

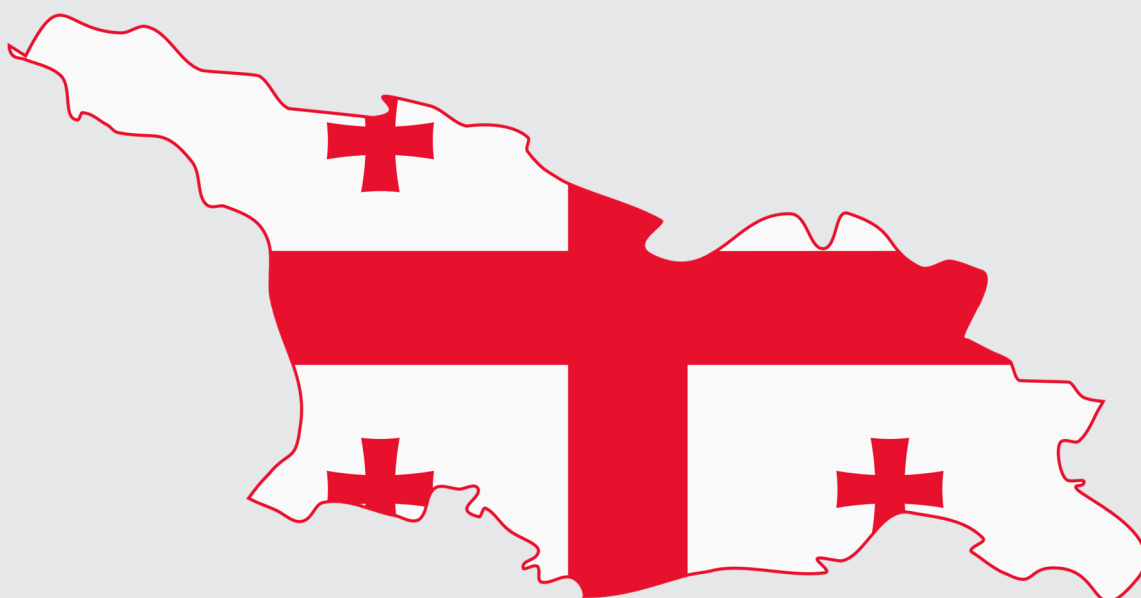


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Enabling Environment for Sustainable Enterprises



International  
Labour  
Organization



## Enabling Environment for Sustainable Enterprises in Georgia

April 2016



International  
Labour  
Office  
Geneva

**2016**

# **The enabling environment for sustainable enterprises in Georgia**

Enterprises  
Department

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## Foreword

The Georgian Employers Association (GEA), in line with its mandate to contribute to the development of a conducive environment for enterprises in Georgia, has called upon the ILO to assist the organisation to assess the current business environment in the country and to identify areas for improvement. The information gathered through the assessment enables ILO constituents to identify priorities for the promotion of sustainable enterprises and the transition to formality. For GEA, the analysis of the enabling environment provides an entry points for the development of policy positions and structured and evidence-based advocacy efforts.

The assessment was conducted in line with the ILO methodology on the Enabling Environment for Sustainable Enterprises (ESEE). This methodology assesses the business environment in terms of the economic, social, political and environmental aspects of doing business. The ESEE methodology was developed in response to the June 2007 International Labour Conference (ILC), which discussed the promotion of sustainable enterprises and which called for the strengthening of the institutions and governance systems which nurture enterprises. The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified 17 pillars for an environment conducive to the promotion of sustainable enterprises, which form the basis of the ESEE methodology. The process of improvement of the enabling environment according to the ESEE methodology promotes social dialogue and enhances tripartism as a means of consensus building, economic and social development, and good governance and is embedded entirely in the promotion of Decent Work.

Georgia has made excellent progress in the past decade on regulation of business. This has been confirmed by a high score on for instance the Ease of Doing Business Rank with a 24<sup>th</sup> position or a 6<sup>th</sup> position on starting a business. We hope that this report supports the accomplishments of further improvements in business enabling environment to secure that this progress goes accompanied of other necessary support measures in areas as education, access to finance and regulation.

This report provides an overview of the research findings of the ESEE assessment. It identifies the relative strengths and weaknesses of the enabling environment for sustainable enterprises. The purpose of the assessment is to stimulate debate and to provide an evidence base for policy reforms, leading to an environment that is more conducive to the promotion of sustainable enterprises. The report reflects information gathered through a review of secondary data and through a national opinion or perceptions survey comprised of 300 in-depth interviews, and several focus groups. This report has been written by external consultant M. Muleskovic, under the coordination of ILO Moscow's Senior Enterprise Specialist J. Bliet and with the support of Senior Employers' Specialist V. Curovic.

A complementary note (summary on key conclusions) will be elaborated by GEA to be presented to prime minister and ministries. This note will be based on the findings of this report and will ensure the implementation of specific measures geared towards policy advocacy and reform.

**Elgudjah, Meladze**  
Chairman GEA  
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## Executive summary

The 96th session of the International Labour Conference held in Geneva in 2007, adopted conclusions for the promotion of sustainable enterprises and identified 17 elements of an enabling environment for sustainable enterprises. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work. In that context, Georgia is one of the countries that implemented the EESE process which was developed as the ILO flagship programme following the conclusions of the Conference. During this process, the Georgian Employers Association (GEA) played the role of the leading national partner for ILO in the implementation of the assessment in Georgia.

During this process, GEA used the applied and tested EESE methodology – to collect and analyse all the necessary data and to present the report on the findings. In accordance with the methodology, focus groups to identify the most important pillars for deeper analysis were organized. With the support of external researchers and using the EESE questionnaire, a survey among 300 companies throughout Georgia was conducted. Based on the methodology, there are 4 main segments analysed in this report: political, economic, social and environmental elements. Four countries, namely: Croatia, Macedonia, Latvia and Armenia, were used as comparator countries for Georgia.

### Political elements

Georgia started to build its relations with the EU in 1992. In 2014, Georgia signed an Association Agreement (AA) and opened a new chapter of cooperation with the EU. Within this context, the Association Agreement with its Deep and Comprehensive Free Trade Area (DCFTA) has brought Georgia closer to Europe. This process has strengthened the economy of the country influencing the political situation and the governance of the country.

The fight against corruption is one of the key priorities of Georgia. According to the EESE survey 83.3% of respondents stated that bribery and other forms of corrupt payments are not issues that often consistently impact firms in the country, which is highly positive. Based on the Political stability and Absence of Violence Indicator, the situation in Georgia has improved over the past years but is not yet on a good level.

Government efficiency is another challenge related to political elements. In 2014, the value of this indicator was 0.48 and it is still far from perfect. As mentioned during the research, state administration is not very business-oriented and needs further reforms, especially in terms of capacity building of employees. In addition to that, Georgian companies are not satisfied with the regulatory framework, and in their opinion the regulatory framework is not designed to encourage firms to expand. As it will be elaborated in the report, the regulatory framework is not sufficiently predictive and some of the participants pointed out that there were companies with privileges provided by the Government. The work of inspectors is generally not positively perceived and employers state that not all companies in Georgia are equally subjected to inspections control. In addition to that, employers operating in the tourism sector complain of the lack of quality control of operators in the sector, resulting in unfair competition to those operating in accordance with standards.



## Economic elements

The recent past years can be described as a period of positive economic trends in Georgia. After 2009 when Georgia underwent a negative trend of its GDP, the period that followed was characterized by positive economic developments. Furthermore, according to projections, these positive economic trends are likely to remain until 2018. As a very open country, Georgia is highly dependent on foreign direct investments and accordingly the Government made strong efforts towards improving the business environment to attract potential investors. In 2014 the absolute value of FDI was 1758.4 million USD. According to official FDI projections for 2015, the value of FDI recorded negative trends, namely 23% lower than in 2014. The major foreign investors come from the following countries: Azerbaijan, the United Kingdom and the Netherlands. Georgia is also a large importer of goods and services. In the past, both sides of external trade had positive trends. But imports of goods and services grew faster than exports. In that context, it is necessary to strengthen the Georgian economy to reduce the value of the current account deficit. Georgia's main export destinations in 2014 continued to be Azerbaijan (representing 19% of Georgian exports), Armenia (10%), the Russian Federation (almost 10%) and Turkey (8.4%).

In terms of the macroeconomic situation, the inflation rate and currency exchange rate are the greatest issues for doing business in Georgia. According to the EESE survey, 93% of companies in Georgia think that the inflation rate has a significant impact on the competitiveness of firms. Furthermore, 92% of companies recognized currency exchange rate volatility as an important factor in firms' decision to export. Despite the fact that Georgia has positive economic trends, employers' expectations about their operations in the next 12 month are not so positive. 24% of companies are sure they will not improve their situation in the next 12 months while only 10% are sure that they will improve operations. In this context, it is important to state that companies are not considering reducing the number of employees in the next 12 months even though they do expect increases in the average costs per unit. The largest obstacle to improving companies' productivity is the shortage of skills, as reported by 37.24% of companies. Further important impediments for doing business are the negative attitude of employees (for 31.38% of companies) followed by labour costs (for 15.52% of companies).

Related to the regulatory framework, companies in Georgia say the Government has done a lot in the process of reforms in the recent period although the crucial problems for employers still remain. According to survey findings, companies do not see the regulatory framework as stable and predictive and there is almost complete consensus that the regulatory framework is not equal for all. Another problem identified in the survey is the overlapping jurisdiction of different administrative bodies. The tax burden along with tax administration is also perceived as an obstacle to a favourable business environment. The overall perception of employers is that the Government and the employers are not really fully on the same side so far as for instance positive actions towards enterprises and SMEs are limited.

Trade is one of the fastest growing sectors of the Georgian economy. It is expected that with the signing of the Association Agreement with the EU and by cooperating with other countries, Georgia will become an important player in trade in the region. Georgia has the potential to become a transit country of transportation for almost all countries in the region.

Another important challenge for the Georgian economy identified by employers are the existence of monopolistic practices and the informal economy. Employers do not recognize the political will to fight against monopolistic practices. Some of the employers state that there is no fair competition in Georgia. In this context, employers think that government bodies are oriented towards big companies and do not invest sufficient efforts to support SMEs.

Finally, another important barrier to doing business in Georgia is the lack of adequate financial products for companies in each stage of operation. Financial products are perceived as very expensive and not affordable – particularly for SMEs. SMEs consider the extensive collateral

requirements as a big issue in this context. Overall, financial products in Georgia are not adjusted to the needs of companies. In addition to favourable interest rates, companies recognize the lack of well disseminated information about financial products.

