

Chapter 10. Georgia: Small Business Act country profile

From an already strong position, Georgia has made further progress since 2016 by adopting a more strategic approach to small and medium-sized entrepreneurship development through targeted initiatives. The adoption of the SME Development Strategy 2016-2020 and respective action plans, the improvements made to entrepreneurial learning and women's entrepreneurship, the continued simplification of business registration, and the increase in e-government services have drastically improved the operational environment for SMEs.

Going forward – and with a view to seizing all the opportunities offered by the Deep and Comprehensive Free Trade Area with the European Union – the Government of Georgia should prioritise the creation of level-playing-field conditions for enterprises of all sizes and provide for more-efficient enforcement of contracts and competition law. Moreover, strengthening the support provided to exporting SMEs (including targeted financing tools) would be of crucial importance – as would expanding the links between foreign direct investment and domestic businesses beyond pilot projects, to further attract quality FDI and increase the competitiveness of Georgian SMEs.

Key findings

Figure 10.1. SME Policy Index scores for Georgia

Country scores by dimension, 2020 vs. 2016

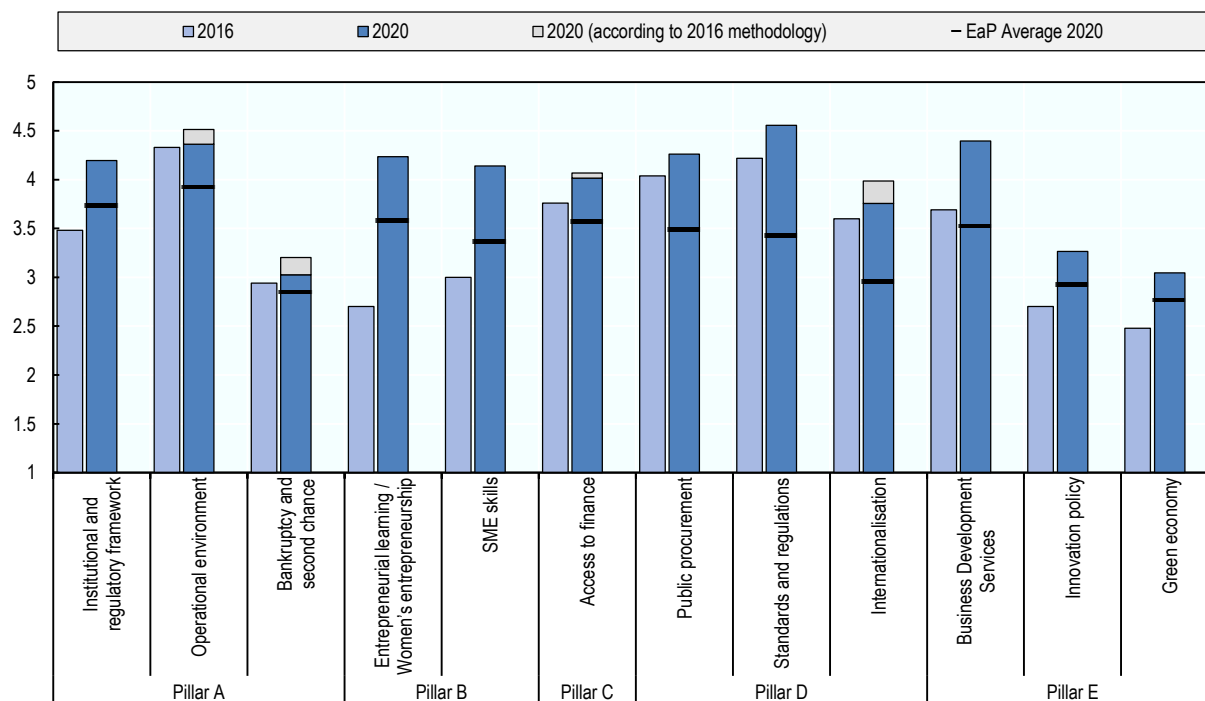
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Table 10.1. SME Policy Index scores for Georgia, 2020 vs. 2016

Pillar	Dimension	GEO 2020	GEO 2016	EaP average 2020	GEO 2020 (2016 methodology)
A	Institutional and regulatory framework	4.20	3.48	3.74	4.20
	Operational environment	4.36	4.33	3.92	4.52
	Bankruptcy and second chance	3.03	2.94	2.85	3.20
B	Entrepreneurial learning / Women's entrepreneurship	4.24	2.70	3.58	n.a.
	SME skills	4.14	3.00	3.36	n.a.
C	Access to finance	4.02	3.76	3.57	4.07
	Public procurement	4.26	4.04	3.49	4.26
D	Standards and regulations	4.56	4.22	3.43	4.09
	Internationalisation	3.76	3.60	2.96	3.99
	Business development services	4.39	3.69	3.53	4.39
E	Innovation policy	3.27	2.70	2.92	3.25
	Green economy	3.05	2.48	2.77	3.05

Table 10.2. Implementation progress on SME Policy Index 2016 priority reforms – Georgia

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
<u>Pillar A – Responsive government</u>	
Create a structured framework for inter-agency co-ordination and public-private consultation (PPC) on SME policy via the SME Development Strategy for 2016-2020	SME Development Strategy 2020 and respective action plans adopted
Introduce a single SME definition aligned with EU standards	Private Sector Development Advisory Council created
Address existing constraints in legislation on grants for targeted SME support	Introduced an SME definition for statistical purposes aligned with EU standards
	Legislation amended to allow grants to be issued to SMEs
<u>Pillar B – Entrepreneurial human capital</u>	
Develop a national entrepreneurship competence framework set against wider qualifications development	Entrepreneurial learning action plan agreed and entrepreneurship key competence developed in VET
Establish a Women's Entrepreneurship Commission	A Sub-Council for Women's Entrepreneurship Promotion established
Reinforce Enterprise Georgia's capacity for intelligence and analysis of SME skills	Sector-specific skills intelligence framework in place
<u>Pillar C – Access to finance</u>	
Introduce legislation to allow secured creditors to seize collateral after re-organisation	Depth of credit information has been strengthened, including strengthened creditors rights, increased access to the cadastre and registry for movable assets, and expanded coverage of the credit information bureau
Improve online access for the registry of movable assets, particularly for smaller users	Adoption of Basel III requirements, helping to strengthen banking sector supervision
	Adoption of a National Strategy for Financial Literacy
	Introduction of mandatory compliance with IFRS for SMEs
<u>Pillar D – Access to markets</u>	
Strengthen targeted support for exporting SMEs through Enterprise Georgia and establish an export credit facility to develop trade finance	Established four clusters in co-operation with GIZ funded by EU
Upgrade Georgia's quality of infrastructure in line with the DCFTA Action Plan	Pilot project on linking domestic SMEs with MNEs in the hospitality sector by Enterprise Georgia
Promote greater SME participation in public procurement	Established various DCFTA information centres throughout the country, offering training courses for EU standards adoption
	Dedicated guidelines and training sessions for SMEs on public-procurement-related legal framework, as well as on new services of eProcurement system
<u>Pillar E – Innovation and Business Support</u>	
Implement the National Innovation Strategy 2020	Innovation strategy 2025 awaiting government approval
Build on existing schemes to promote the use of private business development services (BDS)	BDS provision based on good practice – services outsourced to private providers/ or co-financing scheme

Context

Economic snapshot and reform priorities

Economic growth in Georgia has been steady if unspectacular in recent years. After two years of slow growth against the backdrop of the wider regional slowdown, real GDP growth picked up in 2017-18, reaching 4.8-4.7%, led by the trade, construction and transport sectors in an improved external environment. Goods exports increased strongly (29.5% in 2017 and a further 22.7% in 2018) on the back of stronger demand from Russia, the European Union, China and the United States, while exports of services rose 20%, mostly due to the tourism sector (World Bank, 2019^[1]). In 2018, international tourist visits rose by 9.8% year-on-year, to 8.7 million, and tourism revenue by 21.5%, to USD 1 billion – due mostly to government support for the sector, growth in accommodation capacity and passenger traffic, and improved access to many regions (The Economist Intelligence Unit, 2019^[2]; GNTA, 2018^[3]).

Moreover, since the provisional application of the DCFTA in 2014, a constant increase of Georgia's exports to the EU can be observed. Throughout 2014-18, the total volume of export to EU markets has increased by 17%, accounting for 21.7% of exports in 2018. Imports from EU countries have increased by 10%, accounting for 29% of total imports in 2018 (ITC, 2019^[4]). Overall, since 2009, Georgia has experienced the strongest GDP growth among the six EaP countries and can be considered the most resilient economy in the region.

Georgia now has free-trade regimes with one-third of the world's population – in the Commonwealth of Independent States, Turkey, the European Union, the European Free Trade Association, China and Hong Kong. However, Georgia's goods export potential is limited by its low-value and undiversified export base. Outside the agriculture sector, used cars, re-exports and base metals account for a large share of foreign sales. The small size of the manufacturing sector limits opportunities to broaden its range of exports.

Relative to GDP, Georgia attracted larger net FDI inflows than any other EaP country over 2009-18, despite very low inflows in 2018.¹ However, integration into global value chains continues to be constrained by skills gaps and by limited – albeit improving – regional interconnectivity. High levels of poverty and unemployment, a large rural population share (41.8% in 2017) (The Economist Intelligence Unit, 2019^[2]) and a large grey economy (estimated by the IMF at 64.9% of GDP in 2015)² present considerable barriers to growth (Medina and Schneider, 2018^[5]).

In early 2017, the government signed a three-year USD 285 million extended fund facility with the IMF, the programme aiming to improve the structure and sustainability of the country's public finances. The reform programme is currently on track, including a new insolvency law and a comprehensive education reform (The Economist Intelligence Unit, 2019^[2]). Georgia also launched a large-scale de-dollarisation policy in 2016 aiming to mitigate the risks caused by the high dollarisation of the economy; small loans are now to be issued solely in local currency.

Table 10.3.Georgia: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	3.4	4.6	2.9	2.8	4.8	4.7
Inflation**	Percentage, average	-0.5	3.1	4.0	2.1	6.0	2.6
Government balance***	Percentage of GDP	-1.4	-1.9	-1.3	-1.6	-0.5	-0.9
Current account balance*	Percentage of GDP	-5.9	-10.8	-12.6	-13.1	-8.8	-7.7
Exports of goods and services*	Percentage of GDP	44.7	42.9	44.7	43.6	50.3	55.1
Imports of goods and services*	Percentage of GDP	57.6	60.5	62.3	59.3	62.2	66.7
FDI net inflows*	Percentage of GDP	6.4	11.0	11.9	10.9	12.1	7.3
General government gross debt**	Percentage of GDP	34.7	35.6	41.4	44.4	45.1	44.9
Domestic credit to private sector*	Percentage of GDP	43.3	48.9	54.6	61.9	62.5	68.0
Unemployment ² *	Percentage of total active population	16.9	14.6	14.1	14.0	13.9	14.1
Nominal GDP*	USD billion	16.1	16.5	14.0	14.4	15.1	16.2

¹ General government net lending/borrowing.

² Modelled ILO estimates.

Source: *World Bank (2019^[1]), *World Development indicators*; **IMF (2019^[6]), *World Economic Outlook*, both accessed on December 2019

Business environment trends

Georgia is doing well in international rankings, having now entered the top ten in the World Bank's *Doing Business* report. Georgia has risen 17 positions since 2016, ranking 7th out of 190 countries in 2020. It is in the world's top ten countries in terms of starting a business (2nd), registering property (5th) and protecting minority investors (7th). Georgia has considerably improved its position, with a total number of 42 institutional and regulatory reforms carried out since 2008 (World Bank, 2019^[7]).

