation in the informal economy: in 2021, the Gender Equality Council conducted a survey on "Women's participation in the shadow economy and the impact of COVID-19" and developed policy recommendations for relevant institutions to tackle informality among women, still to be monitored. Additional surveys have been conducted on women entrepreneurs in the country, thereby helping to identify persisting challenges women encounter when running a business.

However, according to GEOSTAT's Gender Statistics Annual Report 2022, there has been little change in women's entrepreneurship indicators over the last year. In 2020 and 2021, only 30% and 29%, respectively, of newly established enterprises were owned by women, compared to 59% and 58% for men.<sup>5</sup> This percentage has not changed since 2018. Furthermore, women remain concentrated in low-

value-added sectors, notably in education, human health and social work activities. Women entrepreneurs continue to face significant challenges, including a lack of access to financial resources. Women tend to own fewer assets than men, and their responsibilities related to unpaid domestic and care work, as well as gender stereotypes, create additional barriers to entrepreneurship (UN Women, 2021<sup>[21]</sup>).

Despite the good participation rate of women in these state support programmes, several challenges remain. A thematic inquiry by the Gender Equality Council emphasised that support programmes did not consider the structural barriers faced by women. Specifically, these challenges include insufficiently active mechanisms for mobilising applicants, a lack of emphasis on motivating potential female applicants, complex application procedures, a lack of consulting and training services for entrepreneurs after financing, and, most importantly, minimal support in selling manufactured products (Gender Equality Council of the Parliament of Georgia, 2019<sup>[22]</sup>).

Moving forward, Georgia could complement its policy approach to women's entrepreneurship by developing women-specific programmes, which remain at a rather nascent stage in Georgia – yet gender-tailored support would help address the specific barriers faced by women. Further efforts could be provided to support women entrepreneurs outside the capital city, beyond the initiatives of the Rural Development Agency. Co-ordination should be ensured among existing initiatives, and awareness of the support available raised. Finally, strengthening data collection on gender-related issues would be a major step forward – e.g. by enriching databases with more sex-disaggregated data, systematically monitoring, and evaluating the impact of support programmes, and conducting regular surveys on barriers to women's entrepreneurship.

### *SME skills*

The main policy development with regards to SME skills lies in the establishment of the Skills Agency in 2021 by the Ministry of Education and Science of Georgia and the GCCI (see Box 12.2). As a public-private partnership, the agency is in charge of strategic co-ordination in the Georgian VET sector and appears as a key contributor to the national skills intelligence. The Skills Agency has notably developed seven sector skills organisations (SSOs) so far with a view to better understand business skills needs in each sector and tackle remaining mismatches between skills demand and supply.

The Labour Market Analysis Division within the Economic Policy Department at the Ministry of Economy and Sustainable Development, established in 2017, continues to play a central role in collecting and analysing data on SME skills intelligence at the national level. The Labour Market Analysis Division annually undertakes the Survey of Business Demand on Skills, which provides valuable, up-to-date insights into employees' skills, in-demand occupations, human capital development in enterprises, professional education, and more. These surveys target either the entire economy or specific economic sectors: comprehensive economic studies are conducted every two years, while sectoral studies, a new addition since the last SBA assessment, are carried out the years in between. The findings of the surveys sometimes serve as a basis for developing short-term training programmes and are reflected in national policy documents. Moreover, the data collected on in-house training in firms offers interesting information – regarding digital skills, for instance, data show that they gained in importance during the COVID-19 pandemic, with the share of ICT skills trainings tripling between 2020 and 2022, from 4% to 12%.

Georgia has also made further progress in developing its smart specialisation approach, and is currently working towards applying smart specialisation to the country's research and innovation (R&I) policy. The Ministry of Regional Development and Infrastructure, in co-operation with the European Commission's Joint Research Centre, is in charge of this process, and a broad national S3 team has been formed, gathering experts from the main ministries, agencies for R&I and business support as well as international donor organisations. Notably, the Vocational Education Department at the Ministry of Education and Science and the Skills Agency are also members of the working group. Imereti was selected as the pilot

region for mapping economic and innovative potential and the respective smart specialisation strategy is currently being developed. According to the government, the document is projected to be finalised in 2023.

With regard to training provision, several public and private stakeholders, such as Enterprise Georgia, GITA, and the GCCI, provide training for SMEs. These cover various topics, including digital and greening skills. In addition, Enterprise Georgia developed an online training on the basics of export as a response to the COVID-19 pandemic, which increased the demand for remote courses. However, training provision could be stepped up, by widening the range of topics covered, further developing online training, implementing digital learning methods and raising awareness of the support available. Indeed, since there is no systemic structure for developing training programmes for SMEs in Georgia, having a “one-stop shop” for SME trainings could help firms navigate between the different offers. Moreover, Georgia should develop targeted training for SMEs in the areas identified as priorities for smart specialisation. Finally, monitoring and evaluation practices could be improved by collecting SMEs’ feedback on training, including testing the acquired competences and capturing the impact of training on their performance. Certification of skills acquired, notably digital ones, could also be beneficial.

### Box 12.2. Georgia's Skills Agency

In 2021, Georgia's Skills Agency was established through a public-private partnership between the Ministry of Education and Science and the Georgian Chamber of Commerce and Industry (GCCI). The agency's mission is to develop skills aligned with the country's economic needs, promoting inclusive vocational education and individualised development, and enhancing public-private partnerships. The Agency is responsible for implementing VET programmes, enhancing the competitive environment, and supporting innovative learning in the country.

The Agency is notably responsible for:

- supporting and co-ordinating VET standard development/update process, including learning material and guidebooks, and of a VET student assessment tool;
- co-ordinating the parties engaged in work-based learning process (private sector, educational institutions, sectoral associations/organisations) and in awarding qualifications;
- providing consulting/training/capacity building to VET institutions and teachers, including to develop re-training programmes;
- supporting career guidance services in VET;
- conducting needs identification and surveys, and participating in monitoring and evaluation;
- developing and introducing a VET communication strategy.

In this regard, the Skills Agency actively supports the formation and operation of sector skills organisations (SSOs) in various sectors of Georgia's economy. These SSOs are crucial for addressing skills gaps and workforce development. Collaboration among key players within each sector is encouraged, and SSO start-up/SSO initiative groups are facilitated to elaborate and revise qualifications, including entrepreneurship-focused competences. Currently, seven initiative groups have been formed in sectors such as tourism, ICT, agriculture, artisan, construction and engineering, wine, and sports.

To enhance digital literacy, the Skills Agency is also working on an IT literacy catch-up course designed for young people and adults, including ethnic minorities with lower digital literacy levels. An e-platform is being developed to facilitate technology-based learning at the vocational education level. The Skills Agency is charged with assessing labour market characteristics, demanded qualifications and skills, as well as employers' future workforce needs using standardised research methodology and instruments. It regularly conducts labour market mini-surveys and gathers data on VET graduates who have completed a mandatory ICT course to identify SMEs' skills needs and bridge the gap between skills demand and supply.

The Skills Agency aims to create a unified research platform where data collected from different research studies can be compared and shared, leading to an aggregated database. This database will provide valuable insights to all beneficiaries, including SSOs, assisting them in revising or developing new qualifications based on the demand for future skills.