## **Social elements**

Public expenditure on education is on a very low level in Georgia and presents just 1.98% of GDP. The EESE survey recognized some problems regarding the education system of which the lack of qualification and specialized programmes for some sectors are the most prominent. For example, for tourism there is no specific education programme which can provide adequate skills and knowledge for needs of market. A total of 82.3% of the interviewed companies state they don't conduct 'skills audits', 7.7% of the companies said they rarely conduct 'skills audits' while just 3.3% performed 'skills audits' often. Skills shortages negatively affect private sector business according to more than 98% of companies. And for 41.1% skills shortage have very negative impact on the business of firms in the private sector. According to survey findings skills shortages have negative effects on new working practices, the introduction of new technologies and the development of new products or services.

A total of 52 % of companies don't have a department or a person responsible for training compared to only 0.7% that do. Regarding the financing of trainings, 90.3% of companies do not have a training budget compared to only 5.3% that do. Regarding to position of women and men in society, indicators still show an inequality in this regard.

## **Environmental elements**

Georgia's main ecosystems comprise forests (about 40% of the land area), grasslands (26%), wetlands (19%), and deserts and semi deserts (6%). The Forest Area Indicator has been recording a constant drop year by year. Based on available data, Georgia records approximately 40% and when compared with other countries in the comparative research, it is in line with Macedonia while performing better than Armenia and Croatia. As it is recognized in the Regional Development Programme of Georgia 2015-2017, air pollution has reduced dramatically in Georgia since 1990 due to the closure of many large industrial enterprises, it is however increasing in general.

Based on the Asia Development Bank Country Partnership Strategy: Georgia, 2014–2018, the management of natural ecosystems has been constrained by inconsistent environmental policies; inappropriate governance systems for natural resources; the absence of a natural resource inventory and reliable data; unsustainable operations and weak law enforcement; pollution in some rivers and in the Black Sea, and unsustainable fishing, hunting, and poaching practices; low levels of public participation in decision-making processes; and limited public awareness. Georgia's protected areas play a significant role in biodiversity conservation and catalysing socioeconomic development. The management system for protected areas is not yet effective.<sup>1</sup>

## **Assessment results and ways forward**

After gaining independence in 1991, Georgia's gross domestic product (GDP) fell by 50% which triggered a variety of reforms in the country. From that period onward, with the will to fight against corruption, structural reform program that sought to liberalize trade, upgrades in infrastructure, improvement of the business environment, strengthened public financial management, the Georgian economy reached very positive trends. Now, Georgia is recognized as a very attractive

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<sup>1</sup> Source: Asia Development Bank: Country Partnership Strategy: Georgia, 2014-2018.

country for foreign direct investments and a country with large potential to become a leader in the sectors of regional trade and transport.

Georgia is seen as stable in the Doing Business ranking in 2014 and 2015, with the rank 24. In recent 2 years only, based on the DB report, Georgia has made numerous reforms. Some of them are: dealing with construction permits was made easier by reducing the time needed for issuing building permits, maximum duration of fixed-term contracts was reduced and a notice period for redundancy dismissals introduced, credit information system was improved by implementation of a new Law on personal data protection etc.

Still, there is need and room for the improvement of the business environment in the coming period. Based on employers' responses, the most important pillars that need to be improved in the coming period are:

- good governance and some issues pertaining to political stability
- sound and stable macroeconomic policy and good management of the economy
- trade and sustainable economic integration
- enabling legal and regulatory environment
- fair competition
- access to financial services
- education, training and lifelong learning.

According to both the primary and the secondary data the main barriers Georgian employers face are: regulatory framework, access to finance, informal economy and existence of monopoly, a mismatch between the education system and labour market needs and macroeconomic policies.

## 1. Introduction

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The ILO in its aim to support employment has identified factors in the business environment that influence the success of new or existing enterprises. For this purpose ILO created the Enabling Environment for Sustainable Enterprises methodology. This tool and methodology has been created in close coordination between ACT/EMP and the Enterprises department of the ILO. The tool has been implemented in over 30 countries and currently ILO Moscow coordinates and (with support of ILO Europe and Enterprises department) implements EESE in several countries of Central Asia and the Caucasus.

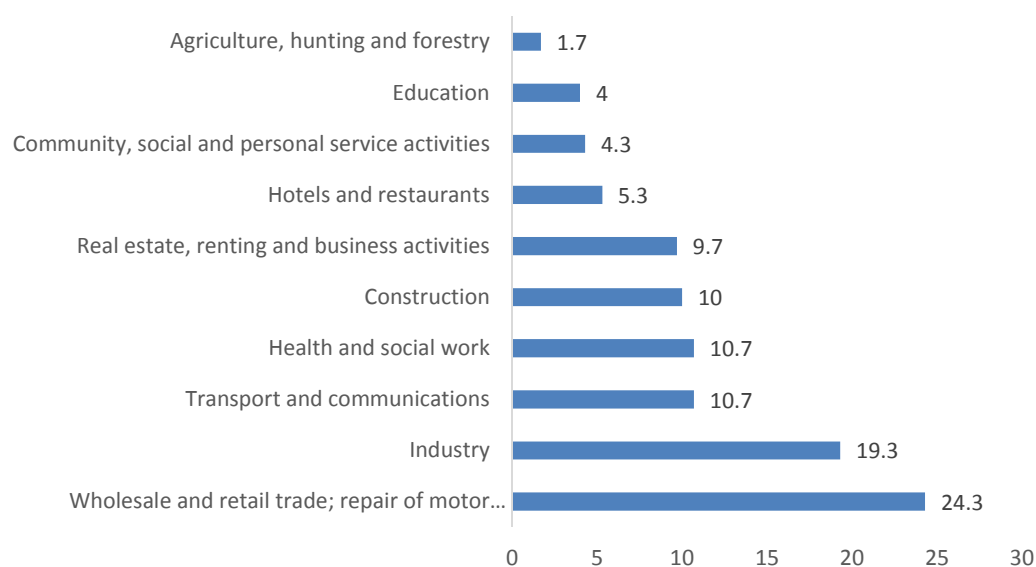
The first step in the implementation of EESE methodology in Georgia was the organization of focus groups in order to identify the priority pillars for Georgia to be deeper analysed in the survey among the companies. On 20th and 21th of August 2015, 3 focus groups were organized in various sectors in close cooperation with the Georgian Employers Association.

Based on the outcomes of the focus groups the following pillars of EESE are identified as the most relevant ones:

- Pillar 2. Good governance (including political stability from pillar 1);
- Pillar 6. Sound and stable macroeconomic policy and good management of the economy (including Energy from pillar 12 subcategory Infrastructure);
- Pillar 7. Trade and sustainable economic integration;
- Pillar 8. Enabling legal and regulatory environment;
- Pillar 10. Fair competition;
- Pillar 11. Access to financial services;
- Pillar 14. Education, training and lifelong learning.

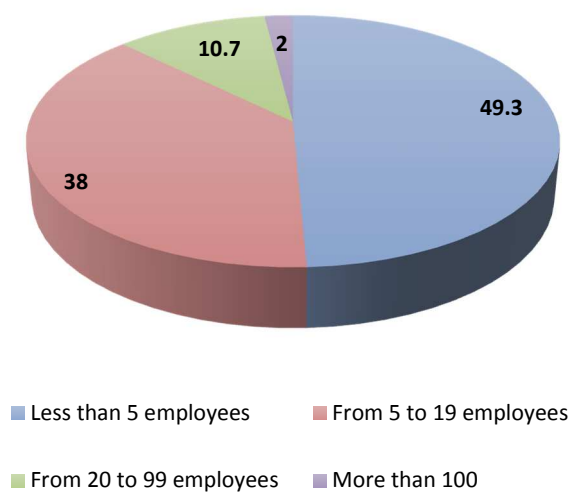
Following the focus groups meetings, the next step in the process was conducting an enterprise survey among 300 companies in Georgia. The questionnaire was prepared according to EESE methodology and interviews were conducted by an independent research company. The representative sample of companies was created based on official statistical data provided by the Statistical Office and GEA. The sector related outline of the sample is shown in graph 1.

**Graph 1: Sector of interviewed companies<sup>2</sup>**

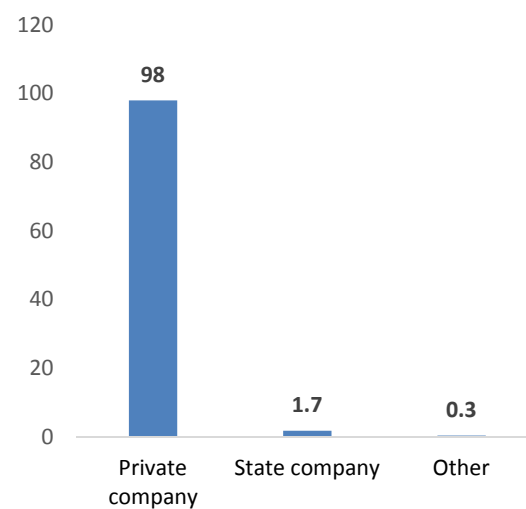


Out of 300 interviewed companies, 49.3% are small companies with less than 5 employees, 38% of companies have 5-19 employees and 10.7% of companies have 20-99 employees.

**Graph 2: Number of employees<sup>3</sup>**



**Graph 3: Type of company<sup>4</sup>**



A total of 98% of the companies in the sample are private companies, 0.3% belong to some other type of the company while 1.7% are state-owned companies.