According to the Heritage Foundation's Index of Economic Freedom 2019, Georgia ranks 16th out of 180 countries worldwide and 8th out of 44 in Europe, with a drop in judicial effectiveness and lower scores on government integrity and monetary freedom exceeding a big gain in financial freedom (Heritage Foundation, 2019^[8]). The Fraser Institute's *Economic Freedom of the World 2018* report (Gwartney et al., 2018^[9]) puts Georgia in the list of top ten countries, ranking 7th out of 162.

Georgia's growth and resilience through the turbulence of the last decade suggest that these reforms have been bearing fruit in the form of better economic outcomes. However, while the solid, growth has been unspectacular, the evident constraints on growth Georgia encounters are a reminder that these indexes are not comprehensive. The latest World Economic Forum (WEF) Global Competitiveness Index (World Economic Forum, 2019^[10]) thus ranks Georgia 74th among 141 countries. While the WEF ratings confirm Georgia's strong performance on a number of dimensions (such as institutions, ICT adoption, business dynamism and product market regulation), it also points to potentially serious constraints with respect to skills of current workforce, internal labour mobility, infrastructure, market competition, and the financial system – including the financing of SMEs, on which it is ranked 83rd.

Given evidence of synergies among successful reforms, addressing these and other challenges that remain will not only reduce barriers to growth in their own right: it will also increase the pay-off from the many reforms that Georgia has already adopted.

SME sector

The institutional and regulatory framework for SME policy in Georgia has seen several changes since 2016. In particular, the SME Development Strategy 2016-2020 has been adopted, setting 33 priority actions to be taken in important areas for SME development such as improving legislation, institutional and regulatory frameworks and the operational environment, as well as widening access to finance, developing entrepreneurial skills, broadening internationalisation and supporting innovation activities.

Numerous stakeholders are involved in the implementation of SME policy reforms, with the most prominent roles being played by the entrepreneurship development agency Enterprise Georgia and Georgia's Innovation and Technology Agency (GITA), both of which fall under the authority of the Ministry of Economy and Sustainable Development.

The National Statistics Office of Georgia (Geostat) revised its SME definition in 2017 to comply with EU standards and increase international comparability. The new Georgian definition provides for lower thresholds for both the number of employees and the total turnover of the company.³

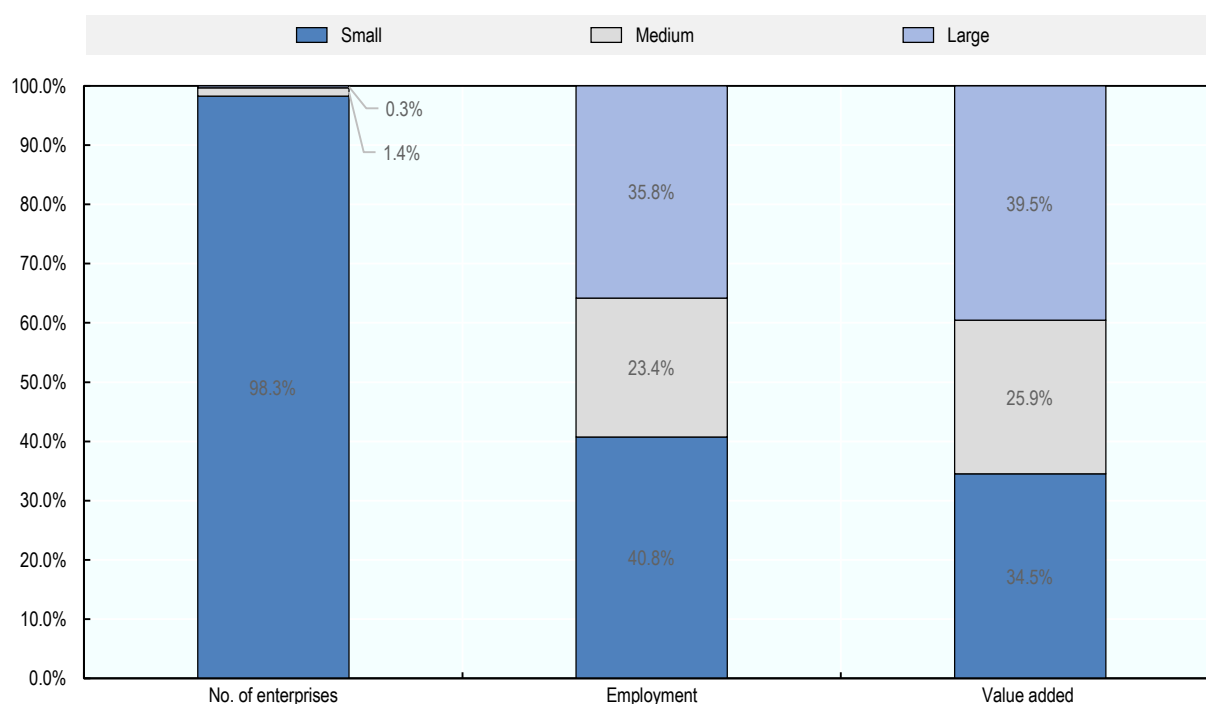
Table 10.4. The SME definition in Georgia

	Small	Medium
Employment	≤ 50 employees	≤ 250 employees
Turnover	≤ GEL 12 million (EUR 3.6 million)	≤ GEL 60 million (EUR 19.5 million)

Note: Exchange rates as of October 2019 (<https://www1.oanda.com/lang/it/currency/converter/>).

Source: National Statistics Office of Georgia (Geostat).

Under the recently adopted new definitions and methodology, 99.7% of all firms in Georgia in 2017 were SMEs. In 2018, SMEs, accounted for 64% of business sector employment and 61% of value added (Figure 10.2). The new definition has enabled the government to obtain a more realistic idea of the weight of companies in the Georgian economy.

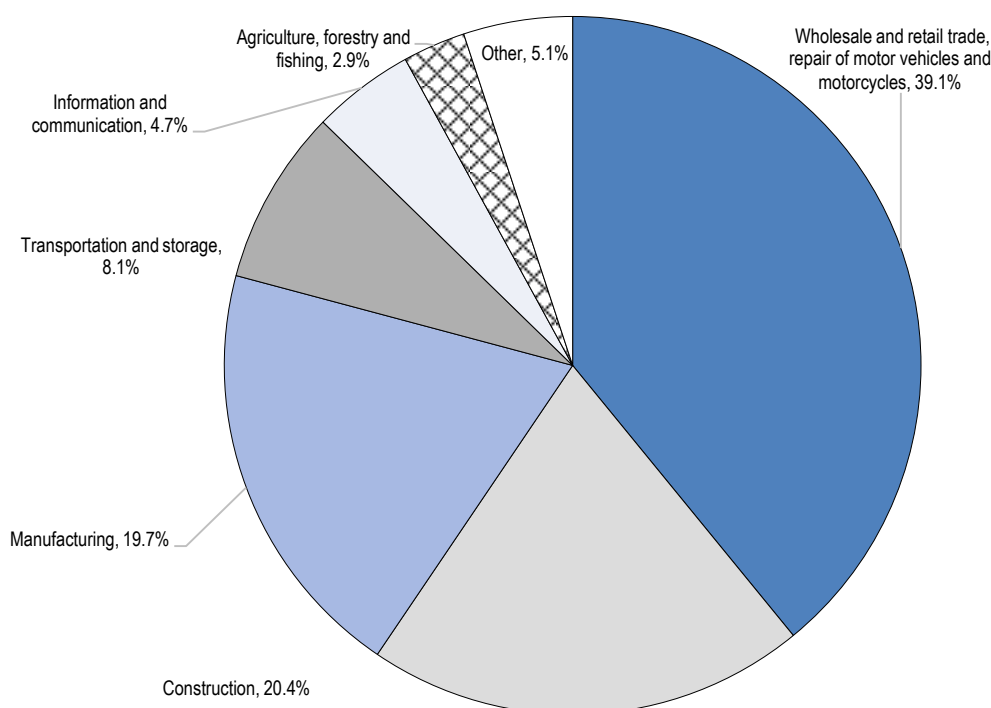
Figure 10.2. Business demography indicators in Georgia, by company size, 2018 or latest available

Note: data on the number of enterprises refer to 2017, data on contribution to employment and value added refer to 2018.

Source: Georgia State Statistical Committee (Geostat).

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SMEs tend to be concentrated in low-value-added sectors (Figure 10.3), such as trade (including repair of vehicles), manufacturing and construction, which contributed respectively 39%, 20% and 20% of business sector employment in 2017.

Figure 10.3. Sectoral distribution of SMEs in Georgia, 2017

Note: Sectors include section B to N, the sector S95, excluding the sector K (financial intermediation services) of ISIC rev. 4.

"Other" includes Arts and recreation; Education; Health; Electricity and water supply; Mining and quarrying; Financial services.

Source: OECD calculation based on data from National Statistics Office of Georgia (Geostat).

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SBA assessment by pillar

Level playing field pillar

Competition

Georgia's legal framework for competition law is seriously underdeveloped and lacks, in particular, the necessary investigation, sanctioning and remedial tools that are international best practice. While the basic legal provisions on prohibited agreements, abusive conduct, and merger control are in place, the Competition Agency of Georgia (GCA) cannot exercise its mandate effectively. The GCA has no power to conduct surprise on-site inspections (so-called "dawn raids"), compel undertakings to provide information for merger assessment, or apply financial penalties in merger cases. It lacks the power to impose remedies or accept commitments in merger and non-merger cases. This results in very limited enforcement. The GCA reviewed only seven mergers and conducted 15 investigations of antitrust infringements in 2016-18, compared to 65 investigated mergers in Armenia in the same time period.