Source: (Ministry of Education and Science of Georgia, 2023<sup>[23]</sup>).

## **Pillar C: Access to finance**

### *Legal and regulatory framework*

Access to bank credit in Georgia is supported by a well-developed legal and regulatory framework. Currently, reforms are underway to provide a legislative framework for competitive factoring market and through general secured transactions framework to improve the acceptability of movable assets as collateral, which should provide another boost for lending, especially to those companies that cannot rely on buildings or land. The reforms aim to improve registration of such assets as well as enforceability to encourage banks to accept assets such as vehicles, equipment or intellectual property as collateral. These are expected to address issues raised by banks around the scope and types of movable security that can be accepted, as well as the enforcement of security rights (BEPS III).

The country's regulatory framework is aligned with Basel III core principles and efforts have been made to curb dollarisation. There is no mandatory disclosure of risks related to foreign exchange borrowing, but capital requirements are set so as to encourage lending in local currency, and rules for small loans in local currency mean that households and smaller SMEs have access to mainly GEL-denominated loans. Given banks' high reliance on deposits for their funding, it was important to encourage deposit dollarisation, which has been supported by the launch of a deposit insurance scheme in 2018 as well as capital incentives on deposits in local currency. As a result, both loan and deposit dollarisation have decreased since 2019.

Since 2018, Georgia has also made the most significant progress among EaP countries when it comes to non-financial disclosure requirements and the introduction of a green taxonomy. The National Bank of Georgia (NBG) has developed ESG Reporting and Disclosure Principles aligned with international best practice. In 2022, the NBG published a Sustainable Finance taxonomy and related classification and reporting regulation obliging banks to classify loans as green, social or sustainable according to the developed taxonomy. In addition, from 2023, commercial banks are required to report on green loans on a monthly basis. The NBG also published a climate-related Risk Radar to assess the climate vulnerability of different economic sectors in the country and apply those to banks' portfolios. Current work revolves around strengthening the National Bank's capacity for climate scenario analysis. ESG issues were also integrated into the Corporate Governance Code for issuers of Public Securities, as adopted in December 2021 by the NBG (entered into force on 1 January 2022). Along with other requirements, the code sets out that companies should implement sustainable development goals, including with respect to environmental and social governance. In relation to the securities market, the NBG has been working on a draft rule on ESG Bond Status. The rule would establish standards to obtain and maintain the designation, set reporting requirements, and determine eligible verifiers who provide pre- and post-evaluation of the debt security's status. The draft regulation is primarily based on the Sustainable Finance Taxonomy of the National Bank of Georgia.

Georgia's capital market is still at an early stage of development, and currently bonds are the market instrument most utilised by companies. The corporate bond market (including local and foreign currency denominated bonds and excluding bonds issued by IFIs) represents around 2.6% of GDP according to 2022 estimates. In part aided by the EU funded Capital Market Support Program, which covers costs for bond issuances, an additional GEL 461 million (EUR ~160 mln) in local- and foreign-currency-denominated corporate bonds were placed on the local capital market in the first half of 2023. The investor mix in those issuances is also diversifying. While GEL denominated corporate bonds are dominated by commercial banks, other investors have become more active. For instance, since 2022, the Pension Agency has participated in bond purchases and is expected to become more active once amendments to the "Funded Pension Law" are adopted by the Parliament. The envisaged changes would increase its concentration limits on a single issuer from 10 to 20 percent. Compared to the bond market, the equity market is rather shallow, with no separate market for lower-capitalisation firms; overall, the stock market does not currently represent a viable financing option for smaller businesses. To boost activity on the capital markets, the

Ministry of Economy and Sustainable Development of Georgia (MoESD), along with Enterprise Georgia, is working on a new programme that will cover the costs associated with bond and equity issuances.

*Sources of external finance for SMEs (bank financing, non-banking financing, and venture capital)*

In recent years Georgia's loan-to-GDP ratio has dropped quite significantly, from a high of 79.9% in 2020 to just around 64% in 2022 (World Bank, 2022<sup>[24]</sup>). However, in absolute terms, bank lending has expanded rapidly, with an average CAGR of around 15% over the period 2017-2022, resulting in a relatively high banking sector assets to GDP ratio of 98% as of 2022. This suggests that penetration levels in the country have deepened. And indeed, in the last Business Environment and Enterprise Performance Survey (BEEPS), the share of firms using bank credit to finance investments increased from less than one-quarter in 2013 to more than one-third in 2019 (EBRD, 2020<sup>[25]</sup>).

Lending terms have also become more favourable, with interest rates for SME loans decreasing and only a relatively narrow spread between interest rates for large firms and SMEs. Collateral requirements have more than halved over the past 10 years, probably owing to a better framework for secured transactions and the expanded credit guarantee scheme.

Public financial support programmes are mainly provided through the national agency Enterprise Georgia. These include interest rate subsidies for loans and leasing in priority sectors such as manufacturing and tourism, as well as accompanying grants. Additional support for a wider range of firms was made available during the COVID pandemic. The pandemic also led to the government's relaunch of the national credit guarantee scheme and a significant expansion in 2020, increasing the amount of loans guaranteed fivefold. The scheme continues to be in place and provides guarantees for loans up to GEL 5 million (EUR ~1.75 mln). Supported by international donors such as EBRD, specific support for green investments is also available through Green Economy Financing Facilities that provide finance and advice for investments in green technologies and energy efficiency. Although interest rate subsidies and grants are often only a second-best solution to support broad-based access to finance (compared to, for example, credit guarantees), programmes in Georgia include design features that aim to reduce certain risks typically associated with this type of support. Regular monitoring and sunset mechanisms (such as maximum duration, amount, and number of times a single company can participate) reduce the risk of public funds being misused or spent on low impact endeavours.

Non-bank financing options are available, and partially also delivered through commercial banks (e.g. leasing and factoring). As of June 2023, there were 34 microfinance institutions (MFI) operating in Georgia that account for less than 3% of financial sector assets (National Bank of Georgia, 2023<sup>[26]</sup>). The sector has gone through a period of consolidation since the last assessment, when more than 60 MFIs were active in the country. This happened alongside major regulatory and supervisory changes that aimed at steering the sector toward more responsible lending and strengthening supervision. However, MFIs are not allowed to take deposits, which constrains their development toward a more rounded finance provider that could serve SMEs and agribusinesses and thus support financial inclusion. However, a new Law on Microbanks was adopted in 2023 allowing for the creation of a new type of financial institution – a microbank – which is supposed to fill the gap between commercial banks and MFIs.

Leasing is offered by some banks but is not subject to a specific regulatory or licensing regime. Similarly, factoring is offered only by commercial banks and focuses mainly on the domestic market, with a penetration rate of 1.2% of GDP. A draft law for factoring has been developed with support by EBRD and is expected to be adopted by the Parliament of Georgia in late 2023. The draft law covers a wider range of factoring types, including reverse factoring, and will be complemented by a modern registry to further catalyse the market. Overall, these reforms strive to establish a fair and competitive marketplace for factoring transactions.