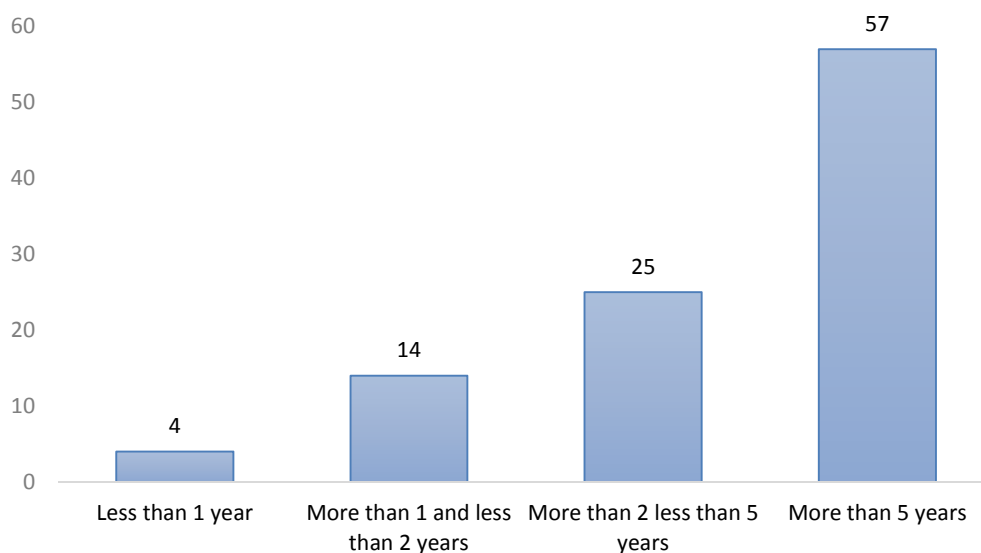
<sup>2</sup> Source: Georgia EESE survey 2015.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

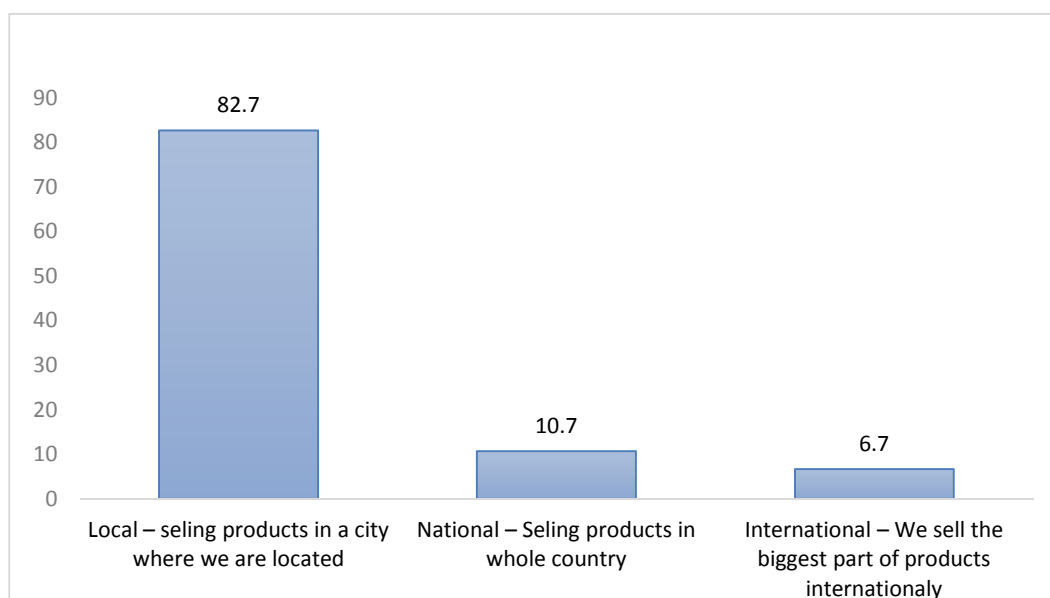
Graph 4 shows the structure of the sample related to the ‘age’ of the companies surveyed. The majority of companies (57%) exist more than 5 years, 25% exist between 2 and 5 years and 4% exist less than 1 year.

**Graph 4:** How long company exists?<sup>5</sup>



Only 7.3% of the companies are part of a larger company compared to most of the companies in the sample (92.7%) that are not. Finally, as shown in the Graph 5, the majority of companies operate on the local market – in the city where they are located (82.7%), 10.7% operate on the national market– throughout the country, while the remaining 6.7% operate on international level.

**Graph 5:** Main market of the company?<sup>6</sup>



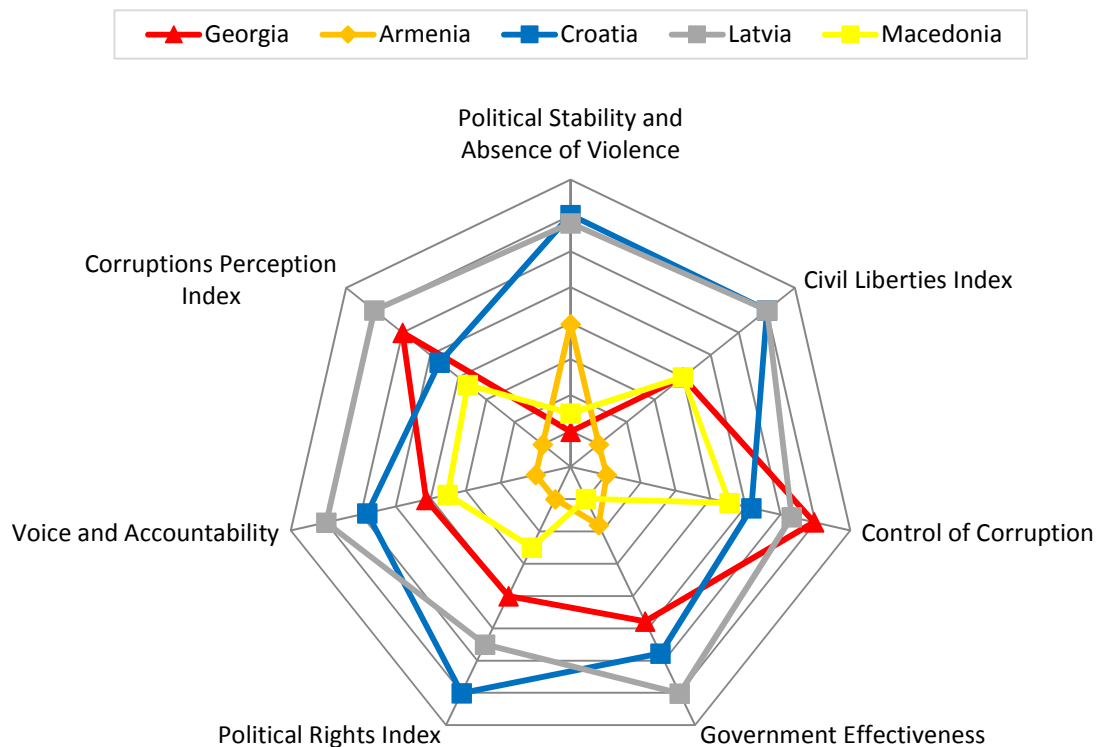
<sup>5</sup> Source: Georgia EESE survey 2015.

<sup>6</sup> Ibid.

Enabling environment for sustainable enterprises should be a goal set by every government in the world. Georgia has to continue with successful reforms of the business environment, as it is the most important factor for creation of sustainable enterprises. By undertaking further reforms, Georgia will give positive signs to foreign investors to invest more in the country and to recognize Georgia as a stable country with great potential for the future.

## 2. Political elements

Indicators assessing political elements of an enabling environment for sustainable enterprises\*



\* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

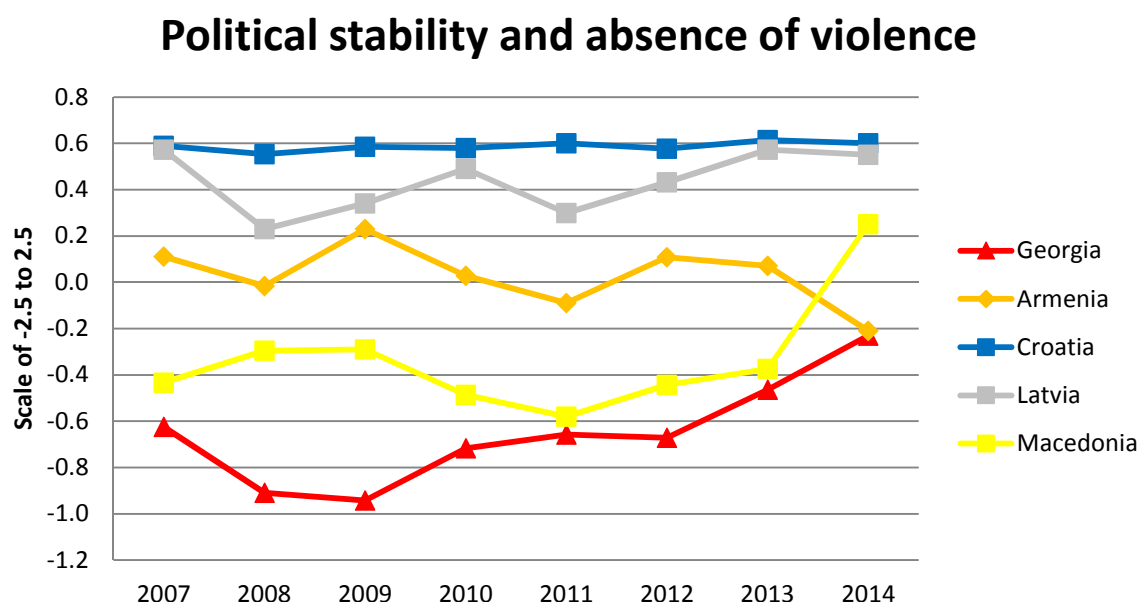
- Relations between the European Union (EU) and Georgia started in 1992 just after Georgia regained its sovereignty in the wake of the break-up of the Soviet Union.
- Georgia signed an Association Agreement (AA) with the EU in June 2014.
- During the past period, the Government of Georgia invested significant efforts in fighting against corruption and Georgia as a result is now a show case on how to deal with corruption.
- Government administration is still not as effective as desired and hence needs further reforms and capacity building.
- Social dialogue exists and the Tripartite Social Partnership Commission (TSPC) was established in 2012.
- The data presented indicate that, compared to other countries, Georgia still lags behind in almost all political elements except control of corruption.



## 2.1. Peace and political stability

Relations between the European Union (EU) and Georgia started in 1992 just after Georgia regained its sovereignty in the wake of the break-up of the Soviet Union. The EU was one of the first to assist Georgia in the difficult early years of transition. The European Commission opened its Delegation to Georgia in Tbilisi in 1995. Relations particularly intensified after the 2003 "Rose Revolution", when the EU reiterated its support to the country's commitment for economic, social and political reforms. By signing the Association Agreement (AA) in June 2014, relations between the EU and Georgia were brought to a qualitatively totally new stage. The Association Agreement with its Deep and Comprehensive Free Trade Area (DCFTA) foresees far reaching political and economic integration with the EU by significantly deepening political and economic ties, bringing Georgia closer to Europe. The EU and Georgia have also agreed an EU-Georgia Association Agenda, which defines a set of priorities for the period 2014-2016 with a view to implement the AA/DCFTA.