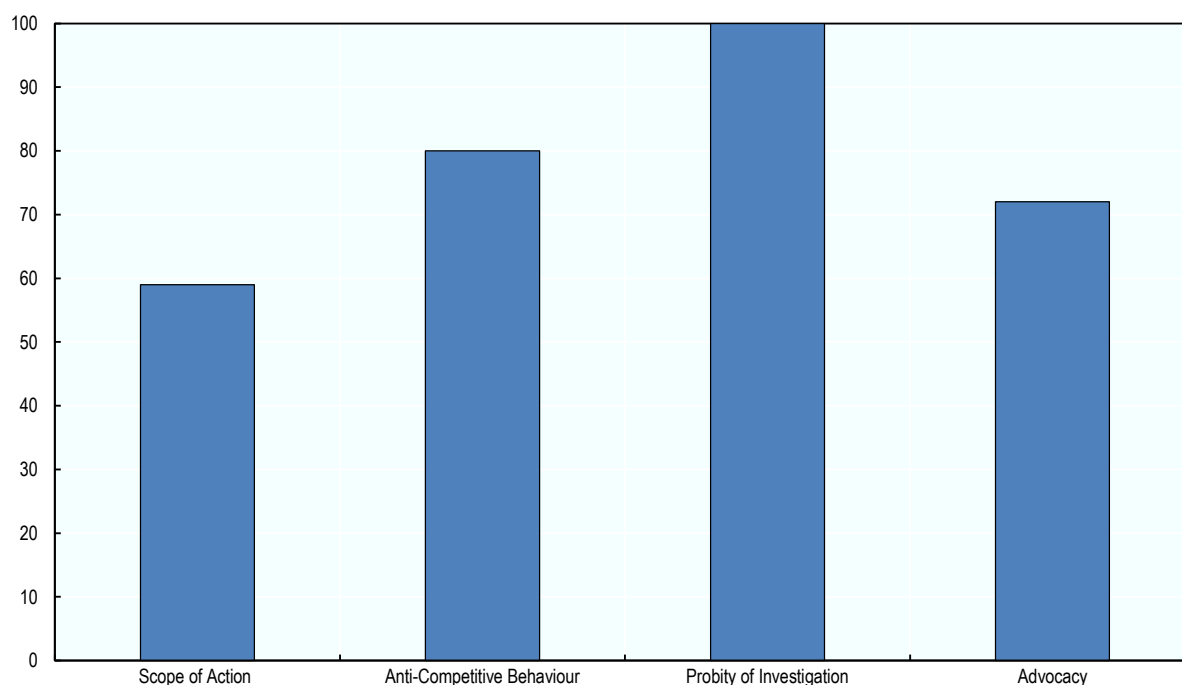
Other factors that impede competition on the Georgian markets include economic sectors that are directly excluded from the scope of competition law (e.g. the securities market,

labour and intellectual property relations, subject to certain exemptions) and sectors that are subject to competition law but outside the authority of the GCA (e.g. energy, banking, telecommunication). Furthermore, long-term concession projects are frequently granted without any competitive process. The size and structure of the economy also play a role, since it is often harder to prevent dominance in a small market, with fewer players: the WEF's *Global Competitiveness Index 2019* notes that, while Georgia is very *externally* open, it scores poorly on the extent of market dominance *internally* and, in particular, on competition in services (World Economic Forum, 2019_[10]).

The GCA, however, has a track record that suggests it would make good and responsible use of the proper tools if it had them. Notwithstanding the limitations on its authority, the GCA is very active in competition advocacy. The agency regularly conducts training, seminars and conferences for all target groups (including the private sector, public officials, media, lawyers and judges) and carries out market studies. It also actively comments on draft laws and regulations, with the aim of reducing or abolishing unnecessary restrictions on competition, and its enforcement action addresses state actors when they commit competition law violations. All this benefits in particular SMEs, which depend on a level playing field and open markets. In all these investigations, the GCA is acknowledged by the legal community as a fair, transparent and predictable actor that strictly adheres to the rule of law.

Figure 10.4. Competition policy in Georgia

Percentage of formally adopted competition policy criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.

Source: SBA questionnaire, interviews with the GCA and business associations.

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Pending amendments to the competition law address some of the problems described above. Expected changes include the formation of an independent elected board for the agency, improved merger control rules and procedures, and the application of competition law to regulated sectors. In addition, the reform will possibly include the extension of the agency's investigative powers. The GCA is also expected to become the designated enforcement body for new laws on anti-dumping and consumer protection. Amendments of the public procurement act foresee that the staff of the dispute resolution council will be subordinated to the GCA.

Effective enforcement requires well-functioning tools and procedures. In terms of tools, effective dawn raid powers are an indispensable tool for uncovering illegal cartels. Cartel agreements cannot be established based on parallel conduct observations or other indirect evidence alone; they require direct proof of communication or agreement. In a country like Georgia, where the economy is small and a few players dominate in many sectors, cartels can be expected to be a pervasive problem. This comes at a high cost to the country's consumers, who will pay 10–20% higher prices for goods and services. As cartels often target public procurement, public services also come at a much higher cost to taxpayers. Concerns about the GCA's possible abuse of these powers seem to lack a realistic foundation and should in any case be managed – as in other jurisdictions – by having proper oversight and recourse mechanisms in place.

Other investigation tools, like merger notifications and requests for information, have to be enforceable, if necessary, with sanctions for non-compliance. All enforcement instruments would benefit from more flexibility, and, when necessary, longer legal deadlines. Currently, an investigation cannot last longer than three months (for significant and complicated cases this term can be extended to 10 months); this is very short by international standards. When necessary, longer timelines would enable better enforcement cases based on international best practice.

Effective enforcement requires highly qualified enforcers who act in an institutional environment that assures independence from political or private stakeholder interventions. The GCA needs to establish a reputation for impartial and neutral enforcement against public and private restrictions to competition. In order to attract and retain highly qualified lawyers and economists, salaries would need to increase significantly, and with them the overall budget of the GCA, including for IT and office equipment.

The extension of responsibilities – not only for competition enforcement, but also for public procurement, anti-dumping and consumer protection – risks a dilution of the competition mandate. Adequate staffing, funding and training for these additional tasks would need to be assured. The GCA lacks discretion to decide on, and eventually dismiss, incoming complaints based on their relevance and the GCA's enforcement priorities. This occupies resources that could be used in a more meaningful way.

Contract enforcement and alternative dispute resolution

Since 2015, Georgia has progressed in the *enforcing contracts* indicator of *Doing Business*, ranking twelve in 2020 (vs. 23rd in 2015) and showing important improvement in the overall quality of judicial process (World Bank, 2019^[7]). These improvements reflect significant efforts to reform the judicial system that include *inter alia* court automation, with e-filing of cases and e-service of process successfully operating within the entire court system (the e-payment of court fees is envisaged at a later stage of the reform). However, the *Doing Business* results should be considered carefully, as the evidence from WEF's *Global*

Competitiveness Index 2018 (World Economic Forum, 2018^[11]) reflects wider concerns about the independence of the judiciary and the efficiency of judicial processes.⁴

The random automatic case assignment for judges was introduced in 2018 and covers all courts, and a specialised procedure for small claims is in place. In order to ensure transparency and predictability of contract enforcement, the government of Georgia has put in place a centralised database for publication of court decisions of all instances that has been operational since June 2019. In addition, during 2018, in the framework of the USAID and GIZ project on “Promoting Rule of Law in Georgia”, the High School of Justice of Georgia (HSoJ) conducted the first round of training in commercial law for 39 judges, with another round having taken place in August 2019. While this is an important development, the government should ensure regular training for all judges within the common court system who treat commercial disputes in order to provide for quality dispute resolution across the country and to build the knowledge and expertise of all judges.

Georgia has improved its protection of property rights over the last few years, moving up by 10 ranks since 2015 to 48th place in 2019 in the Global Competitiveness property rights protection index (World Economic Forum, 2019^[10]). Following the provisional application of the DCFTA in September 2014, Georgia has adopted a series of amendments to its IPR legislation for the implementation of DCFTA requirements. The e-filing system for intellectual property rights (IPR) applications became available and the violation of IPR rights is sanctioned by both Civil and Criminal Codes. While there are no specialised courts on IPR matters in Georgia, there is a narrow specialisation of judges in IP law treating IPR-related cases within the Tbilisi City Court and Tbilisi Court of Appeals. Thus, all IP disputes in Georgia are adjudicated by qualified judges in those two courts. In this regard, it is important to ensure that the judges have an adequate workload to provide for high-quality dispute resolution on IPR. When it comes to IP training for judges, the High School of Justice of Georgia (HSoJ) reports that it is providing training – for instance, the IP training provided to 26 judges in co-operation with the Commercial Law Development Program (CLDP) in 2018, which will be continued in 2019. In addition to this, with the support of the World Intellectual Property Organisation (WIPO), the Georgian IP agency Sakpatenti offers training and seminars, provides online courses, and conducts other capacity-building activities on IPR. However, more could be done by the state to ensure that IPR disputes are settled in a quality manner and are properly enforced.

Arbitration, mediation and conciliation are available in Georgia as alternative means of dispute resolution (ADR). However, despite the relatively low costs of ADR (1% of the claim value in the case of mediation, versus 3% in a standard court procedure) and its promotion by the government (through isolated awareness-raising campaigns promoting the possibility of referral to mediation with all parties’ consent), such mechanisms are rarely used by businesses. The country could better leverage existing incentives for ADR (including financial) to encourage business usage of ADR. Organising training events, workshops and roundtables on ADR for the private sector, with particular focus on SMEs, could be a first step towards establishing an ADR culture within the business community.

Lastly, the establishment of a Business Ombudsman in 2011 to protect the interests of entrepreneurs has greatly contributed to the resolution of private-to-public litigations and has enhanced protection of the property rights of SMEs against the discretion of public authorities. In 2017, businesses filed 257 complaints through the online portal, and the Ombudsman prepared 63 opinions and recommendations based on the cases and held 479 meetings with businesses. Going further, the government could strengthen its support for the Business Ombudsman by, for example, adopting the draft law (introduced in 2018) that

provides for extension of the *amicus curiae*⁵ function to the Business Ombudsman. This would enable the Ombudsman to submit recommendations to court or assign a lawyer to assist businesses in resolving administrative disputes.

Business integrity

Adopted in 2015, the Anti-corruption Strategy of Georgia addresses the prevention of corruption in the private sector and is the main strategic document guiding business integrity policy development and implementation. The 2019-2020 Action Plan for the Anti-corruption Strategy elaborated by the government was shared with public and private stakeholders for consultations. Despite the fact that the preceding 2017-2018 Action Plan envisaged a study of business integrity risks, the government did not conduct such study over the indicated period of implementation. At the same time, the Strategy on Money Laundering and Terrorism Financing (2014) contains to a certain extent an analysis of corruption risks in the private sector that could complement the evaluation of risks for business integrity. The government could conduct a corruption risk assessment with a specific focus on SME-related risks, actively engaging with the private sector as it does so.

Georgia has taken important steps to improve the framework for preventing corruption in the private sector, including by incorporating enforcement of the liability of legal persons for corruption offences in the policy priorities in the criminal justice area (ACN, OECD, 2019_[12]). Following the 2016 Law on Accounting, Reporting and Audit, all companies in Georgia are obliged to disclose their financial statements, and the Business Registry information is accessible through the website of the National Agency of Public Registry, or NAPR (<https://napr.gov.ge>). Information on the beneficiary owners of legal entities is available through the portal of the Service for Accounting, Reporting and Auditing Supervision, or SARAS (www.reportal.ge), which contains the financial statements of all companies, including SMEs. Since 2019, NAPR and SARAS have been co-ordinating efforts to link the SARAS portal to the NAPR business registry in order to offer easier and more user-friendly access to complete company information in one place. While these efforts are commendable, the government should also ensure that an effective enforcement mechanism for legal persons' liability exists in case of non-disclosure or false disclosure of final beneficiary information.

Businesses in Georgia can report corruption via a recently established whistle-blower portal (www.mkhileba.gov.ge), a link to which has been incorporated into the websites of all governmental bodies. At the same time, although legal guarantees for the protection of whistle-blowers in the public sector have been strengthened,⁶ the protection of private sector corruption reporting is not properly ensured by the law and should be further addressed by the government. In addition, the role of the Business Ombudsman (BO) of Georgia in promoting business integrity measures has grown considerably and now allows for the BO to take active part in the planning and design of business integrity actions under the 2019-2020 Anti-corruption Action Plan (ACN, OECD, 2019_[12]). Moreover, the BO has elaborated an e-communication platform for businesses that enables access to the BO and reporting of cases involving corrupt behaviour.