Venture capital and private equity remains nascent, and the legal framework is based on the Law on Investment Funds adopted in 2020. Georgia's Innovation and Technology Agency (GITA) is providing support to help with the establishment of an eco-system conducive to start-ups and innovation activities. Among a range of activities, GITA also provides Innovation Grants for Regions and Startup Matching Grants for early-stage start-ups, but larger-scale funding solutions to attract or amplify private investment are still missing, although there are plans to put additional support mechanisms in place that will provide financing for start-ups at a more developed stage. There has been increased activity in the sector in recent years which can form a good base for further development. 500 Global, a Silicon Valley-based venture capital firm, launched an accelerator programme in collaboration with GITA and Bank of Georgia, making Georgia the hub for their outreach into Eastern Europe, the Caucasus, the Baltics and Central Asia. The programme has run four rounds, bringing together start-ups from Georgia and the wider region, with a call out for a fifth batch to start later in 2023. Besides that, Axel, a Georgian angel investor association, has been established and has invested GEL 1.2 million (EUR ~420 000) to date. In addition, Isari Ventures established a USD 5 million venture capital fund targeted at the Georgian market in 2022.

To support the development of private equity more generally, the MoESD together with the World Bank are working on an instrument to support private equity investments into SMEs with growth potential. Government participation will be in line with amendments made to the Law on Securities Market in spring 2022 which allow the government to participate as a limited partner (LP) in investment funds, capped at 25% (and with no influence over investment decisions).

### *Financial literacy*

The National Bank of Georgia carried out an assessment of financial literacy of the general population in 2016, resulting in the adoption of a National Strategy for Financial Literacy. The assessment did not look at financial skills of entrepreneurs, although the strategy included some actions aimed at SMEs. In January 2023, the NBG adopted a new National Strategy for Financial Education which now recognises SMEs as a target group.

A number of training programmes are available for entrepreneurs. First launched in 2018, the NBG, together with the Development Facility of the European Fund for Southeast Europe and the Export Development Association, developed a financial skills programme for micro and small enterprises that includes training, guidelines and webinars to help small-scale entrepreneurs deal with financial matters, including accounting, financial decision-making, dealing with financing providers and digital payments. In addition, a new financial education website, FinEdu, was launched in 2020 and functions as a repository for resources related to financial education and information.

Financial education is also part of the national curriculum, with modules integrated into the subject of Civic Education within the general secondary school track. In 2020, the NBG developed a teacher-training module in co-operation with the Civic Education Teachers Forum and with the support of the German Sparkassenstiftung (DSIK). The training has only been provided through a specific initiative, however, and is not a regular offering.

### *Digital financial services*

The NBG has drafted a Fintech Development Strategy in consultation with private sector stakeholders. In addition, the World Bank is providing assistance for the development of digital tools within the economy. Data protection aspects are covered in the Georgian Law on Personal Data Protection and relate to natural persons only. Under the country's Open Banking regulation, commercial banks have certain data-sharing obligations and must follow rules of data standardisation. The NBG has also put in place an operational resilience framework that includes provisions for outsourcing arrangements and related risk assessments. These outsourcing rules do not put a limit on responsibilities that could be outsourced.

The NBG has a Fintech and Suptech Development Department and deploys emerging methods such as suptech and an innovation facilitator (a sandbox regime, supported by IFC), which to date has been used by banks to test new ways of customer verification. This means that the NBG is using a wide range of tools to find legal and regulatory solutions to issues posed by the digitalisation of financial services. The NBG is also working on a pilot regime for a Central Bank digital currency. However, while wider consultations have taken place for the development of strategies and action plans in the area of digitalisation, the NBG lacks a systematic multi-disciplinary approach to fintech, meaning that other public or private stakeholders are not part of a regular working set up to discuss and validate decisions.

### *The way forward*

Access to finance and the surrounding legal and institutional framework are well set out in Georgia. De-dollarisation efforts have shown effect and the NBG should continue its efforts in this direction, including by raising more awareness about foreign exchange (FX) risks amongst borrowers, and by developing local capital markets and an investor base that can support long-term local-currency bonds, for instance.

The reform to ease the use of movable collateral should be implemented, as this will be particularly important for smaller firms and those operating in the service sector. When it comes to non-bank financing instruments, finalising the factoring reform and related registry would support the development of this instrument and in turn ease access to working capital finance for SMEs. Reforms should also take into account any potential impediments to supply chain financing (or, reverse factoring) and be mindful of how factoring transactions are accounted for, to encourage their use. The development of larger-scale funding for start-ups (with a view to crowding-in private investment) would be an important step to develop the sector.

When it comes to digital financial services, the development of a framework for better open access to data for financial service providers could help to encourage non-bank actors into a sector dominated by banks. In addition, regulation around digital finance is currently within the sole domain of the NBG, and while they should be a leading force in these efforts, it is important to adopt a multi-disciplinary approach between authorities to ensure that different aspects of digital finance are covered (e.g. anti-trust considerations, data privacy, ICT regulation, or cybersecurity).

## **Pillar D: Access to markets**

### *Public procurement*

The main development since the assessment for the SME Policy Index 2020 report has been the creation of an independent review body, the Dispute Resolution Council ([drc.gov.ge](https://drc.gov.ge)), for handling complaints about public procurement carried out in accordance with the Public Procurement Law (PPL) of 2005 and with the procurement provisions in the law on public-private partnership (Parliament of Georgia, 2018<sup>[27]</sup>).

Public procurement in Georgia is still regulated by the Public Procurement Law (PPL) of 20 April 2005 and in force since 1 January 2006, as repeatedly amended (Parliament of Georgia, 2005<sup>[28]</sup>). A new PPL (Parliament of Georgia, 2023<sup>[29]</sup>), intended to be fully aligned with the EU Directives for public procurement, was adopted by parliament in early 2023 and promulgated by the President on 9 February 2023. However, the bulk of its provisions will only come into force on 1 January 2025 and some will not apply for another two or four years. Also, procurement by utilities is not yet aligned with the EU Directives.

A comprehensive “Roadmap and Action Plan for the Implementation of the Public Procurement Chapter of the EU-Georgia Association Agreement” was prepared in 2015. It is still applicable, but its implementation has suffered delays and it has not been updated. The action plans under the SME Development Strategy of Georgia 2021-2025 do not contain any references to public procurement.

The State Procurement Agency (SPA) remains the main institution at the national level for public procurement. Its functions include regulation (drafting the new PPL and issuing administrative orders complementing the current PPL), monitoring, training, managing centralised purchasing, and operating the e-procurement system. The five members of the Dispute Resolution Council are appointed by the prime minister and work according to rules of procedure adopted by the government (Parliament of Georgia, 2020<sup>[1]</sup>). The independence of the review body has thus been improved, with the intention to raise transparency and increase trust in public procurement.