*Graph 6: Political stability and absence of violence*<sup>7</sup>



This indicator presents the likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism and estimates governance measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. Based on this World Bank data it is clear that the political situation in Georgia still lags behind Croatia, Latvia and Macedonia, but also that the value of this indicator for Georgia follows a very positive trend from year to year. In 2014, the value of this indicator was -0.23 which is almost the same like in Armenia, but the same value in 2011 was -0.66 which indicates strong growth of the indicator. However, considering all the facts, there is room for further improvement of this indicator in the following period.

<sup>7</sup> Source: World Bank, Worldwide Governance Indicators, <http://info.worldbank.org/governance/wgi/index.aspx#home>

## Key Indicators

### Political Stability and Absence of Violence

The likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism.

Source: World Bank, Governance Matters database.

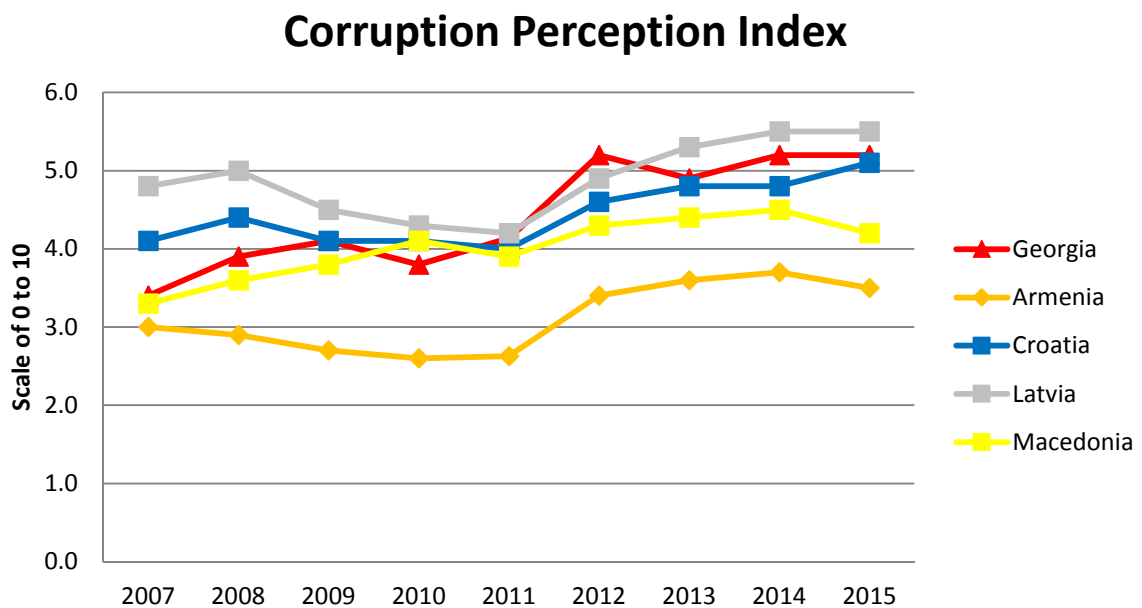
	2008	2009	2010	2011	2012	2013
<b>Georgia</b>	-0.91	-0.94	-0.72	-0.66	-0.67	-0.46
<b>Croatia</b>	0.55	0.59	0.58	0.60	0.58	0.61
<b>Armenia</b>	-0.02	0.23	0.03	-0.09	0.11	0.07
<b>Latvia</b>	0.23	0.34	0.49	0.30	0.43	0.57
<b>Macedonia</b>	-0.30	-0.29	-0.49	-0.58	-0.44	-0.37

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

## 2.2. Good governance

Good governance, the absence of corruption and efficient institutions foster entrepreneurship and promote private sector growth and development. As shown in some of the previous reports, corruption presents low business risk for companies looking to invest in Georgia.

**Graph 7:** Corruption Perception Index<sup>8</sup>



The Corruption Perception Index measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys. The scores are on a scale from zero (highly corrupt) to ten (highly clean). Graph 8 indicates that according to this indicator the situation in Georgia is very positive. Since 2004, Georgia had made tremendous progress in the clamp down on corruption and reinstatement of good governance. The total dissolution of the corrupt traffic police in 2004 and the establishment of the Anti-Corruption Interagency Council in 2008 were successful examples of the

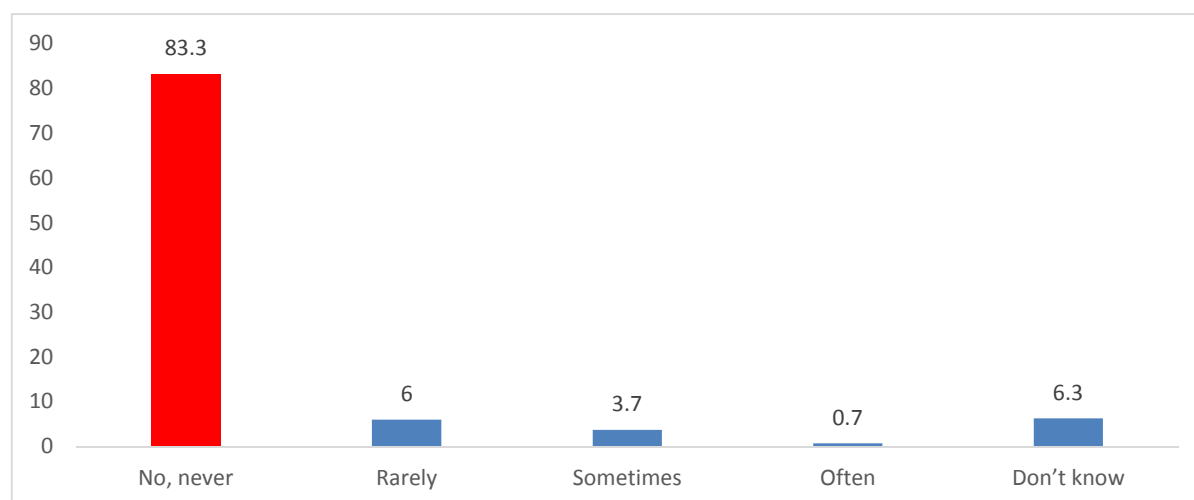
<sup>8</sup> Source: Transparency International, <http://www.transparency.org/research/cpi/>

reform. Low-level corruption has been virtually eliminated in recent years. Both the OECD and the World Bank praised Georgia's unique success in combating corruption.<sup>9</sup>

Compared to other countries, Georgia made great progress from 2007 to 2015 in terms of CPI values. From the level 0.11 in 2007 Georgia has improved and currently the value of the indicators is 0.48. Now Georgia performs better than Croatia, Macedonia and Armenia lagging behind Latvia only.

Secondary survey data are confirmed by the results of the survey among companies. In the EESE survey, 83.3% of all respondents stated that bribery and other forms of corrupt payments were not issues that often consistently impact firms in the country, which is highly positive.

**Graph 8:** Is bribery, and other forms of corrupt payments, an issue that consistently impacts on firms?<sup>10</sup>



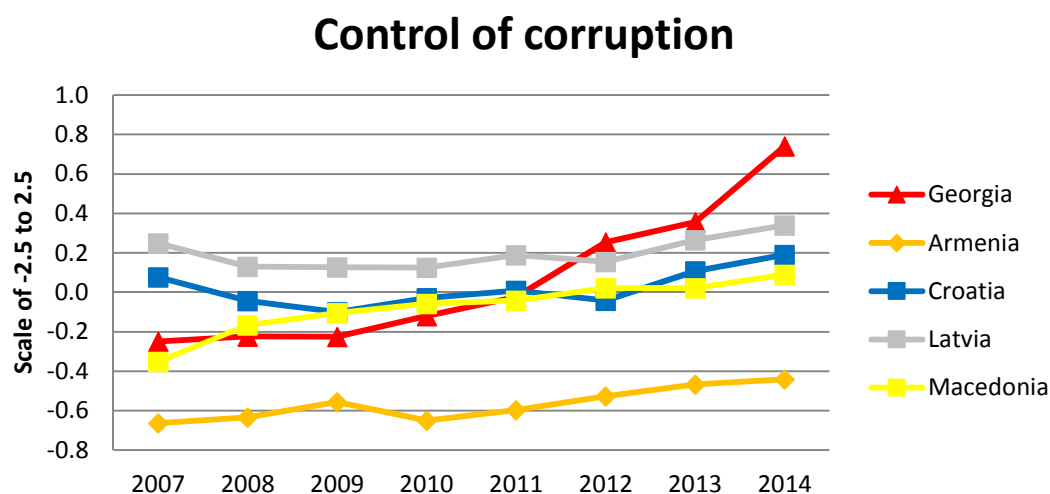
On the other hand, 10% of all respondents say that bribery and other forms of corrupt payments are issues that in some point consistently impact firms in the country which was again confirmed by the secondary survey. When asked “Do firms have to make extra ‘speed’ payments or illicit backhanders to receive a reasonable level of service?” approximately 90% of the companies claimed they did not have to make speed payment to receive reasonable level of service.

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<sup>9</sup> Source: OECD and the World Bank.

<sup>10</sup> Source: Georgia EESE survey 2015.