Georgia has made substantial efforts to raise awareness of the corruption prevention mechanisms available to businesses (i.e. seminars and meetings provided by the Civil Service Bureau, Competition and State procurement agencies, Ministry of Justice) and to encourage companies to adopt business integrity practices. However, further steps could be taken to encourage firms, especially SMEs, to introduce codes of conduct and compliance mechanisms, including the creation of financial stimuli (e.g. tax reductions, or

benefits when applying for a loan) and non-financial measures that would support businesses engaged in integrity initiatives and would raise awareness of the benefits of adopting compliance mechanisms. In addition, the government and business associations could engage in a collective integrity action through, for example, initiating an integrity pact within one or several business sectors.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Georgia has made significant progress in this policy dimension and has now established a well-structured and advanced institutional and regulatory framework for SME policy. Since the latest SBA assessment conducted in 2016, Georgia has approved and is currently implementing its first multi-year SME Development Strategy and has made operational two key public agencies, one in charge of supporting SMEs, the second of supporting innovation and technological development.

Work on the SME Development Strategy, covering the period 2016-2020, has been co-ordinated by a Steering Committee chaired by the Ministry of Economy and Sustainable Development (MoESD), the line ministry in charge of SME policy. The elaboration of the strategy marked the departure from the approach to SME development traditionally championed by Georgia, which placed a great emphasis on improving the business environment but had a more neutral public policy position towards SMEs, in a move towards a more proactive policy. The Strategy is articulated along five strategic directions (improvement of the business and institutional environment; access to finance; skills upgrading and promotion of an entrepreneurial culture; export promotion and enterprise internationalisation; innovation and R&D promotion) and lists 33 priority actions. The document includes the identification of three quantitative targets at the aggregate level, relating to SME growth, employment generation and productivity increase.

With the technical support of the OECD, the government has adopted a result-oriented monitoring system for the SME strategy, with dedicated key performance indicators for each strategic direction. The public agencies and institutions involved in the strategy implementation report regularly on progress made, while Geostat is in charge of reporting on the achievements of the aggregated targets. Data produced by Geostat show that all three targets set for 2020 have already been achieved in 2018.

SME policy implementation has largely been assigned to the SME development agency, Enterprise Georgia, established in 2014. The agency is fully operational and has been granted substantial autonomy. Enterprise Georgia provides a range of support services and manages the country's main enterprise development programme, Produce in Georgia, which covers a set of priority sectors and activities. Innovative enterprises may benefit from the support of Georgia's Innovation and Technology Agency (GITA), also established in 2014, and enterprises operating in the agricultural and agribusiness sector can turn to the support of the Agricultural and Rural Development Agency (ARDA). The latter agency was established in June 2019, after a merger between the Agricultural Cooperatives Development Agency, the Agricultural Projects Management Agency and the Department of Regional Relations of Georgia. Through this reorganisation ARDA's mandate has been expanded, and it is now able to support both agricultural and non-agricultural SMEs through various programmes and projects, seeing the quality and quantity of services improved through regional and municipal centres, and providing information to farmers and entrepreneurs in the agriculture sector.

In 2017, the Law on Grants was also been amended, allowing the above-mentioned state agencies to award public grants, exempted from relevant taxes, to private commercial entities.

The informal sector plays a relatively minor role in Georgia and its weight is estimated to be below 10 per cent of the GDP (according to national statistics),⁷ thanks to the government's determined efforts to improve the business environment, reduce administrative burdens, increase transparency and fight corruption.

In addition to the good results obtained in reforming the existing regulatory environment, Georgia has also made significant progress towards the systematic application of regulatory impact analysis (RIA). A unit in charge of RIA has been established within the MoESD since 2007 and a number of pilot RIA projects have already been completed. Since March 2019, it has been compulsory to perform RIA for any new business-related legislation, and a methodology for SME-specific RIA tests is currently under development.

Public-private consultations (PPCs) are regularly conducted and a set of public-private institutions, including the Business Ombudsman, the Investors Council, the Private Sector Development Advisory Council and the DCFTA Advisory Group are actively engaged in promoting public-private dialogue.

Operational environment for SMEs

Over the years, Georgia has managed to build up a high-standard regulatory and business environment that has received significant international recognition. It has done this through a systematic and continuous reform process and the commitment of a number of strong and independent institutions. The country currently has one of the most advanced platforms in the EaP region for e-government services.

As early as 2016, Georgia was already demonstrating an advanced e-government service platform. The implementation of the e-Georgia strategy (2014-2018) and related action plans, under the coordination of the Data Exchange Agency, has contributed to further widening the range of e-government services (up to 500 e-services including business registration, reorganisation and bankruptcy registration), all accessible through a single portal (www.my.gov.ge). In parallel with the e-government services, a system of Public Halls, distributed across the country, facilitates the access of enterprises and private citizens to government services (see Box 10.1). The government has also been active on the Open Data front. A unified open-data portal (www.data.gov.ge) has been established and a wide range of information on government activities is regularly posted. There are plans to update the portal, making it more user-friendly and aligning it with EU standards.

As a result of a very proactive regulatory reform policy, the number of business licenses has decreased by 85% and e-auction has been introduced for the allocation of the remaining licenses, substantially reducing room for corruption.

Georgia has developed a state-of-the-art company registration system and the country now ranks second in the *starting a business* indicator of the 2020 *Doing Business* report, behind New Zealand. Registration of a limited liability company requires just one single procedure, as a single window system is in place performing all the necessary notifications on behalf of the newly established company. The entire starting a business procedure is completed within one day at the cost of 2.1% of the country's per capita income (World Bank, 2019^[7]).

Moreover, Georgia has implemented a light taxation regime for small enterprises. Microenterprises with an annual income below GEL 30 000 (~ EUR 9 052) are exempted from profit tax, while small businesses with an annual turnover not exceeding GEL 500 000 (~ EUR 150 870) are subject to a tax rate of 1% of taxable income). The “small business” status is withdrawn if the enterprise reports a turnover exceeding GEL 500 000 over two calendar years. The value-added tax (VAT) threshold has been fixed at GEL 100 000 (~ EUR 30 174), and a new system for the automatic return of VAT credits was launched in February 2019. All taxes are payable online. According to the 2020 *Doing Business* report, Georgia performs relatively well in terms of tax payments per year (5) and has a high post-filing index (85.9/100), while the time required to complete tax compliance procedures is 216 hours per year, in line with the regional EaP average (World Bank, 2019^[7]).

Box 10.1. Georgia’s Public Service Hall

The Public Service Hall (PSH) is an agency of the Georgian government, operating under the management of the Ministry of Justice, that provides a variety of public services in one place – including the services of the Civil Registry Agency, the National Agency of Public Registry, the National Archives, the National Bureau of Enforcement and the Notary Chamber of Georgia. There are 22 PSH branches in total, the goals of which are threefold: provide customers with high-quality services via a one-stop-shop principle; promote public services development; and offer diverse and innovative services.

Over 20 000 customers use PSH services throughout Georgia on a daily basis. Each hall is divided into three areas: a self-service area, a prompt service area and a prolonged service area.

- *Self-service area*: Using automated systems, customers receive diverse services such as extracts of property or business registrations, biometric photos for IDs and passports, cash withdrawal from ATMs, and conducting long-distance payments via pay boxes.
- *Prompt service area*: This is for services that require no more than five minutes to carry out. Examples include the issuance of already-printed ID cards and passports, birth and marriage certificates, documents certified by apostille or legalisation, and extracts of property and business registrations.
- *Prolonged service area*: This is for services exceeding five minutes, such as applications for passports, ID cards, registration of property and business, or receipts of birth certificates from the archive.

While this division of service areas goes some way towards minimising queue length, queues are also regulated via an integrated electronic queue management system. Prominent navigation banners also help users orient themselves and move around the building. PSHs also conduct surveys of customer satisfaction on an annual basis.

Source: <http://psh.gov.ge>.

Bankruptcy and second chance

The 2007 Law on Insolvency Proceedings continues to define the insolvency framework in Georgia. As of 2017, a series of amendments to the Law improved Georgia’s rank in *Doing*

Business 2020 in the resolving insolvency indicator (64th versus 122nd in 2015) (World Bank, 2019^[7]). The amendments introduced expedited reorganisation and liquidation proceedings, strengthened secured and unsecured creditors rights (through better participation in the decision-making process), introduced an electronic system for insolvency proceedings and regulated the appointment of bankruptcy trustees.

However, the insolvency legislation could be further improved to reach international standards and reduce implementation issues hampering the efficiency of the framework. Implementing out-of-court settlements or simplified in-court proceedings would allow SMEs, which sometimes do not have the necessary resources to engage in costly formal insolvency proceedings, to avoid selling all their assets when fearing insolvency. In addition, the newly introduced electronic system, which includes all rulings related to cases and hence increases the transparency of the procedures, is yet to be fully applied and implemented.

The government is preparing a new legislative framework for bankruptcy with the aim of increasing procedural transparency, giving creditors a chance for a better recovery and maintenance of co-operation with clients and suppliers, fostering accelerated and consistent access to finance to support restructuring processes, and giving bankrupt entrepreneurs better access to credit for a fresh start. Informational campaigns are being held with the support of donors (e.g. GIZ or USAID) to disseminate information about the core improvements of the new law among business representatives, business associations and consultancy companies.

Moreover, even though restructuring proceedings are available, the large majority of insolvency cases involve liquidation, denoting a credit-driven preference and the weaknesses of the preventive measures. While entrepreneurs fearing failure can benefit from pre-insolvency services from public and private organisations, or find information through online tools and hotlines, Georgia should introduce an institutional early-warning system to systematically identify distressed companies. In addition, while there are no economic disabilities for entrepreneurs after going bankrupt, Georgia should consider implementing a dedicated policy strategy based on a large-scale information campaign to better promote second chance for entrepreneurs seeking a fresh start.

Pillar B – Entrepreneurial human capital

This section focuses on the human capital dimensions of the Small Business Act for Europe. It first examines how entrepreneurship is addressed in the education system, focusing on entrepreneurship as a key competence – a factor in Georgia’s wider drive for competitiveness, growth and employment. It then discusses developments in women’s entrepreneurship. Finally, both policies and support for SME training are addressed.

Entrepreneurial learning

Since the 2016 SBA assessment, an inter-agency working group on entrepreneurial learning has been established. Led by the Ministry of Education, Science, Culture and Sport, it has raised awareness and ensured cross-stakeholder co-operation in lifelong entrepreneurial learning. Further, Georgia’s entrepreneurial learning drive has been reinforced by the Unified Strategy for Education and Science (2017-2020). This establishes entrepreneurship within a lifelong learning perspective and is backed up an entrepreneurial learning action plan (2019-2020). Entrepreneurship key competence features within national curriculum (primary, secondary and upper secondary education) and addressed through dedicated subjects.

Entrepreneurship skills are most developed in vocational education and training (VET), with teacher training and support materials available. This is set against a wider objective of employability and includes career guidance, where entrepreneurship is an integral feature. VET developments also include the entrepreneurship key competence and the piloting of the 'VET Entrepreneurial School'. In the reporting period, there were no significant developments on entrepreneurship promotion in higher education, apart from individual cases at a number of universities.

The assessment identified excellent non-formal learning initiatives to encourage young people to develop their creativity and entrepreneurship potential. For example, the 2017 Fablab initiative, where young people work directly on product design and prototype building, is good practice and demonstrates the value of partnership between vocational schools and the Georgian Innovation and Technology Agency (GITA). Entrepreneurial Clubs at a number of VET colleges also allow for young people to meet directly with entrepreneurs and to hear at first hand the opportunities and challenges for self-employment and running a business. Nonetheless, improved co-operation between all schools (vocational and general secondary education) will be important in forward planning for all developments in entrepreneurial learning. In this regard, the recommendations for school-business co-operation, including teacher placements in commerce and industry, included in a review of entrepreneurship promotion in VET should be considered (Livny et al., 2016^[13]).