A range of measures for facilitating SMEs' access to the public procurement market remain in place. The PPL includes the possibility of dividing contracts into lots, requirements for proportionality of selection and award criteria, and an obligation for prompt payments. The SPA has issued specific guidance materials and training for contracting authorities and enterprises for facilitating the participation of SMEs. In addition, suppliers can use the e-catalogue ([www.emarket.spa.ge](http://www.emarket.spa.ge)), which is updated quarterly, to present information about their products, indicating CPV codes, models, specifications, prices, warranty periods and delivery locations. As a complement, contracting authorities may now also publish notices inviting any prospective tenderers to provide specific information in response to the requirements in a particular contract to be concluded, using a specialised website of the SPA (State Procurement Agency, n.d.<sup>[1]</sup>). The PPL sets no explicit obligation for timely payment by contracting authorities but public contracts usually prescribe payment within ten days. The stronger emphasis on sustainable procurement in the new PPL is expected to create further opportunities for successful SME participation in the future.

However, the data currently available do not allow determining whether and to what extent these various SME support measures are effective, and why. The information at hand confirms that certain general issues continue to negatively affect public procurement performance, and SMEs in particular. Direct agreement contracts ("simplified procurement" in Georgian parlance) account for as much as 18% of total public procurement value, although details are not readily accessible (this being said, it should be noted that COVID-19 related procurement is reported to account for an important share of the direct agreement contracts). The average number of tenderers per procedure remains low, below two. Almost 30% of the tenders launched failed, were terminated, or did not lead to any contract award.

Among the reasons for this is the large number of contracting authorities, which means that many of the smaller ones do not have staff with the skills and experience necessary for planning, preparing or carrying out procurement in ways that give SMEs a chance to fairly compete on quality and performance. Another reason is that, in practice, the bulk of the procurement procedures carried out use (purchase) price as the first award criterion and allow tenderers to participate who are not duly qualified and whose tenders do not meet the specifications and other requirements. These factors create strong disincentives for serious SMEs to participate in public procurement and lead to less value for money in the use of public funds.

The further improvement of SME participation would thus require continued efforts to address the standing challenges, including: i) complementing the new PPL by an action plan for its implementation and a longer-term strategy for the development of public procurement, including harmonisation with other SME development policies; ii) aligning procurement by utilities with the EU Directives, whether by a separate law or by amending the PPL; iii) amending the e-procurement system so that it functions as required in the EU Directives and to generate more and better, readily accessible public procurement data, including on SME participation; iv) implementing current and future legal provisions on sustainable procurement in ways that emphasise value for money and support SME participation; and v) taking measures to ensure that all procurement officials have the skills to properly apply principles and practices for open, fair, competitive procurement, including better use of the means for raising SME participation.

### *Standards and technical regulations*

Georgia has made much progress in further developing its regulatory system and quality infrastructure (QI). Concerning overall co-ordination and general measures, the country implemented significant reforms

in the market surveillance system on non-food products. Establishing the independent Market Surveillance Agency (MSA) under the Ministry of Economy and Sustainable Development was a significant step in this context (European Commission, 2022<sup>[30]</sup>). The MSA conducts market surveillance on non-food products in 12 product areas, for which relevant technical regulations have been adopted. Georgia expects that other products will be added to the MSA's mandate as per the Association Agreement (AA)'s approximation agenda. Another accomplishment was that Georgia's accreditation body, the GAC, became a full member and signatory of the MRA (Mutual Recognition Arrangement) and MLA (Multilateral Recognition Arrangement) of the International Laboratory Accreditation Cooperation and the International Accreditation Forum in 2022, respectively (ILAC, 2022<sup>[31]</sup>).

Regarding harmonisation with the *acquis*, the approximation of national legislation with the *EU acquis* was intensified. The Georgian National Agency for Standards and Metrology's (GEOSTM), European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC) Affiliate status is another accomplishment (CEN, n.d.<sup>[32]</sup>). It was approved in 2022 and entered into force in January 2023. Likewise, GEOSTM became an associate member of the European Association of National Metrology Institutes (EURAMET) in 2022, and preparations to become a full member are underway. As of December 2022, Georgia had adopted about 12 000 EU standards and translated selected ones into the Georgian language.<sup>6</sup> Regarding education on standardisation, Georgia has developed a detailed strategy. GEOSTM has also started creating an e-learning platform in co-operation with the Latvian Standard body. In the field of market surveillance, Georgia has introduced a new online database (European Commission, 2022<sup>[30]</sup>).

Addressing SMEs' access to standardisation, the Georgian government approved the SME Development Strategy for 2021-2025, followed by a joint action plan of various institutions specifying further support and GEOSTM's diligent implementation of targeted measures. The National Standardisation Strategy developed by GEOSTM for 2022-2024 improved the availability of standards for SMEs and stimulated their participation in standardisation activities. A 10% discount rate for SMEs for purchasing standards was adopted by Ordinance of Government of Georgia No. 503 in 2022. The e-academy will also include modules on SMEs, for example, based on CEN-CENELEC Guide 17, "Guidance for writing standards taking into account micro, small and medium-sized enterprises (SMEs) needs". GEOSTM also plans to introduce an organisation-wide evaluation of SMEs' participation in standardisation. Relying on various monitoring activities implemented by GEOSTM's technical committees (TCs), this is a useful next step.

Concerning the digitalisation of standards and technical regulations, GEOSTM synchronised and harmonised the national standards database with those of the CEN and CENELEC. It also started updating its internal procedures in parallel with the development of the last SME Policy Index report. Georgia began to digitise its accreditation services in 2021 and expects its digitalisation system to become fully operational in mid-2023. Continuing the digitalisation of quality infrastructure, particularly in the field of conformity assessment, is an important ongoing task.

### *Internationalisation of SMEs*

Georgia continues to perform well in supporting SME internationalisation.

Promoting export growth, market access and internationalisation of SMEs is one of the main priorities of the SME Development Strategy of Georgia for 2021-2025 (see Priority 4: Promotion of SME export, market access and internationalisation). Enterprise Georgia (EG) is the agency in charge of promoting Georgian SMEs' access to global markets. The Export Division of EG is well staffed and fully operational and offers various instruments to SMEs, including training, organisation of international trade fairs and exhibitions, support in business matchmaking, and co-financing of technical assistance. Some changes have been introduced since the last SBA assessment. At the beginning of 2022, EG started the new Export Assistance Programme which co-finances technical assistance to exporting businesses and aims to eliminate export barriers in beneficiary companies and introduce export incentive mechanisms to facilitate the diversification

of export markets, products and services; identifying sectors and products with high export potential; and stimulating international sales. The programme has three different directions: i) product licensing/certification; ii) branding; and iii) stimulating international sales.<sup>7</sup> Moreover, in 2020 EG introduced more complex and flexible eligibility criteria, to ensure a transparent beneficiaries-selection process.