**Graph 9: Control of corruption<sup>11</sup>**

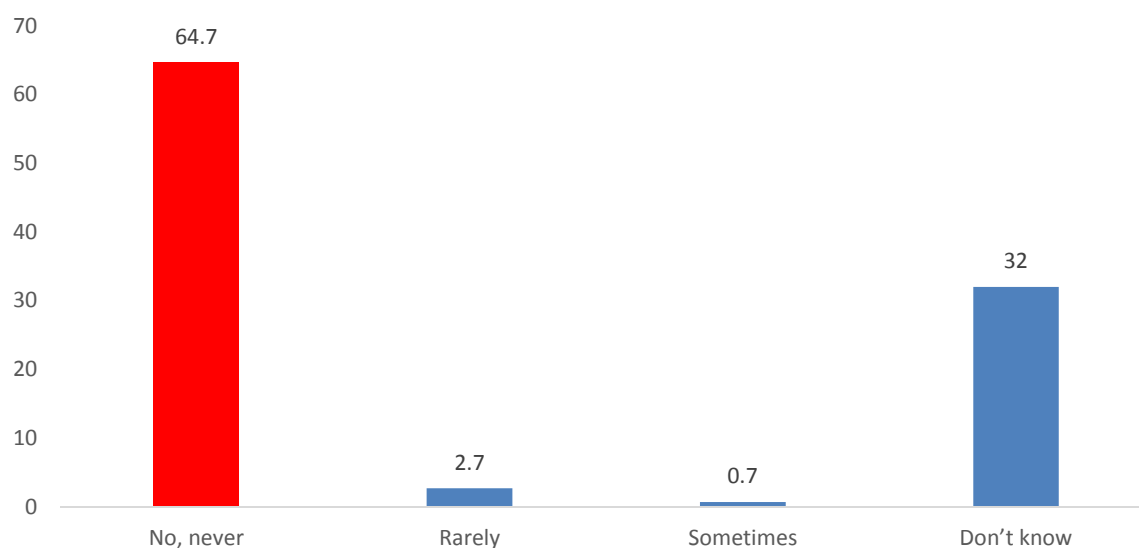


This indicator shows the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Estimates of governance are measured on a scale from approximately -2.5 to 2.5 where higher values correspond to better governance. Based on that, it can be concluded that the Control of Corruption indicator for Georgia is high when compared to other countries subject to this report. This indicator is high in Georgia and it was on the level 0.74 in 2014. However, it is necessary to analyse the trends of this indicator in Georgia to recognize the clear will of the country to fight against corruption. According to data, as late as in 2007 the value of this indicator in Georgia was -0.25. It was the first time in 2012 that this indicator reached positive values (0.25). Compared to other countries in the report, Georgia is a leader in terms of this indicator. Georgia is followed by Latvia with the result 0.34 while Armenia is far behind with -0.44 score.

The majority of firms are not informed about the existence of effective and independent anti-corruption institutions responsible for handling complaints made by the private sector. Only 7.7% of enterprises are aware that such institutions exist compared to 60% of enterprises who are unaware of the existence of such institutions. On the other side, 26.3% of companies say that independent anti-corruption institutions do not exist. These data point to the need for greater promotion and active involvement of such institutions throughout the private sector in the country.

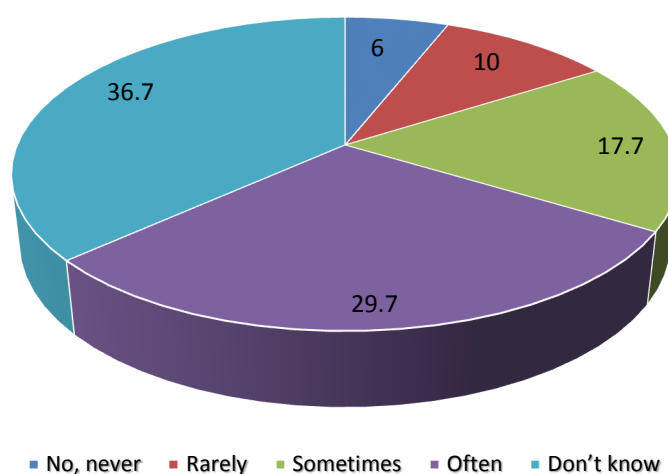
<sup>11</sup> Source: World Bank, Worldwide Governance Indicators.

**Graph 10:** Do you think that there are corruption activities in public services and public procurements?<sup>12</sup>



About 64.7% of companies think there are no corruption activities in public services and public procurements and only 3.4% think the opposite. Public procurements are transparent for the majority of companies and only 6% of the companies think the opposite.

**Graph 11:** When tendering for public bids, are procurement procedures transparent?<sup>13</sup>

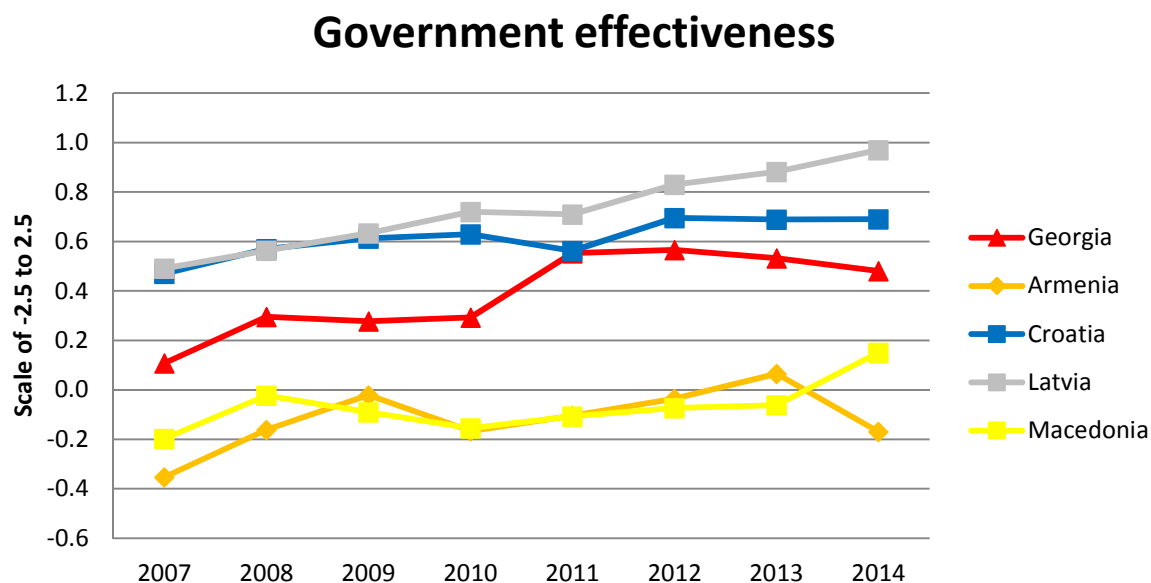


The secondary data reflect improvements in recent years in regards to Government efficiency in Georgia. The indicator “Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government’s commitment to such policies.

<sup>12</sup> Source: Georgia EESE survey 2015.

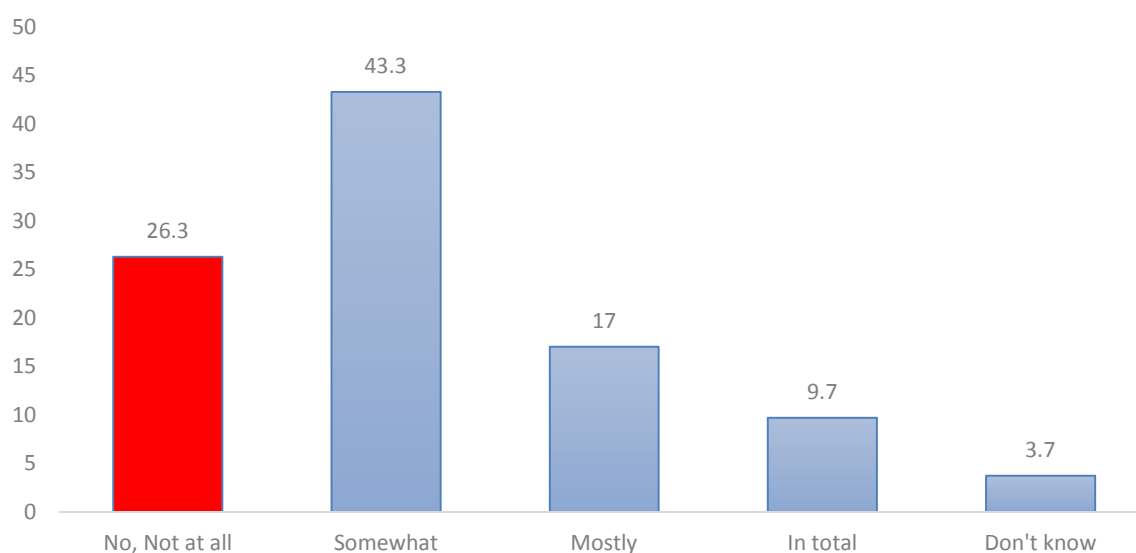
<sup>13</sup> Ibid.

**Graph 12:** Government effectiveness <sup>14</sup>



In a range of values from -2.5 to 2.5 with higher values indicating better performance, Georgia in 2014 recorded the value of 0.48. As seen in Graph 13, over the period 2007-12, the value of this indicator in Georgia was improved from 0.11 to 0.55 in 2012. However, over the last two years, Georgia recorded a slight decrease of the value of the indicator.

**Graph 13:** Does the Government provide a regulatory framework that encourages firms to expand their operations, if the business case permits?<sup>15</sup>



The survey shows almost the same results as for Government efficiency. Based on their experience, 26.3% of companies think that the Government does not provide the regulatory framework that encourages firms to expand their operations, if the business case permits. On the

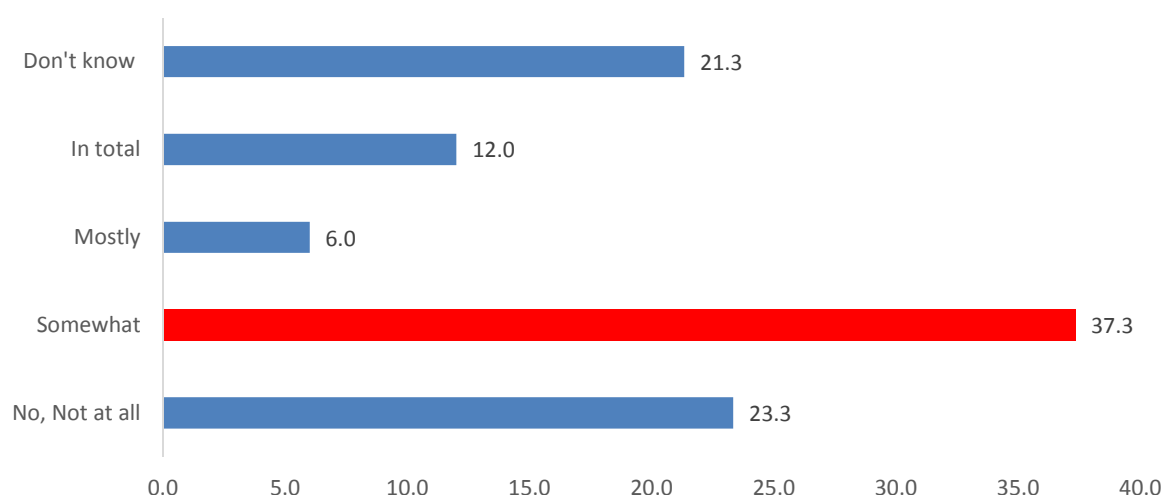
<sup>14</sup> Source: World Bank, Worldwide Governance Indicators.