Finally, monitoring of entrepreneurship developments across the learning system will need to go beyond standard, annual school reporting. Given that entrepreneurial learning is a new and evolving policy area, better scrutiny of the ways in which entrepreneurship is addressed through formal and non-formal learning will not only help build a culture and capacity for systematic review and evaluation, but will also ensure policy and practice can be continuously improved based on lessons learnt.

A next phase of the inter-agency working group should address non-formal entrepreneurial learning and focus on promoting opportunities for young people to gain concrete entrepreneurial experience. Including Creative Georgia in this group could also help transfer knowledge and capacity from the creative economy into local schools, training centres and universities.

Options should be considered for building on the existing subject-based entrepreneurship key competence for wider application across the curriculum. This should draw on the three pillars of the European Entrepreneurship Competence Framework. This will have significant implications for teacher training and the role of the Centre for Teachers Professional Development will be important.

Finally, a structured dialogue involving the higher education community, student bodies, private sector and the education and economy ministries should explore ways to ensure that entrepreneurship is more systematically developed across the country's university network.

Women's entrepreneurship

Since the 2016 SBA assessment, policy support for women's entrepreneurship has been reinforced through the SME Development Strategy (2016-2020) and a rural development strategy (2017-2020). While linkages across different government strategies addressing women's socio-economic standing are provided by an Inter-Agency Commission for Gender Equality, a sub-committee on women's entrepreneurship within the Private Sector Development Council has the objective of closing the gender gap in entrepreneurship.

Baseline research commissioned by the Private Sector Development Council points to a predominance of women-owned businesses in retail, social services, food processing and hospitality sectors, with 40% of state-support programmes (Elizbarashvili, Samadashvili and Burchuladze, 2018^[14]). The lion's share of training for women's start-up and growth businesses is provided by Enterprise Georgia and GITA. However, with women accounting for just 31% of start-ups (GEOstat, 2018^[15]), more support is needed, especially in outlying regions. Almost 60% of women-owned businesses are located in two (Tbilisi and Imereti) of the country's nine, mostly rural regions (Elizbarashvili, Samadashvili and Burchuladze, 2018^[14]).

Gender stereotyping is considered a critical factor in women's entrepreneurship development (Natsvlashvili, 2017^[16]). A concerted effort by government and civic interest groups to raise awareness and understanding of the potential of women's entrepreneurship for wider socio-economic development is necessary, including promotion of role models and success stories through mass media (Elizbarashvili, Samadashvili and Burchuladze, 2018^[14]). A step in this direction is an initiative by Enterprise Georgia to ensure preferential treatment of women applicants under its SME support programme, Produce in Georgia.

While baseline data on women's entrepreneurship for this assessment was available primarily through a one-off research project, the Private Sector Development Council should consider developing a state-level intelligence framework to support wider policy planning and analysis.

Given the urban-rural divide on women's entrepreneurship, an action plan for women's entrepreneurship that was proposed in a mid-term evaluation of the SME strategy (Ministry of Economy and Sustainable Development of Georgia, 2018^[17]) should be followed up. The action plan should give equal weighting to necessity entrepreneurship and opportunity entrepreneurship and ensure greater access to training and advisory services. Engagement and co-operation with locally-based NGOs will help widen outreach. Benchmarks, against which policy performance can be assessed, will be important. This will require closer collaboration between policy areas already addressing women's economic empowerment, including SME development, employment promotion and rural and agricultural development.

SME skills

Since the 2016 assessment, the new SME strategy has given particular attention to human capital. All developments from the strategy are overseen by the Private Sector Development Council, although the Council has not yet taken a specific position on SME manpower developments. A further development has been a more concerted effort in building skills intelligence. Initially undertaken by the labour ministry, a labour market information system is now managed by the Ministry of Economy and Sustainable Development. This should improve the interface between skills required by SMEs and the manpower available. An Inter-Agency Working Group led by the Ministry (and which includes Enterprise Georgia) advises on sectoral skills intelligence. In 2018, the Working Group specifically addressed skills in the hospitality and publishing sectors. An SME skills review for the construction sector is planned for 2019. Enterprise Georgia has developed an 'export readiness' tool that allows SMEs to assess their capacity to internationalise; it also provides recommendations for training and advisory services and export-management courses.

While Enterprise Georgia provides a range of training and advisory support to start-ups and growing businesses (e.g. e-commerce, digital marketing, cybersecurity), GITA's Start-up

Georgia Programme is the primary resource for supporting innovative start-ups. Its services comprise a mix of training, mentoring and advisory services backed up by a micro-grants scheme. GITA also provides training to develop the digital capacity of SMEs, including training for e-commerce. Further, the Georgia National Innovation Ecosystem Project (GENIE) has defined a number of good-practice criteria that it uses when procuring training providers, while the Ministry of Education, Science, Culture and Sport provides adult training courses specifically related to labour demand.

Regarding the knowledge and skills businesses need to trade with the EU Single Market, six DCFTA centres have been established by the Chamber of Commerce and Industry with EU support. These centres provide not only information on EU regulations and standards, but also training and information on good practices. Additional training services are provided by the Georgian Agency for Standards and Metrology. Further, although still relatively new, online training offered by Enterprise Georgia to support SMEs with the fundamentals of international trade demonstrates the potential of available technologies to improve SME access to training.

An important next step to reinforce the overall skills intelligence drive will be to gather data on training delivered by the range of agencies (education, employment, enterprise), which will allow for a more consolidated package to support the monitoring and evaluation of policies to support SME manpower development.

Finally, Georgia is in an early phase of developing smart specialisation. Proposals currently exist 1) to integrate smart specialisation approaches into the Pilot Integrated Regional Development Programme or 2) to elaborate a separate strategy for the selected pilot region(s) using input from four regional development initiatives; both proposals are good.

As Georgia moves forward with smart specialisation, it will be important that vocational training and higher education bodies are an integral feature of regional development planning and implementation.

Pillar C – Access to finance

Georgia has made some progress in easing SME access to credit since the 2016 assessment. Bank lending has expanded in recent years, and a number of public financial support programmes now support access to finance for SMEs. Reforms are currently under way to develop leasing and factoring, which is expected to help increase the availability and use of financing. Georgia has also made progress in addressing financial literacy, and the mandatory introduction of IFRS for SMEs standards is expected to increase the creditworthiness of adhering companies.

Legal and regulatory framework

SME access to finance in Georgia is supported by a well-developed legal and regulatory framework. Capital requirement regulation is in line with Basel III, and a comprehensive legal framework is in place to protect creditors' rights. Minority shareholder rights in particular have been strengthened. Insolvency procedures, which have been amended since the last assessment, now include time limits during an automatic stay in case of re-organisation.

Credit information on borrowers is largely available, helping particularly smaller enterprises to build an adequate credit history. A modern real-estate cadastre is in place, covering the entire territory of Georgia. Georgia is one of the first countries worldwide to have transferred its property register to a blockchain platform, which has helped increase

transparency and efficiency of real estate registration. In addition, the coverage of the private credit information bureau has expanded significantly, from 57% of Georgia's population during the last assessment to 100% (World Bank, 2019^[7]); it now includes data from non-bank financial institutions, retailers and utility providers.

Access to capital market finance remains in its infancy. Although the authorities have made its development a priority and reforms are planned, the market is currently not sustainable and does not offer a genuine source of finance for enterprises.

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

Lending has expanded significantly in recent years, and financial intermediation is relatively high compared to regional peers at 62.5% of GDP (World Bank, 2018^[18]). Annual credit growth stood at 17% (National Bank of Georgia, 2019^[19]) at the end of 2018, and liquidity in the banking sector is ample. However, the spillover effects of SME lending have remained negligible, and the share of SME loans in total private sector lending remains unchanged at around 40%, though lending terms have become somewhat more favourable. Lack of working capital remains one of the key challenges for businesses, as suppliers are commonly required to provide trade credit to their large buyers and to hold accounts receivable on their balance sheets – creating funding problems for SMEs, which typically lack cash flow. The National Bank of Georgia (NBG) adopted a comprehensive action plan for dollarisation in December 2016, and joined the EBRD's SME Local Currency Programme with a view to increasing access to affordable local-currency funding. As a result, the level of dollarisation has fallen somewhat but remains high, at above 50% of both deposits and loans. This can pose a particular problem for SMEs, which are more likely than large companies to be unhedged against foreign exchange risks.

Public financial support programmes are mainly channelled through Enterprise Georgia, which provides loans at preferential rates primarily for enterprises located in the regions and active in tourism. Financing schemes like “Produce in Georgia” have generated great interest, have financed over 400 SMEs since 2014, and are regularly monitored. Furthermore, the Ministry of Environmental Protection and Agriculture provides funding to enterprises in the agricultural sector. Supported by the EU, credit guarantee schemes and subsidized loans are available to local enterprises through local banks for the implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA). Preparation for the establishment of a public sector guarantee fund is at its final stage; if designed well, this could significantly broaden access to finance for smaller businesses, while mitigating perceived risks.

Non-bank finance remains below potential. Microfinance is commonly used and accounts for around 3.5% of total financial sector assets, though it is mainly issued to individuals. However, there are signs of market saturation, and microfinance institutions are increasingly looking into financing businesses. At present, leasing and factoring remain largely underdeveloped. Leasing is offered by some banks and a leasing association has been formed since the last assessment; however, effectively, operations are presently almost unregulated and, according to the 2019 amendments to the Civil Code of Georgia, caps on effective interest rates and other financial costs for leasing contracts have only recently been established. Factoring accounts for around 0.1% of GDP and there is currently no legal framework in place, leaving the entire factoring market unregulated. With the support of the EBRD, Georgia is preparing a reform of its legal framework for

leasing and introducing a dedicated law on factoring, which will help strengthen supervision and embed activities into an adequate framework.

Venture capital is just beginning to develop and there is no dedicated legal framework in place to support investments. State support is focused on building an ecosystem conducive to innovation, and GITA offers financial support to innovative companies. A crowdfunding platform was established in 2015, and legislation to regulate crowdfunding is under preparation. If adopted, crowdfunding could develop into a viable financing tool for small start-ups.

Financial literacy

A number of initiatives have been launched to increase the level of financial literacy among the broader population and enterprises.

A key development since the last assessment is the introduction in 2017 of a mandatory “IFRS for SMEs Standard” for all businesses with a turnover of more than GEL 2 million (approx. EUR 630 000) and/or balance sheets of more than GEL 1 million (approximately EUR 310 000) and 10 employees; this compliance requirement is being rolled out in a staggered approach until autumn 2019. Under the auspices of the Ministry of Finance and in coordination with international donors, the Service for Accounting, Reporting and Auditing Supervision (SARAS) offers free-of-charge training to enterprises to familiarise themselves with IFRS for SMEs. Guidelines have been issued to commercial banks, auditors and even universities to ensure a smooth transition. Once fully adhered to by enterprises, standardised accounting practices are expected to ease access to credit, as financial service providers will be able to make sound judgements on the creditworthiness of loan applicants.