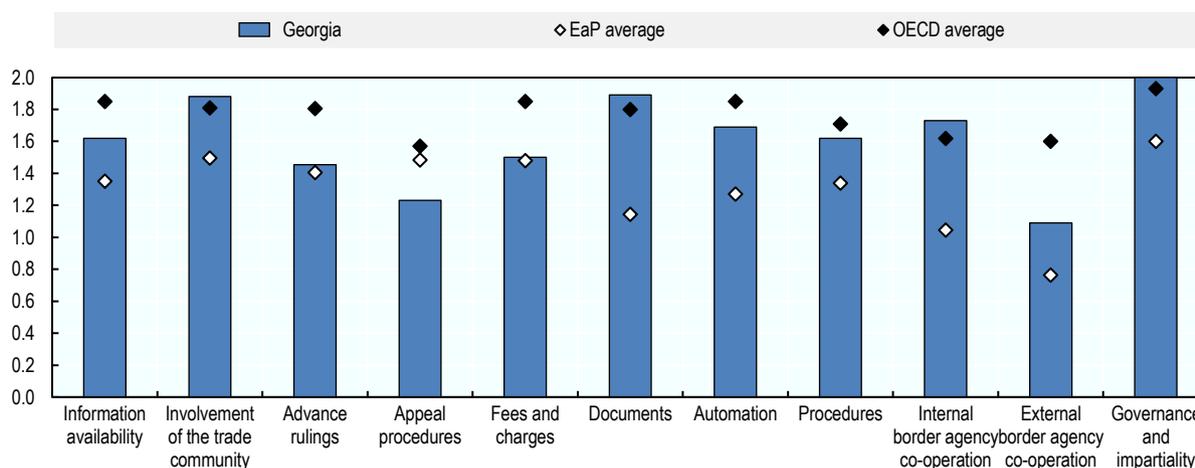
A significant improvement can be observed in Georgia's support for the integration of SMEs into global value chains (GVCs) since the previous SBA assessment. Several efforts have been made to advance Georgia's cluster landscape and several new clusters have emerged, such as the Georgian Construction Materials Cluster, the Georgian ICT Cluster, the Packaging Cluster, the Seed and Seedling Cluster, and the Georgian Apparel and Fashion Association. The MoESD and Enterprise Georgia, in co-operation with GIZ and under the EU-funded Clusters4Development Project, developed a Cluster Policy Framework to create a beneficial cluster landscape and strengthen the internationalisation of Georgian clusters; establish a long-term public-private partnership between industry, academia and the public sector; and promote new clusters in emerging industries (GIZ, 2021<sup>[33]</sup>). In addition, the Georgian Economic Security Programme 2019-2024 (GESP), launched by the government with the support of USAID, supports economic sectors with the highest long-term potential, helps develop value chains, enhances the viability of SMEs, supports a more skilled workforce, and facilitates public-private partnerships (USAID, 2023<sup>[34]</sup>). Finally, Enterprise Georgia's Business Universal Programme aims to support the development of business in Georgia and the diversification of domestic production through the creation of new enterprises and expansion and re-equipment of existing ones, and supports key sectors which can then become integrated into GVCs.

Georgia has made considerable progress in the field of policies designed to enhance the use of e-commerce by SMEs. Encouraging and supporting the development of e-commerce is one of the pillars of the NBDS and its associated Action Plan for 2020-2026, and also one of the objectives of the SME Development Strategy 2021-2025 (Objective 5.2). Many initiatives are in place in this field. In 2021, the GCCI implemented a large-scale free training programme for SMEs to raise awareness about the functioning and benefits of e-commerce, with some training specifically targeted at women entrepreneurs. In addition, the Communications, Information and Modern Technology Department at the MoESD is implementing several programmes to promote e-commerce, most of which relate to the development of the necessary infrastructure (for more information on support for the development of infrastructures for the digital economy, see above). A relevant initiative co-ordinated by the same department is represented by the e-commerce pilot between Armenia, Azerbaijan, Georgia and Germany launched in 2021 by EU4Digital to establish national virtual warehouses/databases of local goods to connect e-commerce actors so they can automatically exchange information about sales, customs and delivery (EU4Digital, 2021<sup>[35]</sup>). Finally, it is important to mention that the MoESD has drafted a Law on E-commerce, which has been submitted to the parliament for adoption. Once adopted, the new law will regulate the rights and obligations of intermediary service providers and online consumer protection, as well as issues related to information disclosure and paid advertisement. There is currently no programme in place to certify that e-commerce companies comply with ethical standards. However, after the adoption of the Law on E-commerce, there is a plan for sectorial association(s), under the co-ordination of the MoESD and with the technical assistance of USAID, to develop a code of conduct identifying and outlining the ethical standards of intermediary service providers.

It is also worth mentioning the outstanding efforts that Enterprise Georgia puts into monitoring and evaluating all its programmes, including those related to SME internationalisation support. For more information on the standardised Impact Assessment Framework developed with the assistance of GIZ see "Support services for SMEs and start-ups" in the next section.

According to the 2022 OECD Trade Facilitation Indicators, Georgia remains the best performer among EaP countries, exceeding or close to the OECD average across several of the assessed areas, such as the involvement of the trade community, simplification and harmonisation of documents, internal border agency co-operation, and governance and impartiality. Some significant challenges remain in the areas of appeal procedures and external border agency co-operation (Figure 12.5).

Figure 12.5. OECD Trade Facilitation indicators for Georgia (2022)



Notes: EaP: Eastern Partnership. Trade Facilitation Indicators values from 0 to 2, where 2 designates the best performance that can be achieved.  
Source: OECD Trade Facilitation Indicators Database, <https://oe.cd/tfi>.

StatLink  <https://stat.link/93adsf>

In addition to all efforts made so far to facilitate SME access to international markets, there are still some improvements that the government can consider to refine the support provided to small businesses. Moving forward, to facilitate integration of SMEs into GVCs, Georgia could provide further support to importing SMEs and promote technology transfer and the movement of high-skilled workers from multinational corporations. Finally, it is important to ensure that the new Law on E-commerce is adopted and implemented without delay to fill the legislative gaps.

## **Pillar E: Innovation and business support**

### *Support services for SMEs and start-ups*

Georgia continues to have a strong institutional setting for delivering support services to SMEs and start-ups. The two main government agencies, Enterprise Georgia (EG) and GITA, are well staffed and reportedly dispose of sufficient funding to deliver on their mandate. As such, they are instrumental entities in the implementation of many activities of the ongoing SME Development Strategy. Of particular relevance, in 2023, Enterprise Georgia strengthened its geographical presence in the country, opening three regional growth hubs with the objective to increase awareness of the available support programmes and provide direct training and consulting services to SMEs outside the capital city.

The two agencies offer important financial support programmes for the different segments of the SME population that they serve, which have been expanded since the previous SBA assessment. For micro entrepreneurs, EG offers grants up to GEL 30 000 (EUR ~11 000), with at least 90% of the funding to be directed to capital expenditures. For SMEs, the new programme, *Business Universal*, subsidises interest rates on loan and leasing contracts in the range of GEL 50 000 to GEL10 million (EUR ~18 000 to EUR ~3 million), with at least 50% of the funding to be directed to capital expenditures. In addition, beneficiaries of the programme, under defined conditions, can also access a grant in the amount of 10-20% of the approved loan or leasing. GITA's financial support programmes mostly target start-ups, with the objective to stimulate innovative entrepreneurship; they are described in more detail in the following section.

EG and GITA also engage in the delivery of non-financial support services to SMEs, although progress since the last SBA assessment has been mixed. EG offers technical assistance on developing business

plans, accounting and marketing for the beneficiaries of its micro grants programme, while the co-financing of advisory services is limited to branding and product licensing/certification for export-oriented companies. As regional growth hubs become fully operational, however, it is expected that they will also support SMEs to access a wider range of consulting services (including on business strategy, sales, taxation) by covering up to 90% of the cost. On the other hand, GITA has increased its efforts to develop digital capabilities for the SME sector, focusing its efforts on organising trainings on digital skills for entrepreneurs and IT specialists. Moreover, the GCCI has increased its role as a partner of the government in delivering services to SMEs, in particular through the introduction of a successful training course on e-commerce for entrepreneurs in 2021.