<sup>15</sup> Source: Georgia EESE survey 2015.

other side, only 9.7% of the companies in the survey are totally satisfied with the regulatory framework. The situation is similar with interpretation of laws. 12% out of the total number of companies in the survey said that interpretations of laws and regulations affecting firms were not consistent and predictable. Also it is mentioned, the regulatory framework is not predictive and some participants recognized there are companies that enjoy privileges by the Government.

This is also confirmed by the focus groups. Namely, focus groups participants recognized the Government as a main problem because of the lack of support to SMEs in Georgia and their perception that regulations are not predictive and equal for all.

**Graph 14:** Are interpretations of the laws and regulations affecting firms both consistent and predictable?<sup>16</sup>

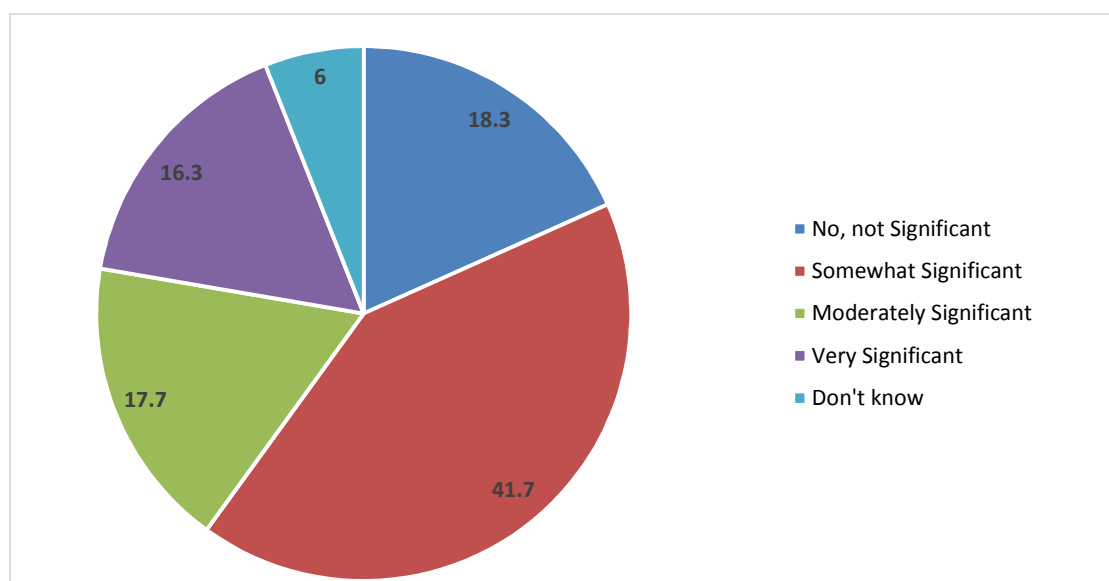


One of the suggestions made by employers is that the Government should include all relevant stakeholders in the process of creation of legislation. This particularly stands for involvement of social partners (employers and trade unions) in the process of creation of legislation related to labour market.

Regional instability is recognized by employers as one of the problems that result in decrease of regional trade in Georgia. For more than 75.7% of the interviewed companies, regional instability caused significant decrease in regional trade. Only 18.3% of the companies thought that this problem was not a factor of decrease in regional trade.

<sup>16</sup> Source: Georgia EESE survey 2015.

**Graph 15:** Has rising regional instability caused a significant decrease in regional trade?<sup>17</sup>



Based on the survey results, regional stability is important for current operational planning by the private sector for 51% of companies in Georgia.

Key Indicators							
<b>Control of corruption</b> The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.		<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Georgia</b>	-0.22	-0.22	-0.12	-0.02	0.25	0.36
	<b>Croatia</b>	-0.04	-0.10	-0.03	0.01	-0.04	0.11
	<b>Armenia</b>	-0.63	-0.56	-0.65	-0.60	-0.53	-0.47
	<b>Latvia</b>	0.13	0.13	0.13	0.19	0.15	0.27
	<b>Macedonia</b>	-0.17	-0.10	-0.06	-0.04	0.02	0.02
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						
<b>Corruption Perceptions Index (CPI)</b> The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	4.1	3.8	4.1	5.2	4.9	5.2
	<b>Croatia</b>	4.1	4.1	4.0	4.6	4.8	4.8
	<b>Armenia</b>	2.7	2.6	2.6	3.4	3.6	3.7
	<b>Latvia</b>	4.5	4.3	4.2	4.9	5.3	5.5
	<b>Macedonia</b>	3.8	4.1	3.9	4.3	4.4	4.5
	The scores are on a scale from zero (highly corrupt) to ten (highly clean).						

<sup>17</sup> Source: Georgia EESE survey 2015.



Government effectiveness		2009	2010	2011	2012	2013	
	Georgia	0.28	0.29	0.55	0.57	0.53	
	Croatia	0.61	0.63	0.56	0.70	0.69	
	Armenia	-0.02	-0.17	-0.10	-0.04	0.07	
	Latvia	0.63	0.72	0.71	0.83	0.88	
	Macedonia	-0.09	-0.15	-0.11	-0.07	-0.06	
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						
Voice and accountability		2010	2011	2012	2013	2014	2015
	Georgia	-0.29	-0.22	-0.18	-0.21	-0.02	0.10
	Croatia	0.43	0.44	0.43	0.46	0.48	0.47
	Armenia	-0.86	-0.88	-0.85	-0.68	-0.57	-0.60
	Latvia	0.75	0.84	0.77	0.71	0.74	0.74
	Macedonia	0.18	0.15	0.09	-0.01	0.00	-0.04
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						

### 2.3. Social Dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and society at large.

The main social partners to the Government of Georgia are: the Georgian Employers Association and Trade Unions Confederation. In Georgia, the Labour Code institutionalized the Tripartite Social Partnership Commission (TSPC) chaired by the prime minister and aimed at promoting social partnership in the country and social dialogue between social partners and the government, while also having a mandate to formulate proposals and recommendations through consensus on labour and other related issues. The first meeting of the new Tripartite Commission took place on May 1, 2014. However, to date, this body failed to meet on a regular basis, so its effectiveness and results did not meet the expectations.

The Commission consists of 18 members (six for each part) plus the chairperson. For the government, The Ministries of Labour, of Justice, of Economy, of Regional Development and of Education take part in the meetings. Other members are appointed by the Prime Minister. The employers are represented by the Georgian Employers' Association which occupy 2 seats and by the Georgian Small and Medium Businesses Association, the Industrial Women's Association, the Association of Development and Support of Microfinance Organizations of Georgia and the Federation of Georgian Hotels and Restaurants which have 1 seat each. For the trade unions, GTUC President and Vice President have two seats in the Commission. Furthermore, the respective presidents of the Adjarian Trade Unions, the Education and Science Workers Free Trade Union, the Public Servants Trade Union of Georgia and the Metallurgy, Mining and Chemical Worker's Trade Union, all member of the GTUC, have one seat each.<sup>18</sup>

<sup>18</sup> Source: Francesco Bagnardi, 2015, The Changing Pattern of Social Dialogue in Europe and the Influence of ILO and EU in Georgian Tripartism, <http://openjournals.gela.org.ge/index.php/CSSR/article/view/1650>

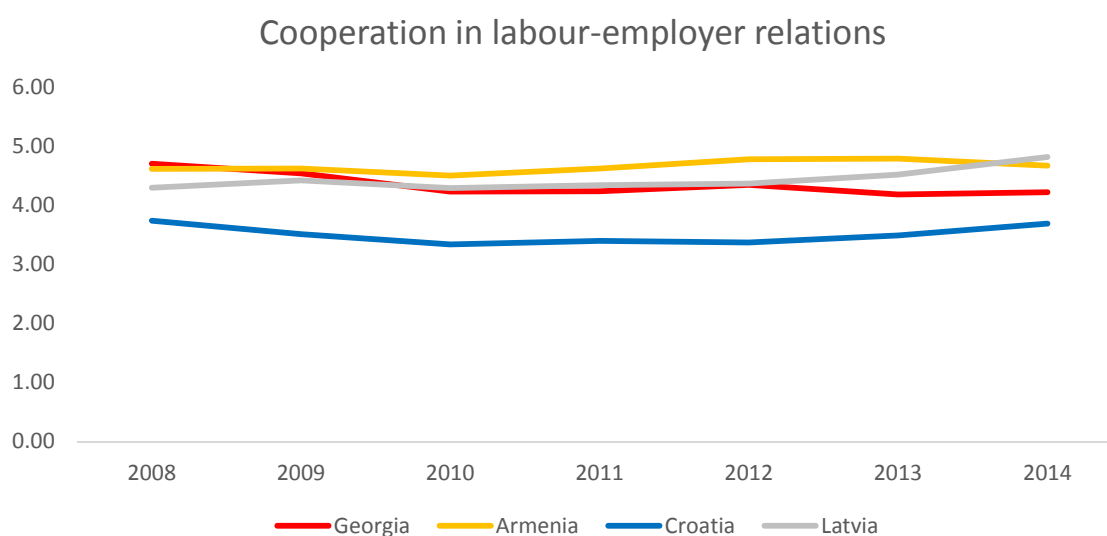
The Georgian Employers Association was established on the 1st of December 2000. The Association is an independent, non-profit and self-regulated association of business which operates in accordance with needs of employers (manufacturers and enterprise) and in accordance with the International Labour Organization's standards and conventions. As such, the Association is a social partner to the government and trade unions. The Georgian Employer's Association is the association which represents business interests of its members. The association's goal is to represent as its members, large, small and middle sized companies which operate in all sectors of the economy and to support the development of enterprises in the country; to reach more stability, socio-economic development by creating new working places and suitable working conditions.<sup>19</sup>

The country has ratified 3 of 6 ILO labour conventions on social dialogue, where C135 on the Workers' Representatives Convention, C141 – Rural Workers' Organisations Convention and C154 concerning the Promotion of Collective Bargaining are not yet ratified.<sup>20</sup>

In 2015, the Government of Georgia, the European Union, and the International Labour Organization (ILO) launched a project entitled "Promoting Labour Relations and Social Dialogue in Georgia". The project promotes the dialogue between the Georgian Government, business, and trade unions at national, regional, and enterprise level. Through this project, these three main actors will improve their ability to carry out more efficient negotiations while addressing labour relations, workers' rights and enterprises' interests.<sup>21</sup> Social dialogue is vital, but also rather new and occasionally complex process to align different interests.