The National Bank of Georgia carried out an assessment of the financial literacy of the general population in 2016, which resulted in the adoption of a National Strategy for Financial Education. An action plan for implementation was recently approved, though the strategy does not envisage a specific focus on entrepreneurship. Separately, the National Bank of Georgia launched a financial education programme for micro and small entrepreneurs that includes information about the sources of business finance, relevant financial services, as well as approaches and indicators used for business assessments. The training was piloted in 2018 and is expected to reach over 1000 SMEs per annum. As of 2019, financial education has also been incorporated into the national school curriculum.

Pillar D – Access to markets

Public procurement

Public procurement is currently regulated by the public procurement law (PPL) of 20 April 2005, which came into force on 1 January 2006 and has been repeatedly amended (Government of Georgia, 2005^[20]). The provisions of the current PPL will be successively replaced according to the timetable for alignment with the EU directives for public procurement, as required by Georgia’s association agreement with the EU. This will include new provisions for facilitating SME participation.

The State Procurement Agency (SPA) is the main institution at the national level. Its functions include regulation (drafting the new PPL and issuing administrative orders complementing the current PPL), monitoring, training, management of centralised purchasing, operation of the e-procurement system, and review of complaints. Complaints

can be made online, against a modest fee, and suspend the proceedings until a decision is made. The authorities are working to raise the independence of the review function in order for it to match international standards.

Particular measures for facilitating SME access to the public procurement market include the option of dividing contracts into lots, requirements for proportionality of selection and award criteria, obligation for prompt payments, guidance materials on SME participation for contracting authorities and enterprises,⁸ training for interested enterprises, a new e-catalogue (www.emarket.spa.ge) providing supply market information, and a comprehensive e-procurement system (www.tenders.procurement.gov.ge).

Nevertheless, despite the notional advantages and the apparent simplicity of the e-procurement system (which is used for a large number of small-value contracts⁹), the low average participation rate (2.1% in 2018) seems to point to a lingering hesitation of SMEs to participate in public procurement. The large share (27%) of unsuccessful procedures¹⁰ is mainly a result of incomplete tender documentation or insufficient description of the item to be procured. In turn, this reflects a lack of public procurement skills and experience in the many small contracting authorities and the not uncommon use of technical specifications that, even without mentioning any brand name or the like, clearly represent a specific product from a particular company, thus discouraging competition.

A wide range of data covering the whole procurement cycle is available through the e-procurement system,¹¹ but information on SME participation has not yet been easy to extract. However, with the support of the UK's Department for International Development (DfID) and the World Bank, the SPA is taking significant steps to address this shortcoming.

Although the progress made since 2016 is not yet evident in the available data, the effects of the recent measures to improve guidance, training and market access for SMEs could start appearing soon. Also, the regulatory and institutional development required for alignment with EU standards may lead to further improvement in coming years. For the time being, the following reforms could be envisaged in order to raise the level of SME participation in the public procurement market (though they also including measures of more general nature):

- Seek the means to train and incentivise public procurement officials to properly apply principles and practices for open, fair and competitive procurement, with special emphasis on raising SME participation; and
- Improve the possibility to access and extract public procurement data for evidence-based policy making as well as for spotting indications of bad practices, fraud and corruption in both the general and SME cases.

Standards and technical regulations

Georgia can refer to various accomplishments in the current assessment period, in particular regarding the implementation of the WTO Technical Barriers to Trade (TBT) Agreement and the EU-Georgia Deep and Comprehensive Free Trade Area (DCFTA) – which, as part of the Association Agreement, entered into force in 2016.

Another good practice example is the country's single point of contact for exporters to the EU: the Trade Development and International Economic Relations Department at the Ministry of Economy and Sustainable Development. It is also notable that Georgia could, in contrast to most EaP countries, report positively about several specific financial support measures for SMEs and the monitoring of these activities.

As a Companion Standardisation Body, Georgia's National Agency for Standards and Metrology (GEOSTM) collaborates closely with the European Standardisation Organisations CEN and CENELEC to achieve technical approximation and to help remove technical barriers to trade EU and Georgia. In addition, GEOSTM signed a memorandum of understanding (MoU) with the European Telecommunications Standards Institute (ETSI) in 2018 to become an ETSI National Standardisation Body and give Georgia's stakeholders the opportunity to participate in ETSI's standardisation processes. Another MoU was signed with the international standardisation organisation ASTM International (previously "American Society for Testing and Materials").

Georgia is also a correspondent member at ISO with observer status at ISO's technical and policy meetings. However, based on ISO's New Rights Program, the country has specific opportunities to influence the development of ISO standards in selected technical committees (TCs). Based on the program, GEOSTM is participating with voting right in five priority TCs. Similarly, GEOSTM is an Associate Member at the IEC and participates in selected IEC TCs with voting rights.

Various tools are used to support and enable Georgian members of standardisation TCs (representatives of SMEs, NGOs etc.) to take part in international standardisation meetings, in particular at ISO. This includes external support, for example by the United Nations Industrial Development Organization (UNIDO). To extend the successful co-operation with ISO, full ISO membership could be considered in the medium term.

In the field of metrology, GEOSTM has modernised its laboratories with help from the EU (including both renovation of its physical infrastructure and significant development of its equipment base) and has worked successfully on the capacity building of staff. As a result, the range and the scope of metrology services GEOSTM provides to interested parties (e.g. testing and calibration laboratories, pharmaceutical companies, food processing companies, the construction sector) has increased significantly. Georgia has maintained recognition in electrical measurements, mass and temperature, and has significantly expanded the scope of recognition to new fields, e.g. humidity, small volume, pressure, length, and ionizing radiation. Georgia's metrology services are also used by interested parties, e.g. accredited food testing laboratories, from neighbouring countries. In addition, a GEOSTM representative is one of the vice presidents in the Euro-Asian Cooperation of National Metrological Institutions (COOMET).

Georgia's Accreditation Centre (GAC) is an associate member of the European co-operation for Accreditation (EA) and has achieved international recognition through peer review. The success in the current evaluation period includes the standards ISO/IEC 17025, 17020, 17065, 17024 and ISO 15189.

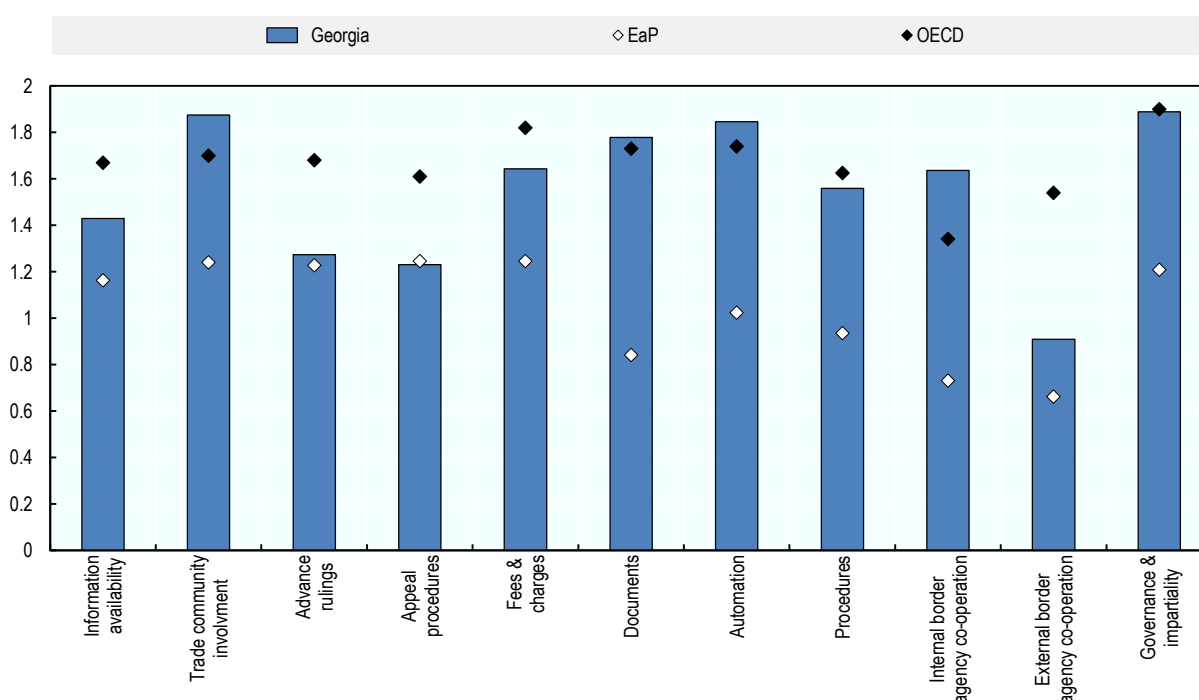
In the current assessment period Georgia has approximated with a number of EU technical regulations and almost 25% of Georgia's standards in priority sectors are already European Standards (EN).¹² An important element of the path forward is the further adoption of European standards. Georgia has a detailed schedule and is committed to addressing this issue.

Georgia has demonstrated strong interest in international and EU standards, as well as in standardisation. Improving its SMEs' ability to use standardisation as a strategic instrument is important in this context. To address these aspects, Georgia has implemented several promising awareness-raising activities, which could be further expanded. Regarding market surveillance, the regular evaluation of implementation of legislation is also an action item to be considered.

SME internationalisation

Georgia's exports have increased by 26% since signing its Association Agreement (including DCFTA provisions) with the EU in 2014. In 2017, SME exports accounted for 60% of total export value, the highest share among the EaP countries for which such data are available. According to the 2020 World Bank *Doing Business*, Georgia ranks 45th on trading across borders, down from 33rd place in 2015 (World Bank, 2019^[7]). Based on the 2017 OECD Trade Facilitation Indicators, Georgia is the best performer among the EaP countries, performing at the OECD average across the majority of the assessed areas, with some remaining challenges in the areas of *External border agency co-operation* and *Advance rulings* (OECD, 2017^[21]).

Figure 10.5. OECD Trade Facilitation Indicators for Georgia, 2017



Note: TFIs take 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  <http://dx.doi.org/10.1787/888934087610>

Enhancing SME internationalisation is one the five strategic objectives of Georgia's SME Development Strategy 2016-2020. Enterprise Georgia is the main institution responsible for export promotion and export support services in Georgia. The agency facilitates SMEs' participation in trade fairs and trade missions and, in co-operation with GITA and the Georgian Chamber of Commerce and Industry, organises events and fairs to help Georgian enterprises establish international trade relations. The "Trade with Georgia" website (www.tradewithgeorgia.com) provides information on export-oriented Georgian companies to facilitate connections with foreign buyers. The EU Ready to Trade project implemented by the ITC assists SMEs operating in the agribusiness sector in increasing their international competitiveness. In addition, a few recently launched programmes such as the Export Readiness Test, which assesses the marketing abilities and competencies of

companies needed to access foreign markets, and export management courses, which aim to strengthen SMEs' export readiness, are valuable initiatives. However, the uptake of these programmes remains limited. Moving forward, Enterprise Georgia could increase the scope of these support programmes and ensure their proper evaluation.

To increase the capacity of local SMEs to meet international demands, Georgia, in co-operation with GIZ, has supported cluster development in the furniture, apparel, film production and ICT sectors. Furthermore, supported by DfID, Enterprise Georgia has launched a pilot project to support the creation of supply chain linkages between local SMEs and large enterprises in the hospitality sector. However, the scale of the support programme is limited, and Enterprise Georgia could consider expanding the programme to other sectors.