A promising new programme to support SME digitalisation should also be mentioned. As part of the services of the regional growth hubs' services, Enterprise Georgia plans to introduce a set of measures to help SMEs improve their digital skills and adopt digital technologies. With the assistance of digital transformation experts, SMEs first undertake an overall business diagnostic exercise then develop a tailored plan with recommendations on how to digitalise their operations. To facilitate the implementation of such plans, SMEs can apply for financial support to procure digital solutions (up to GEL 25 000 / EUR ~9 000) and train their staff to develop the necessary digital skills (up to GEL 5 000 / EUR ~2 000).

Lastly, Georgia has made very important progress in monitoring and evaluating its SME support programmes. In late 2019, Enterprise Georgia added a dedicated department on analysis, monitoring and evaluation, which looks at all of the services the agency provides. Of particular interest, with the assistance of GIZ, the department developed a methodological framework to rigorously analyse the impact of its support services on its beneficiaries' business performance, which goes as far as attempting to estimate the economic additionality of the agency's services. Starting in 2022, the results of this analysis are published in a report published on the agency's website. In 2023 GITA also established a dedicated analysis, monitoring and evaluation department and is currently developing analytical framework, data observatory and software solutions that will track progress of every GITA beneficiary and outline the impact of respective GITA programmes.

Moving forward, the government should carefully assess the impact and sustainability of the recently inaugurated growth hubs before opening new ones. Building on Enterprise Georgia's experience, GITA could also finalise its analytical frameworks to assess the impact of its support programmes on its beneficiaries. Lastly, in developing its new digitalisation support initiatives, Enterprise Georgia could consider incorporating digital skills development programmes directed specifically to managers of SMEs, who have actual capacity, responsibility and decision-making power to drive the digital transformation of their businesses.

### Box 12.3. Enterprise Georgia's Impact Assessment Framework

Established in 2014 under the Ministry of Economy and Sustainable Development, Enterprise Georgia (EG) is the key government institution responsible for business support, export, and investment promotion in Georgia. Over time, EG has put increasing emphasis on its monitoring and evaluation activities, with the creation of a dedicated Analysis, Monitoring and Evaluation department and the adoption of a comprehensive Impact Assessment Framework, with the aim of moving beyond the “simple” monitoring of activities and rigorously evaluating the economic and social impacts of its programmes and services.

The methodological approach rests on three main pillars: i) a strong “theory of change” for the support programmes, illustrating the logical nexus between activities and expected impact; ii) key impact-oriented indicators describing targets and against which measuring progress; and iii) microdata to analyse firm-level performance. About the latter, EG relies both on primary data obtained through questionnaires among beneficiaries and internal databases of the agency, and on secondary data requested from various external sources, such as the National Statistics Office of Georgia; the National Tourism Administration; the National Bank of Georgia; the Service for Accounting, Reporting and Audit Supervision (SARAS); and the Revenue Service.

A key element of EG's impact assessment is the comparison of its beneficiaries' performance with appropriate benchmarks and via estimation techniques accounting for pre-existing factors affecting company's performance. For instance, key indicators (e.g. revenue, assets, profitability) are tracked for both the “treatment group” (EG beneficiaries) and the “control group” (the corresponding sector of the economy) for several years before and after the implementation of a given EG programme. The estimated impact of a given EG programme is then calculated as the difference between the projected values of an indicator and its actual values in the treatment group.

According to recent EG analysis, for every Georgian Lari (GEL) of co-financing provided by EG, beneficiaries generated additional 14 GEL (EUR ~5) in revenues, contributed additional 4.2 GEL (EUR ~1.5) to GDP, and provide additional 1.5 GEL (EUR ~0.5) in tax revenues per year. In 2021, EG beneficiaries observed a 36% increase in revenue and 22% growth in assets, while the corresponding SME segment's revenues and assets increased by 22% and 12% over the same period, respectively. Interestingly, EG addresses the findings of its impact assessment reports to the government, providing a key input for the design of future support programmes and strengthening the important feedback loop between policies and economic outcomes.

Source: (Enterprise Georgia, 2023<sup>[36]</sup>)

### *Innovation policy for SMEs*

The overall policy framework for innovation in Georgia has not evolved substantially since the last SBA assessment (e.g. no national innovation strategy has been adopted), although several strategic policy documents introduced in the last four years contain specific measures for promoting innovation in Georgia. The government's Development Strategy – Vision 2030 – includes the support of science, innovation and technology as one of its priorities; the Unified National Strategy of Education and Science 2022-2030 aims to develop a knowledge-based society and economy-oriented science, research, technology and innovation system; specifically for SMEs, one of the chapters of the ongoing SME Strategy is dedicated to promoting electronic communications, information technology, and research and development. Beyond this, innovation policy in Georgia is regulated by the 2016 Law on Innovations, which establishes legal grounding for the development of the innovation ecosystem (e.g. defining business

incubators/accelerators, determining IP rights) and provides a legislative foundation for financing innovation activities.

Georgia's Innovation and Technology Agency (GITA) is the main implementing body for the development of the innovation ecosystem. With a strong focus on start-up development and the IT sector, it offers a wide range of services to foster innovative entrepreneurship, such as financial support measures, training opportunities, technology transfer programmes, business accelerators and incubators, and techno parks. Over the period under consideration, GITA expanded its physical infrastructure and opened two new techno parks (now eight in total). Moreover, it has partnered with the international business accelerator "500 Global" to offer technology-oriented start-ups an intensive programme to develop their business plan, network with investors, and receive mentorship and training. As part of this co-operation, in 2022, 500 Global established the "500 Georgia" venture fund (USD 20 million), of which GITA has become a partner with a 25% commitment.

One interesting development for Georgia is the first technology-transfer pilot program (TTPP) carried out by GITA in 2019-2022. The programme was supported by the World Bank and the European Union to identify scientific outputs with high commercial potential and assist the research teams in negotiating licensing and business deals with potential business partners. Through this initiative, GITA received applications from several universities and research centres, eventually selecting nine projects with strong potential for commercialisation and international expansion. Although the TTPP ended in 2022, GITA opened two new rounds of applications in November 2022 and March 2023, which serves as evidence of the government's willingness to continue supporting linkages between the local research community and the industrial sector.

Government financial instruments to support innovation have recently been expanded, but remain heavily focused on providing direct grants, tailored to the needs of the different segments of the SME population. In 2023, GITA launched the "Innovation Grants for Regions" initiative, a new initiative replacing the previous "mini grants" programme and offering grants (up to GEL 25 000 / EUR 10 000) to 40 innovative start-ups in Georgia's regions every year, aiming at tackling inclusiveness challenge of innovation activities, which are typically concentrated in the capital cities. Further, the "Start-Up Matching Grants" Programme (up to GEL 150 000, or EUR ~54 000, with 10% private co-financing) aims to stimulate innovation and enterprise creation through the development of innovative products and services with the potential for internationalisation. Lastly, until 2022, GITA provided the "innovation matching grants" programme (up to GEL 750 000/EUR ~270 000, with 50% co-financing) that targeted larger SMEs engaging in a portfolio of projects with the ambition to introduce product, technological or process innovation on a global scale. The programme was abolished in 2022 and GITA is currently designing equity financing programmes and mechanisms that will address the existing financing gaps for start-ups. Indirect financial incentives to simulate investment in innovative activities remain largely unavailable and are not specifically designed for SMEs.