The next indicator important for the social dialogue is "Cooperation in Labour-Employer Relations". This indicator determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating more cooperation.

**Graph 16:** Cooperation in labour-employer relations<sup>22</sup>



<sup>19</sup> Source: Georgian Employers Association, [www.employer.ge](http://www.employer.ge)

<sup>20</sup> ILO. (undated). [Ratifications for Georgia](http://www.ilo.org/normlex/en/f?p=NORMLEXPUB:113000:0::NO::). NORMLEX – Information System on International Labour Standards. Accessed 10 March 2016.

<sup>21</sup> Source: [http://eeas.europa.eu/delegations/georgia/documents/news/2015/20150202\\_01\\_en.pdf](http://eeas.europa.eu/delegations/georgia/documents/news/2015/20150202_01_en.pdf)

<sup>22</sup> Source: World Economic Forum Executive Opinion Survey.

Georgia performs comparatively average in this area, outperforming Croatia and Macedonia, and being behind Armenia and Latvia. The country compares well on a global scale, where in 2014 Georgia earned a score of 4.22 compared to an only marginally higher world mean of 4.3.

Key Indicator						
Cooperation in labour-employer relations		2010/11	2011/12	2012/13	2013/14	2014/15
The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: "Labour-employer relations in your country are".  <u>Source:</u> World Economic Forum Executive Opinion Survey. <sup>23</sup>	Georgia	4.23	4.24	4.35	4.18	4.22
	Croatia	3.34	3.40	3.37	3.49	3.69
	Armenia	4.5	4.62	4.78	4.79	4.67
	Latvia	4.29	4.34	4.37	4.52	4.82
	Macedonia					
1 = generally confrontational, 7 = generally cooperative.						

## 2.4. Respect for universal human rights and international labour standards

Respect for human rights and international labour standards are a distinctive feature of societies that have successfully integrated sustainability and decent work. Georgia adopted 8 of the 9 main human rights conventions.<sup>24</sup>

Of the five countries used for comparison, all countries have ratified the eight ILO core conventions on freedom of association and collective bargaining, and the abolition of child labour, forced labour and all forms of discrimination. Furthermore Georgia has ratified 17 technical conventions. The human rights situation in Georgia can also be assessed considering the following indicators:

The 'Political Rights Index'<sup>25</sup> measures the level of freedom in the electoral process, political pluralism and participation, and functioning of the government. In a range from 1 to 7, with 1 representing the most free and 7 representing the least free, Georgia has maintained the level 3 between 2012 and 2014 remaining in the middle of countries compared in report.

The 'Civil Liberties Index'<sup>26</sup> measures freedom of expression, assembly, association and religion. On a scale from 1 to 7, with 1 representing the most free and 7 representing the least free, Georgia performs relatively well with a stable score of 3 between 2010 and 2014. Before 2010, the value of this indicator was 4. Georgia had the same rate as Macedonia and it is better than Latvia and Croatia. Armenia outperforms the countries of comparison with scores 2 and 3 of this indicator.

<sup>23</sup> [World Economic Forum Global Competitiveness report.](#)

<sup>24</sup> These are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, and the Convention on the Rights of Persons with Disabilities.

<sup>25</sup> Source: <http://www.freedomhouse.org/report-types/freedom-world>

<sup>26</sup> Source: <http://www.freedomhouse.org/>

The indicators give an average result of the country to almost all indicators, in relation to other countries, on respect for universal human rights. On a technical level, the amount of ratifications is still rather limited (17 out of 177 technical conventions).

Key Indicators													
<b>Ratification of Human Rights Conventions</b>  It shows the status of human rights referring to ratification of following 9 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities.  <u>Source:</u> United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC). <sup>27</sup>	<b>As of March 2016</b>  <table> <tr><td>Georgia</td><td>8</td></tr> <tr><td>Croatia</td><td>8</td></tr> <tr><td>Armenia</td><td>9</td></tr> <tr><td>Latvia</td><td>8</td></tr> <tr><td>Macedonia</td><td>8</td></tr> <tr><td colspan="2">Number of Conventions ratified out of 9.</td></tr> </table>	Georgia	8	Croatia	8	Armenia	9	Latvia	8	Macedonia	8	Number of Conventions ratified out of 9.	
Georgia	8												
Croatia	8												
Armenia	9												
Latvia	8												
Macedonia	8												
Number of Conventions ratified out of 9.													
<b>Ratification of fundamental ILO Conventions</b>  It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).  <u>Source:</u> ILO <sup>28</sup>	<b>As of March 2016</b>  <table> <tr><td>Georgia</td><td>8</td></tr> <tr><td>Croatia</td><td>8</td></tr> <tr><td>Armenia</td><td>8</td></tr> <tr><td>Latvia</td><td>8</td></tr> <tr><td>Macedonia</td><td>8</td></tr> <tr><td colspan="2">Number of Conventions ratified out of 8.</td></tr> </table>	Georgia	8	Croatia	8	Armenia	8	Latvia	8	Macedonia	8	Number of Conventions ratified out of 8.	
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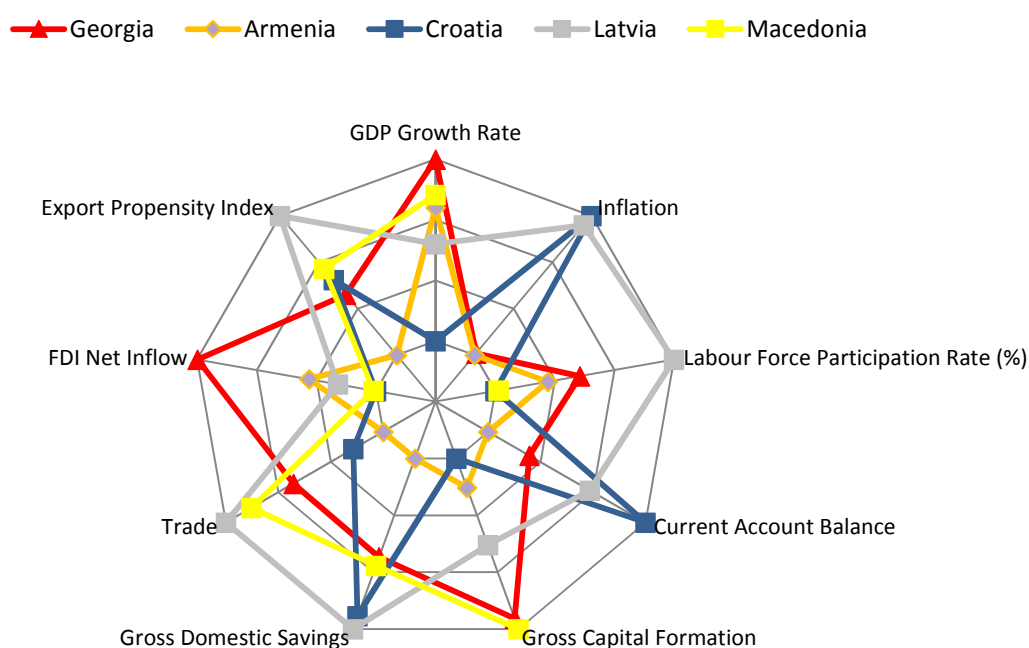
<sup>27</sup> [United Nations Treaties.](#)

<sup>28</sup> [ILO.](#)

### 3. Economic elements

Indicators assessing economic elements of an enabling environment for sustainable enterprises\*

#### Macroeconomic Indicators



\* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Weak competitiveness of the private sector, weak development of human capital and limited access to finances were identified as the critical challenges hindering economic development<sup>29</sup>.
- Modest growth recovery in 2014: Georgia's growth, having fallen sharply in 2013, is expected to pick up in 2014, driven by domestic demand.
- On-going public and current account deficits: Welfare spending is likely to rise as the government has made commitments to improve the health and education systems.
- The current account deficit is likely to remain high in 2014. The same situation is in 2015
- FDI flows, impeded by an era of political uncertainty since 2012, are likely to recover only gradually. 2014 was a success year for FDI but in 2015 FDI dropped by 23%. The biggest share of FDI in Georgia comes from Azerbaijan.
- The banking system, which is relatively well capitalised and profitable, still suffers from a high level of non-performing loans and strong dollarization, which exposes it to exchange rate risk. Expansion of credit is expected to boost household consumption.
- 51% of Georgian companies think that the inflation rate has very significant impact on competitiveness of firms and 93% of the surveyed companies in Georgia think that the inflation rate has a significant impact on their competitiveness.
- Skills shortage constitutes the biggest obstacle for improving the productivity of companies. This is reported by 37.24% of companies. The next big impediment for doing business is

<sup>29</sup> Source: Government of Georgia: Social-economic Development Strategy of Georgia, ``Georgia 2020``.

negative attitude of employees (for 31.38% of companies) followed by labour cost (for 15.52% of companies).

- The economic policy of the Government of Georgia is based on three main principles. The first principle implies ensuring fast and efficient economic growth driven by development of real (production) sector of the economy, which create jobs and reduce poverty. The second principle implies implementation of economic policies that facilitate inclusive economic growth – it envisages universal involvement of the population in the economic development process (including Diaspora, migrants, ethnic minorities and other groups), prosperity for each member of society through economic

growth, their social equality and improvement of the living standards of population. The third main principle is based on rational use of natural resources, ensuring environmental safety and sustainability and avoiding natural disasters during the process of economic development.<sup>30</sup>

- The regulatory framework in Georgia is not considered as stable and predictable and work of inspectors is not perceived equal for all companies.
- Employers don't feel the strong will of the country to fight against monopolistic practices and they don't see concrete activities in that field.