To further support SME internationalisation, Georgia could start providing targeted financial support (e.g. trade insurance), since SMEs often report limited access to finance as a significant barrier to increasing their export capacity. Currently, there are no trade targeted financial instruments available in Georgia.

Pillar E – Innovation and Business Support

Business development services

A number of SME state support programmes, implemented by various agencies such as Enterprise Georgia, GITA or the Georgian Chamber of Commerce and Industry, rely on business development services (BDS).

Enterprise Georgia is the implementing agency for the main state programme *Produce in Georgia*, which is composed of various sub-programmes such as the industrial component, Host in Georgia or the Micro and Small Business Support component. Sub-programmes include financial support and a mandatory technical assistance component, which facilitates entrepreneurs' access to BDS related to the introduction of technologies, training and consultations on management, productivity, sales and marketing, financial accounting, and the introduction of technical standards. Companies co-finance up to 20% of the consultancy/training costs, while the state pays up to GEL 10 000 GEL (~ EUR 3 017) directly to BDS providers. To obtain state support, companies must provide a written analysis of current operations combined with the rationale for the interest in consulting services, a detailed description of the project, projected results and credentials of the selected consultants. Hence, SMEs are free in their choice of BDS providers, representing a best practice among the EaP countries.

Moreover, in 2016, the government launched a new programme for start-up support: *Start-up Georgia*, implemented by GITA. The programme covers agriculture, services, non-agricultural production and ICT, and seeks to support the development of start-ups and enhancing their competitiveness through the provision of financial support, as well as through training and consultancy services. The Georgian Chamber of Commerce and Industry have established DCFTA information centres, which offer training in the introduction of export market standards, throughout the country with support from the EU and GIZ. Furthermore, several programmes cater to specific sub-groups of entrepreneurs, such as the Young Entrepreneurs Support Programme implemented by the Ministry of Environmental Protection and Agriculture.

Some programmes – such as *Produce in Georgia*, which is co-ordinated by the Ministry of Economy and Sustainable Development and implemented by Enterprise Georgia – are

designed after extensive formal and non-formal consultations with stakeholders; and for this specific programme, research on market failures and SME needs was performed. Data on programme implementation is systematically collected by the implementing organisations and presented in regular progress reports. Some of the programmes implemented by GITA and Enterprise Georgia have been evaluated by independent auditors; for others, evaluations take place on an ad-hoc basis. In terms of support received from all related agencies, nearly 60 000 SMEs benefitted from government-supported BDS in 2017. In addition, three techno parks offer facilities as well as mentoring for development and commercialisation of innovative business ideas.

The government, and especially Enterprise Georgia, could consider developing a single information portal containing information on all institutions and agencies offering programmes; the portal could include a BDS component and list private quality-assured BDS providers. Such a national online platform would increase overall awareness of BDS and help shape a recognised, high-quality BDS brand, beyond state programmes. Digital business diagnostics and self-assessment tools could make initial advice more accessible (especially in the regions) and ensuing BDS provision more efficient by highlighting challenges and priorities at an early stage.

Innovation policy for SMEs

Thanks to the important steps Georgia has taken to improve its policy environment for innovation, including specific actions designed to target SMEs, the country is among the best performers on this dimension of the SBA assessment.

First, innovation as a policy priority is taking an increasingly prominent position in government's strategies and programmes. The SME Development Strategy 2016-2020 includes innovation for SMEs as one of its five pillars, and a brand new "Innovation Strategy" (with actions until 2025) has been developed with the support of USAID and is awaiting the government's approval. In addition, the new "Law on Innovation" has brought clarity to the legal framework for innovation financing, infrastructure and commercialisation.

Georgia's Innovation and Technology Agency (GITA) (see Box 10.2) and the Shota Rustaveli National Science Foundation are the main bodies responsible for promoting innovation in the business sector and supporting fundamental and applied research, respectively. GITA, in particular, plays a central role in developing the innovation infrastructure: with the support of the World Bank's GENIE project (EUR 40 million over five years) (World Bank, 2019^[22]), Georgia has now established 28 "fab-labs" and three techno-parks offering space and equipment to develop prototypes (e.g. 3D printers, laser cutters). Complementary to GENIE, an EU-funded World Bank project supports GITA in testing technology transfer, improving investment readiness for start-ups, and investor cultivation. Throughout 2019, GITA also plans to create a network of business accelerators in co-operation with eight universities, with the goal of nurturing a start-up culture and entrepreneurship in academic institutions.

Box 10.2. Georgia's Innovation and Technology Agency

The Georgian Innovation and Technology Agency (GITA) was established in February 2014 under the authority of the Ministry of Economy and Sustainable Development. Its goal is the creation of an innovation eco-system within the country in order to support start-ups and R&D, especially in the ICT field.

GITA focuses on the construction of new physical infrastructures for the creation of new technologies, such as technology parks, ilabs, dablabs, industrial laboratories, and innovation centres within universities, fostering dialogue between academia and industry. The Agency also provides a legal framework for innovations and support to the knowledge and innovation commercialization process.

Alongside plans to improve internet speed and access, including coverage in remote regions of Georgia, GITA aims to promote innovative business development with a particular focus on entering international markets. Beneficiaries of GITA, apart from receiving financial support, obtain assistance and training in a range of business areas. At the current stage, a wide range of products and services are offered as key tools for developing a stable startup ecosystem, such as small grants program, Startup Friendly, Startup Beats, Boot Camp, common working space, Incubator, Registry of Ideas, the training portal and the IT support system.

Source: <https://gita.gov.ge/eng>

With regard to financial support for innovation, an important amendment to the “Law on Grants” now makes it possible for SMEs to become beneficiaries of public grants. Building on this, the government has introduced a diversified set of financial instruments to support businesses willing to innovate: the “Start-up Programme” provides equity funding for new ventures in high-tech industries and the “Innovation Matching Grants” awards financing of between EUR 40 000 and 200 000 to develop products, processes or services (or innovative uses of existing ones) that are new at least to the Georgian market, with preference given to projects that enable provision of services to international markets. Overall, these tools – which require some form of co-financing on the part of the beneficiary – have proven very popular among target companies, with several hundred applications received by GITA each year (Georgia's Innovation and Technology Agency, 2019^[23]).

While Georgia does not have a specific policy framework for promoting non-technological innovations, its policy tools do not exclude marketing and organisational innovation projects as potential recipients of public support. Looking ahead, three areas of intervention could be considered by the government: 1) monitor the economic impact of the many financial instruments introduced, in particular on the SME sector; 2) strengthen the linkages between businesses and the research infrastructure, especially for projects receiving support from the Rustaveli Foundation; and 3) increase the role of demand-side policies to incentivise the diffusion of innovative products and services, for instance by upgrading public procurement standards.

Green economy policies for SMEs

There have been a number of policy developments related to greening SMEs in Georgia since 2016. This includes the Third National Environmental Action Programme of Georgia (NEAP) (2017-2021), the SME Development Strategy of Georgia (2016-2020) and, to

some extent, the Waste Management Strategy (2016-2030) and its associated Action Plan. Dimension 13 of the NEAP supports the transition to a green economy, and specifically mentions greening SMEs through resource efficiency and clean production techniques. The SME Development Strategy and Action Plan have supported the development of a training manual for resource efficiency and clean production (RECP); RECP assessments for enterprises, workshops and training events; and training in waste management for management-level employees of SMEs. Finally, the Waste Management Strategy introduced an Extended Producer Responsibility Strategy. All of these developments suggest the important role of greening SMEs in Georgia policy. However, to be more effective, the actions implemented so far need to be scaled up; and so that they are sustainable in the long term, they need to be supported more directly by budgetary funds.

Other policy changes, such as the new Environmental Assessment Code (2017), also point to the importance of recognizing the specific capacities and resource limitations of SMEs. The Code requires businesses to have environmental managers and introduces reporting requirements for waste that do not necessarily make sense for all industries or types of SMEs, and may be burdensome.

Enterprise Georgia, the agency that supports SMEs and entrepreneurs in developing their business in Georgia, would be an effective agency through which to mainstream greening approaches and reach more SMEs. This could be accomplished by moving responsibility for greening SMEs into their portfolio of activities, or by increasing collaboration with the Ministry of Environmental Protection and Agriculture and the Environmental Information and Education Centre. This would also provide SMEs with a more straightforward one-window approach to getting assistance, including enhancing their competitiveness through adopting greener practices.

Sectoral analysis: SME perspectives on the agribusiness sector in Georgia

The agribusiness sector plays an essential role in Georgia's economy. Primary agricultural sector accounted for 7.7% of GDP and 39% of employment in 2018 (GEOstat, 2019^[24]). Food processing is the largest manufacturing segment, representing 48% of value-added in Georgia's manufacturing sector in 2017. The top export products in 2015 were hazelnuts (29%), wine (16%), water (14%), spirits (11%) and live animals (7%).

The OECD held a focus group meeting with representatives of Georgia's agribusiness sector in May 2019. The meeting provided a platform to discuss some of the major constraints faced by SMEs operating in the sector:

- SME have difficulties accessing financing, due to stringent regulations and collateral requirements. The lack of specialised financing instruments for SMEs (e.g. trade finance for export-oriented SMEs) also warrants further attention.
- Underdeveloped value chains and infrastructure deficiencies constrain access to markets and the productivity of SMEs in the agribusiness sector. Irrigation and drainage systems often date back to the Soviet era, and further investments are needed to develop cold chains and transport and storage infrastructure.
- Agricultural land in Georgia is highly fragmented (the average farm size is 1.3 ha, and 98.4% of farms are less than 5 ha in size). While recent reforms have substantially improved the system of land registration, an important share of Georgia's agricultural land remains unregistered. This results in weak incentives to invest in agricultural land, and difficulties for small-scale producers to grow and take advantage of economies of scale.

- Farmers face difficulties establishing supply-chain linkages with large-scale food processing and retail enterprises, and tend to prefer spot market transactions to the establishment of longer-term supplier relationships. This can be explained by the lack of trust between actors in the value chain, weaknesses in the regulatory framework for contract enforcement, and the inability of SMEs to provide a stable supply of high-quality products.
- SMEs often lack the necessary skills and resources to comply with EU and other international regulations and quality standards.

Further policy attention is needed to ensure the continued growth and development of Georgia's agribusiness sector. As a first step, the government could work to expand the provision of targeted financing and training programmes for SMEs. Addressing the issues surrounding land ownership and the fragmentation of agricultural land is critical to attract investment from both foreign and domestic sources. Additional investments are also needed to bridge the infrastructure gap in rural areas and facilitate SMEs' access to markets. Finally, the government could strengthen the contract enforcement system and facilitate business linkages to connect farmers with food processors and retail chains, leading to sustained increases in productivity, the adoption of new technologies, and improved quality.