Moving forward, Georgia could consider presenting relevant analysis and policy measures in a unified strategy for innovation policy. With the end of the TTPP, Georgia should also build internal capacity to successfully continue its efforts to advance technology transfer. Lastly, indirect financial support to incentivise investment in research and development and innovative equipment beyond the IT and start-up sector could also be considered.

### *SMEs in a green economy*

The framework for environmental policies related to SMEs has been updated since the previous SBA assessment. First, the SME Development Strategy 2021-2025 now includes the "Development of the Green Economy for SMEs" as one of its seven strategic directions, with specific actions to develop eco-tourism, eco-innovation, and access to green finance. Second, a new Agriculture and Rural Development Strategy 2021-2027 includes measures fostering farming and forestry, as well as supporting the adoption

of efficient and renewable energy technologies in rural households and enterprises, the majority of which are micro and small. Lastly, the Fourth National Environmental Action Programme (NEAP4) identifies the environmental priorities for the years 2022-26, although its implementation calls for more emphasis on SME-related activities, as the document covering the previous period did (NEAP3).

Some incentives have been introduced to help Georgian businesses shift towards renewable energy sources. The Law on “Promoting the Generation and Consumption of Energy from Renewable Sources”, adopted in 2019, defines incentive schemes (e.g. “green certificate”) for companies to transfer to green electricity consumption and generation. Similarly, the National Energy and Water Supply Regulatory Commission adopted rules for the issuance of certificates of origin of electricity generated from renewable sources, which allows consumers (including SMEs) to choose the origin of their energy, receiving the status of “green companies” and empowering them to contribute to Georgia’s energy transition.

The scarcity of green financing has been mentioned as one of the obstacles to SMEs’ green development, even though donor-funded initiatives (e.g. the EU’s “Promoting Green Lending in the Eastern Partnership” programme) contribute to bridging this gap. The NBG’s development of the Sustainable Finance Taxonomy in 2022 is an important development in this regard, which provides a classification system for identifying activities that deliver on climate, green, social or sustainability objectives and is expected to create a framework for green companies to be easily identifiable and have easier access to concessional loans financed by green funds and development banks. In a similar vein, the NBG’s Corporate Governance Code for Commercial Banks sets the requirements for environmental, social and governance (ESG) reporting and disclosure, but reporting requirements on firm size will be needed to track the impact of policies to promote green finance for SMEs. ESG issues were also integrated into the Corporate Governance Code for issuers of public securities, adopted in December 2021 by NBG, and requiring companies to report on environmental and social governance aspects, thus contributing to the progress towards the Sustainable Development Goals.<sup>8</sup>

## The way forward

While Georgia stands out for leading its EaP counterparts in SME policy progress, there remains room for reinforcing its policy frameworks for SMEs through the following measures:

- Central to Georgia’s efforts to strengthen its digital economy is the adoption of a comprehensive National Digital Strategy (NDS), with clear goals, resource allocation, and task distribution. The NDS should encompass provisions for the digital transformation of SMEs in non-IT sectors. Simultaneously, establishing robust monitoring and evaluation methods for tracking the implementation of the NDS is crucial. In addition to the considerable efforts already provided by Georgia to improve broadband connectivity, the country should further foster competition, investment, and innovation for faster, affordable Internet to consumers and SMEs alike. With regard to digital skills, Georgia could integrate digital competence into all educational levels (backed by teacher training) and strengthen its overall approach by introducing a standardised digital competence framework for assessment and certification, while complementing existing skills assessment and anticipation tools with digital skills components. Establishing a National Digital Skills and Jobs Coalition involving all stakeholders would enhance co-ordination and peer learning with EU countries.
- Georgia could further strengthen its institutional framework by fostering deeper collaboration and good practice exchange between Enterprise Georgia and GITA, for instance in the area of Monitoring and Evaluation or by harnessing their combined efforts to bolster SME digitalisation and the advancement of the ICT sector. The Georgian government should formulate tailored strategies for targeted sectors like tourism and ICT, creating an environment conducive to growth. Furthermore, Georgia should both update the e-Georgia strategy to encompass SME-relevant

Digital Governance principles and adopt the Digital Governance Strategy 2023-2026, while making use of the Digital Governance Agency for streamlined state electronic services. The simplification of the operation environment for business should continue its trajectory of reducing licenses and permits, and expand electronic license management for heightened flexibility, efficiency, and transparency. Company registration processes, known for their advancement, should be maintained, and refined further. Tax compliance procedures for SMEs must sustain preferential taxation for micro and small enterprises, and explore additional simplifications in tax administration, including the implementation of the TDR reform. To improve the support to SMEs to prevent and face insolvency, Georgia should adopt a dedicated strategy and specific initiatives to promote second chance for bankrupt entrepreneurs.

- On entrepreneurial learning, Georgia should complement its current approach by integrating entrepreneurship as a key competence at all educational levels, strengthening teacher training on entrepreneurship, promoting practical experience for students, bolstering non-formal learning opportunities, and enhancing career guidance services. Additionally, business-school co-operation could be stepped up between general schools and SMEs, but also strengthening linkages between industry and VET schools. Monitoring, evaluation, and data-collection efforts should be improved, notably on teachers' competences. To bolster women's entrepreneurship, dedicated support programmes would be useful, notably in rural areas and to help women entrepreneurs scale up, along with improved co-ordination of existing initiatives and enhanced data collection for informed decision-making. For SME skills, Georgia could step up the range of trainings offered, including online ones and in priority areas for smart specialisation, while implementing digital learning methods and incorporate tools to certify the acquired skills. Moreover, Georgia could build on its impact evaluation process by gathering feedback on training, assessing skills gained and capturing the impact on firm performance.
- The NBG should persist in its efforts towards de-dollarisation, raising FX risk awareness and fostering local capital markets. Georgia should also focus on implementing movable-collateral reforms and finalising the factoring reform and a related registry. In doing so, the country should consider supply-chain financing obstacles and encourage factoring transactions accounting. Scaling up start-up funding to attract private investment is also pivotal. Finally, Georgia should develop a framework for better open access to data for financial service providers and adopt a multi-disciplinary approach between authorities, expanding the mandate on regulation around digital finance beyond the NBG to other bodies to guarantee considerations on antitrust, data privacy, ICT, and cybersecurity.
- To further enhance SME participation in public procurement, continued efforts are needed to address key challenges. These include complementing the new Public Procurement Law (PPL) with an action plan for implementation and a long-term strategy for public procurement development, aligning it with other SME development policies. The e-procurement system should be amended to fully align with EU Directives and improving the quality and accessibility of public procurement data, particularly related to SME participation. Measures should also be taken to equip all procurement officials with the necessary skills to effectively apply principles of openness, fairness, and competitiveness, while also optimising methods for increasing SME engagement. Georgia's robust support for SME internationalisation could be enhanced by boosting support for SME imports, promoting technology transfer, and facilitating the mobility of high-skilled workers from multinational corporations. Swift adoption and implementation of the new e-commerce law is advisable to effectively address existing legislative gaps.
- Prior to expanding the recently established Growth Hubs, Georgia's government should assess their impact and sustainability. GITA should finalize its monitoring frameworks, building on Enterprise Georgia's expertise to evaluate the effectiveness of its support programmes. For digitalisation support, Enterprise Georgia could integrate targeted digital skills development specific for SME managers, in order to better equip them with knowledge and skills to drive their