The way forward

Georgia has made further progress since 2016 by adopting a more strategic approach to small and medium-sized entrepreneurship development through targeted initiatives. The following measures could be considered by the government to further strengthen the system:

- While Georgia has made significant progress in creating a favourable business environment for SMEs, it still has room for improvement in ensuring a level playing field for all firms. Thus, the Georgian economy would benefit from strengthened competition enforcement to effectively tackle cartels, anti-competitive mergers, and abusive market conduct. In addition, the GCA should be granted effective dawn-raid powers to uncover illegal cartels and greater flexibility when using enforcement instruments, including longer legal deadlines. In order to attract and retain highly qualified lawyers and economists, the GCA budget should be revised and its staff salaries significantly increased. Moreover, merger notifications and requests for information must be enforceable, if necessary with sanctions for non-compliance. When it comes to contract enforcement, despite impressive results in *Doing Business 2020* (World Bank, 2019^[7]), Georgia should continue working to improve the quality of its dispute resolution system by ensuring that judges treating commercial disputes are well trained and have an adequate workload. In addition, raising awareness of the availability and benefits of ADR use for SMEs, and leveraging incentives for greater ADR use for commercial dispute settlement, could be important steps towards building an ADR culture among the business community in Georgia. Furthermore, Georgia has taken important steps towards strengthening its anti-corruption framework and introducing mechanisms for corruption prevention (whistle-blower platform, beneficiary owners disclosure) and prosecution (criminal liability of legal persons for corruption). However, further efforts are needed to promote business integrity within SMEs, by carrying out a business integrity risk analysis when developing anti-corruption policy, and

conducting awareness-raising activities for SMEs on the benefits of adopting integrity practices.

- Although a series of amendments to the Law on Insolvency Proceedings have been recently introduced, the insolvency legislation could be further improved to reach international standards. Moreover, out-of-court settlements or simplified in-court proceedings should be implemented to make it possible for the SMEs to avoid selling all their assets when fearing insolvency. The newly introduced electronic system, which is expected to increase the transparency of the procedures, is yet to be fully applied. Additionally, although some pre-insolvency services and tools are already available to SMEs, Georgia should implement an institutional early-warning system to systematically identify distressed companies. It is also necessary to develop a dedicated strategy based on a large-scale information campaign to better promote second chance for entrepreneurs seeking a fresh start.
- As regards the way forward in the area of entrepreneurial human capital, in *entrepreneurial learning*, moving on from subject-specific approaches to EntreComp, options for cross-curricula developments should be considered, with specific attention paid to integrating concrete entrepreneurial experience through school-based learning. Also, in cooperation with the private sector and civic interest groups, the Georgian authorities should consider reinforcing university contribution to regional development as part of a wider smart specialisation drive.

Strategic developments in *women's entrepreneurship* will require more-comprehensive intelligence on women's contribution to the economy. To this end, the Private Sector Development Council should consider the merits of more developed data and analysis for policy improvements, monitoring and evaluation. In addition, with the lion's share of women's start-ups confined to two of the country's nine regions, support for women's entrepreneurship should be a core feature in wider regional development planning.

With regard to *SME skills*, greater outreach of training services to SMEs is needed, particularly in outlying regions. This should build on the capacity of Enterprise Georgia in developing their on-line training provision.

- Access to finance has somewhat improved for SMEs in Georgia in recent years, but the level of dollarisation remains substantial despite the efforts of the National Bank of Georgia. As a way forward, the government should continue to implement its de-dollarisation action plan, including through raising awareness of FX risks among borrowers and, for instance, developing local capital markets and developing an investor base to support long-term local-currency bonds and other financial assets. Adoption of the reformed framework on leasing and factoring, accompanied by an awareness raising campaign, will be critical to diversifying access to finance and fostering financial inclusion in the medium-to-long term. New legislation on financial leasing would encourage the development of leasing services by guaranteeing the stability of the industry and increasing the legal certainty of leasing transactions. Introducing a legal framework on factoring could help boost cash flow for SMEs and help entrepreneurs better assess and trade with high-quality customers. Furthering efforts to establish a regulatory framework for crowdfunding would further help stimulating start-up financing.
- Georgian SMEs' access to markets can be further facilitated, firstly by promoting SME participation in public procurement. To this end it is important to invest in

contract management training for contracting authorities to contrast the apparent weak institutional capacity. More can be done also in terms of SME-specific procurement data collection, by improving options to access and extract public procurement data. With regard to standards and technical regulations, Georgia should enhance its adoption rate of European standards. Market surveillance should also be reinforced by introducing regular evaluation of implementation of legislation. In order to continue to encourage SME internationalisation, Georgia should increase the scope of its existing export promotion programmes and ensure their proper evaluation. In addition, the government should tackle SMEs' limited access to finance by introducing targeted financial support, such as trade insurance and export working capital.

- Despite Georgia's improvements in this regard, more can be done to improve the performance in Innovation and Business Support. Although BDS function well in the country, the government could further promote their development by establishing a single information portal in the form of a national online platform, in order to increase overall awareness of the availability of BDS. Many steps have been taken to improve the policy environment for innovation, and the government should now focus on monitoring the economic impact of the many financial instruments introduced, promoting channels for science-industry interactions by strengthening the linkages between businesses and the research infrastructure, and increasing the role of demand-side policies to incentivise diffusion of innovative products and services, for instance by upgrading public procurement standards. Several actions have been implemented regarding greening SMEs in Georgia; nevertheless, these too can be made more effective by being expanded and supported more directly by budgetary funds, so that they are sustainable in the long term. Awareness among SMEs of the benefits of adopting green practices can benefit from moving responsibility for greening SMEs into Enterprise Georgia's portfolio of activities, or from increasing their collaboration with the Ministry of Environmental Protection and Agriculture and the Environmental Information and Education Centre.

Conclusion

Table 10.5. Georgia: Roadmap for policy reforms

Promoting a level playing field for all enterprises
<ul style="list-style-type: none"> • Provide the GCA with adequate investigation and sanctioning tools, including the power to conduct dawn raids • Increase the GCA budget to allow for recruitment of highly qualified staff • Introduce monitoring mechanism to address deficiencies of the e-court system and evaluate its efficiency • Ensure that judges treating IP disputes undergo continuous training in IP law and have an adequate workload to provide for high-quality IPR dispute resolution • Develop and conduct awareness-raising activities to promote ADR use by SMEs in resolving commercial disputes (training, workshops and roundtables for the private sector, with a particular focus on SMEs) • Support granting the Business Ombudsman (BO) of Georgia <i>amicus curiae</i> function, which would enable the BO to submit recommendations to court or assign a lawyer to businesses in resolution of administrative disputes. • Conduct a study of integrity risks for businesses (with a focus on SMEs and with active engagement of business associations and civil society) as part of anti-corruption policy development • Introduce an effective mechanism for verifying the validity of final beneficiary information

- Ensure effective enforcement of existing criminal liability provisions through strengthening the capacity of judges and lawyers, and by providing the judiciary with effective investigative tools and a reasonable time for investigation of corruption crime
- Raise SME's awareness of the benefits of business integrity through workshops, forums and round tables, and introduce incentives for companies to adopt corporate ethics and compliance instruments

Strengthening the institutional and regulatory framework and operational environment

- Elaborate a new SME Development Strategy beyond 2020 through a process of inter-governmental and public-private consultations (PPCs); ensure consistency with the country's medium-term strategy and promote advanced monitoring and project-evaluation mechanisms
- Make sure that the RIA SME-test is systematically applied and that the results are discussed with the private sector and taken properly into consideration in the legislative and regulatory approval process
- Further improve tax administration procedures by reducing the time required to fulfil tax payment requirements
- Continue to streamline the insolvency framework by introducing out-of-court settlements and simplified or pre-packed insolvency proceedings for SMEs
- Implement an early-warning system for detection of insolvency
- Adopt a comprehensive and proactive second-chance strategy for bankrupt entrepreneurs

Promoting skills and entrepreneurship development

- Moving on from subject-based approaches, EntreComp should be addressed transversally across the curriculum and backed up by teacher training (pre-service and in-service)
- The Private Sector Development Advisory Council should consider the merits of an improved state-level intelligence framework (data, analysis, monitoring and evaluation) for women's entrepreneurship
- Reinforce GITA's online training developments to widen outreach to SMEs in outlying regions

Facilitating SME access to finance

- Support the diversification of financing to enable small businesses to access funding. This should include completing the reform of the legal and regulatory framework for leasing and factoring, and furthering the development of a framework for crowdfunding
- Continue efforts to reduce the level of dollarisation in the financial sector, in collaboration with international donors

Supporting SME access to markets

- Increase the scope of export readiness and SME-FDI linkages programmes provided by Enterprise Georgia and ensure their proper evaluation
- Introduce financial support programmes for exporting SMEs
- Carry out regular evaluations of the legislation implementation regarding technical regulations and legislation on metrology and market surveillance taking into account private sector needs
- Improve the ability of the contracting authorities to ensure wider competition through better needs identification and planning, less restrictive specifications and the use of award criteria other than the lowest price

Enhancing SME competitiveness

- Develop a single information portal containing information on all institutions and agencies offering programmes, including a BDS component and listing private quality-assured BDS providers
- Monitor the economic impact of the many financial instruments introduced, in particular on the SME sector
- Strengthen the linkages between businesses and the research infrastructure, especially for projects receiving support from the Rustaveli Foundation
- Increase the role of demand-side policies in incentivising the diffusion of innovative products and services, for instance by upgrading public procurement standards
- Provide a single point of access for SMEs to get information on implementing green practices, ideally through an existing SME development body such as Enterprise Georgia
- Incorporate policies to support SMEs in adopting greener practices into overall support for enhancing SME competitiveness

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Notes

¹ In USD, *per capita* FDI over the period was second only to Azerbaijan among EaP countries.

² The low estimates of the informal sector provided by Geostat (around 10% of GDP) are not in line with estimations from the IMF, according to which Georgia figures among the largest shadow economies (with a size of 64.9% of GDP). Such discrepancy may be due to differences in the methodology used. For more on this, see (Medina and Schneider, 2018^[5]).

³ In Geostat’s previous SME definition, “medium-sized” enterprises employ up to 100 employees and have a turnover of up to GEL 1.5 million (~ EUR 500 000) annually. “Small” enterprises employ up to 20 employees and have a turnover of up to GEL 500 000 (~EUR 170 000) annually.

⁴ Georgia ranks 3.3/7 on *efficiency of the legal framework in settling disputes* indicator, and 3.6/7 on *judicial independence*.

⁵ An *amicus curiae*, or “friend of the court”, is someone who is not a party to a case (and who may or may not have been solicited by a party) who assists the court by offering information, expertise,

or insights that have a bearing on the issues in the case; the information is typically presented in the form of a brief.

⁶ Amendments to the Law of Georgia on Conflicts of Interest and Corruption in Public Service, “Protection of Whistle-blowers” (Chapter V).

⁷ The low estimates of the informal sector provided by Geostat (around 10% of GDP) are not in line with estimations from the IMF, according to which Georgia figures among the largest shadow economies (with a size of 64.9% of GDP). Such discrepancy may be due to differences in the methodology used. For more on this, see (Medina and Schneider, 2018^[5]).

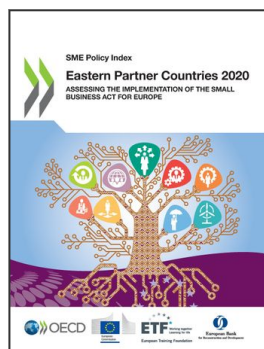
⁸ <http://procurement.gov.ge/getattachment/ELibrary/metod-mititebebi-da-recomendaciebi/SME.pdf.aspx>.

⁹ In 2018, 75% of public procurement by value was accounted for by contracts of less than GEL 50 000 each.

¹⁰ No award, no bids, cancellation; see <http://charts.procurement.gov.ge/eng/index.php?page=chart9>

¹¹ In addition, the SPA has since 2017 separately published data on www.stats.spa.ge and www.opendata.spa.ge.

¹² *European Standards* is abbreviated “EN” owing to the more literal translation from French/German as “European Norms”.



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