businesses' digital transformations. In the area of innovation policy, Georgia could consider presenting relevant analysis and policy measures in a unified strategy for innovation. With the end of the TPP, Georgia should also build internal capacity to successfully continue its efforts to advance technology transfer. Lastly, indirect financial support to incentivise investment in research and development and innovative equipment beyond the IT and start-up sectors could also be considered. To further promote SME greening, the NBG's Corporate Governance Codes could include reporting by firm size in order to track the impact of green finance policy on SMEs, while ESG integration into the Corporate Governance Code for Public Securities could also contribute to SDG advancement.

**Table 12.5. Roadmap for policy reforms – Georgia**

<b>Strengthening framework conditions for the digital transformation</b>
<ul style="list-style-type: none"> <li>• Adopt National Digital Strategy, including measures to promote the digital transformation of SMEs in non-IT sectors.</li> <li>• Establish monitoring and evaluation mechanisms for the NDS' progress.</li> <li>• Foster competition, investment, and innovation to support faster Internet at lower prices.</li> <li>• Enhance consumer access to broadband service information and quality.</li> <li>• Incorporate digital competence as a key skill in all educational levels, coupled with relevant teacher training.</li> <li>• Introduce a digital competence framework for assessment and certification, in line with DigComp.</li> <li>• Integrate digital skills aspects into existing skills assessment and anticipation tools.</li> <li>• Establish a National Digital Skills and Jobs Coalition to enhance co-ordination across public and private stakeholders and peer exchange with EU countries.</li> </ul>
<b>Enhancing the institutional and regulatory framework and operational environment for SMEs</b>
<ul style="list-style-type: none"> <li>• Ensure strong coordination between Enterprise Georgia and GITA, fostering synergies for SME digitalisation and ICT sector support.</li> <li>• Explore sector-specific strategies for co-ordinated development in areas like tourism and ICT.</li> <li>• Finalise the approval of the 2023-2026 Digital Governance Strategy.</li> <li>• Enhance agency coordination for seamless public data exchange and interoperability.</li> <li>• Strengthen cybersecurity to mitigate risks amid regional geopolitical tensions.</li> <li>• Evaluate SME tax rates and assess preferential tax impacts on enterprise growth.</li> <li>• Explore initiatives to promote a second chance for bankrupt entrepreneurs, including incentives and dedicated programmes.</li> </ul>
<b>Fostering entrepreneurial skills and women entrepreneurship development</b>
<ul style="list-style-type: none"> <li>• Integrate entrepreneurship as key competence across all levels of education.</li> <li>• Enhance business-school co-operation and teacher training on entrepreneurship.</li> <li>• Improve monitoring, evaluation, and data collection, notably on teachers' competences.</li> <li>• Develop women-only support programmes to help alleviate the specific barriers faced by female entrepreneurs.</li> <li>• Raise awareness of support available for women entrepreneurs.</li> <li>• Strengthen data collection, monitoring, and evaluation efforts on women entrepreneurs and gender-related issues.</li> <li>• Expand the range of trainings, including online courses, and raise awareness of offers available.</li> <li>• Improve evaluation mechanisms by collecting SMEs' feedback on training, assessing acquired skills and impact on firm performance.</li> <li>• Consider offering certification of competences to foster the improvement of the quality of training.</li> <li>• Develop targeted training in priority areas for smart specialisation.</li> </ul>
<b>Facilitating SME access to finance</b>
<ul style="list-style-type: none"> <li>• Continue de-dollarisation efforts by raising awareness about FX risks and developing local capital markets.</li> <li>• Implement reform to ease movable collateral usage.</li> <li>• Finalise the factoring reform and the related registry to improve working capital access.</li> <li>• Address supply-chain financing obstacles and encourage reverse factoring.</li> <li>• Establish larger-scale start-up funding to attract private investment.</li> <li>• Develop an open data access framework to encourage non-bank participation.</li> <li>• Adopt a multidisciplinary approach among authorities expanding the mandate on regulation around digital finance beyond the NBG.</li> </ul>
<b>Supporting SME access to markets</b>
<ul style="list-style-type: none"> <li>• Develop an action plan and long-term strategy for public procurement, aligning the implementation of the new PPL with SME policies.</li> <li>• Revise the e-procurement system to meet EU Directives and improve data quality.</li> <li>• Train procurement officials for fair, open, and competitive practices, emphasising SME engagement.</li> </ul>

- Enhance SME integration into GVCs by facilitating SME imports, fostering technology transfer and skilled worker mobility from multinational corporations.
- Expedite adoption and implementation of the new e-commerce law to address legislative gaps.
- Continue with regular evaluations of technical regulations and quality infrastructure, and implement appropriate response measures to maintain and further improve their advanced level of development.

#### Fostering innovation and business support

- Assess impact and sustainability of inaugurated Growth Hubs before expanding.
- Build on Enterprise Georgia's experience to finalise GITA's assessment frameworks for evaluating effectiveness of support programmes.
- Incorporate digital skills development programmes in new digitalisation support initiatives, specifically aimed at SME managers to lead digital transformations.
- Consider consolidating relevant analysis and policy measures into a comprehensive innovation policy strategy.
- Develop internal capabilities to continue successful technology transfer efforts.
- Explore indirect financial support mechanisms to encourage investment in R&D and innovative equipment beyond IT and start-ups.
- Develop reporting requirements on firm size within ESG reporting frameworks to monitor impact of green finance policies on SMEs.

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## Notes

<sup>1</sup> For more information on the analytical framework, please refer to the thematic chapter Digital Economy for SMEs.

<sup>2</sup> <https://infohub.rs.ge/en>

<sup>3</sup> <https://reformeter.iset-pi.ge/en>.

<sup>4</sup> [businessguide.ebrd.ge](https://businessguide.ebrd.ge)

<sup>5</sup> The remaining 11% and 13% (for 2020 and 2021, respectively) are unidentified.

<sup>6</sup> Statistics vary a little regarding date and scope, see, for example, SWD(2021) 18 final and SWD (2022) 215, p. 12, LEPL referred to almost 12,000 according to CEN/CENELEC

<sup>7</sup> See <https://www.enterprisegeorgia.gov.ge/en/export-support>

<sup>8</sup> The code is based on the approach – “Apply or Explain an Alternative”, the aim of which is to encourage the wider use of good Corporate Governance practice. The code prescribes the reporting process in detail and introduces the obligation for public issuers to prepare a Corporate Governance report.



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