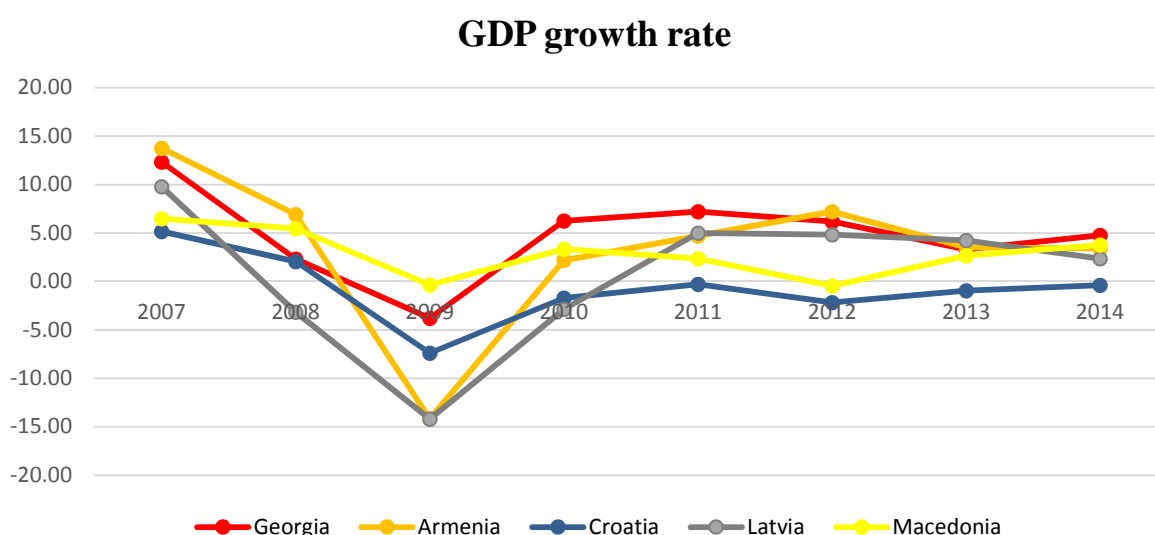
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<sup>30</sup> Government of Georgia, Socio-Economic Development Strategy Georgia 2020.

### 3.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. Based on official data, the Georgian economy has recorded positive trends concerning GDP growth especially in the period from 2009-2011. Based on World Bank data, the Georgian economy will slightly grow by 2.5% and according to projections, these positive economic trends are likely to remain until 2018. Before 2009 the Georgian economy recorded a strong GDP growth (9.60% in 2005, 12.36 in 2007). However, in 2009 the Georgian economy recorded a negative trend (-3.78%) to be followed by positive trends over the coming years. Georgia recorded the largest GDP growth out of the compared countries in 2014.

**Graph 17:** GDP growth rate<sup>31</sup>

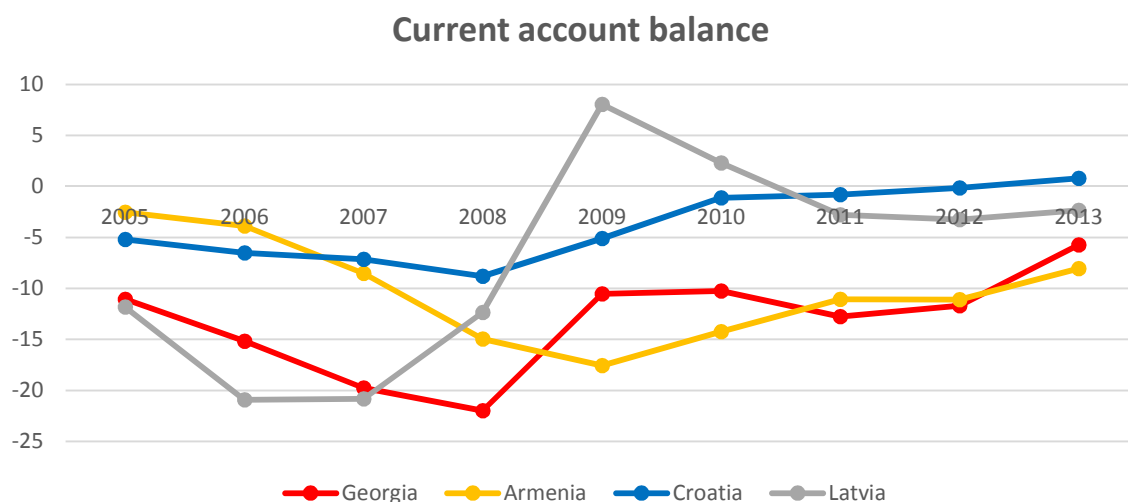


Attraction of foreign direct investments is one of the main goals of the Georgian Government. The Government has established a range of measures in order to develop the country's economy: privatization of public companies, measures oriented to fight against corruption, simplification of a process of companies establishment, tax regime, liberalisation of the market etc. Based on available information, all activities implemented in the past had significant effects on the attraction of FDI. The highest growth of FDI was recorded in 2007, where compared to 2005 FDI grew by 350%. In 2014 the absolute value of FDI was 1758.4 million USD. According to 2015 official projection of FDI, the value of FDI had negative trends and it was 23% lower than in 2014. The share of FDI by major foreign investor countries is allocated as follows: Azerbaijan (40 %), United Kingdom (15 %) and the Netherlands (8 %).<sup>32</sup>

<sup>31</sup> Source: World Bank national accounts data (World Development Indicators Online).

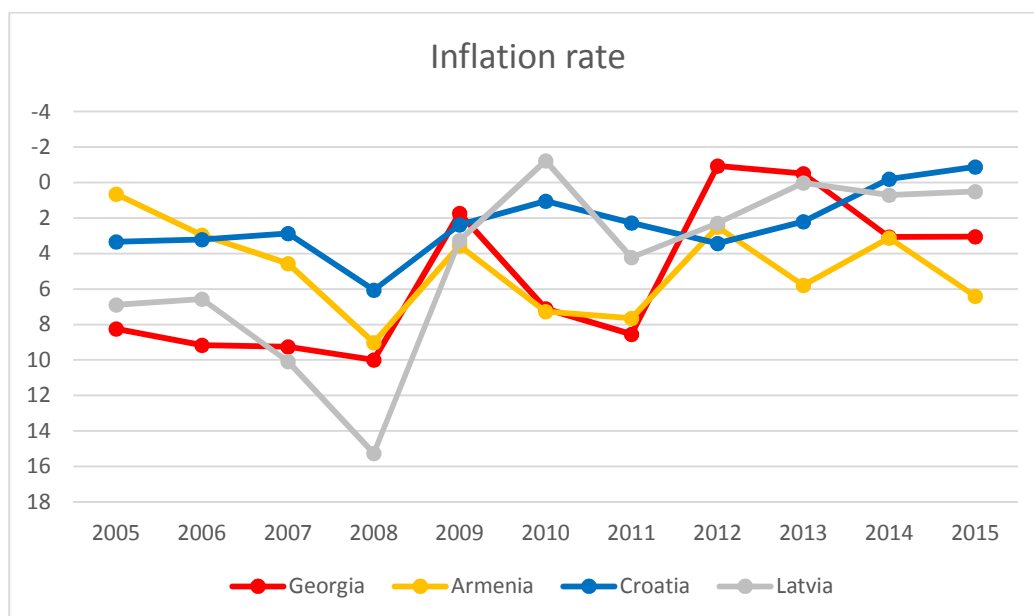
<sup>32</sup> Source: [http://www.geostat.ge/cms/site\\_images/\\_files/english/bop/FDI\\_2015Q4-2015-ENG.pdf](http://www.geostat.ge/cms/site_images/_files/english/bop/FDI_2015Q4-2015-ENG.pdf)

**Graph 18: Current account balance**<sup>33</sup>



There is wide agreement that a current account deficit of 8-10% of GDP is high, and the higher the current account deficit, the higher the risk for the overall economy. Currently, in Georgia the share of imports is significantly higher than export. In this context, it is necessary for the country, firstly to continue with the free trade regime and, on the other side, to do more to strengthen domestic production with the purpose to increase export. Georgia's main export destinations in 2014 continued to be Azerbaijan (taking 19% of Georgian exports), Armenia (10%), the Russian Federation (almost 10%) and Turkey (8.4%).

**Graph 19: Inflation rate**<sup>34</sup>



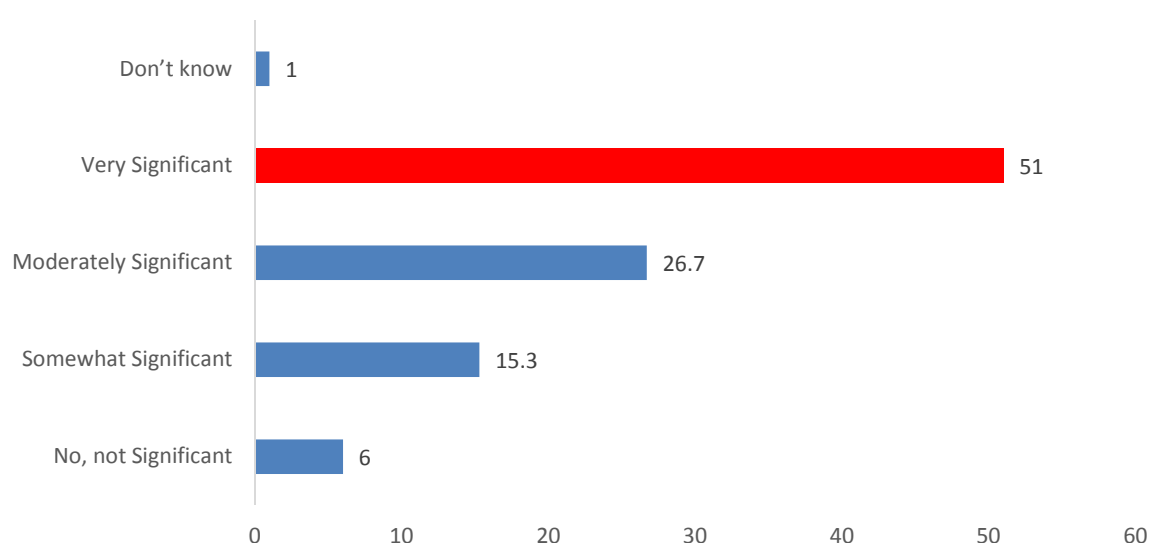
<sup>33</sup> Source: International Monetary Fund, World Economic Outlook Database, April 2014.

<sup>34</sup> Ibid.



The inflation rate in Georgia underwent many fluctuation and changes over the last 10 years. Based on recorded data, the greatest changes in the inflation rate in Georgia were from 2009 to 2012 when Georgia actually reached deflation in 2012 and 2013 respectively. Despite the fact that Georgia had deflation in 2013, over the last 2 years the situation is almost back to the situation as in the previous 10 years and the inflation rate along with all its fluctuations is an important factor in doing business in Georgia. This is confirmed by the survey results, focus group meetings and also in direct interviews with companies. According to the EESE survey findings, 51% of Georgian companies think that the inflation rate has a very significant impact on the competitiveness of firms, while merely 6% of Georgian companies were of a totally opposite opinion. Thus, in general according to EESE findings, 93% of companies in Georgia think that the inflation rate has a significant impact on the competitiveness of firms.

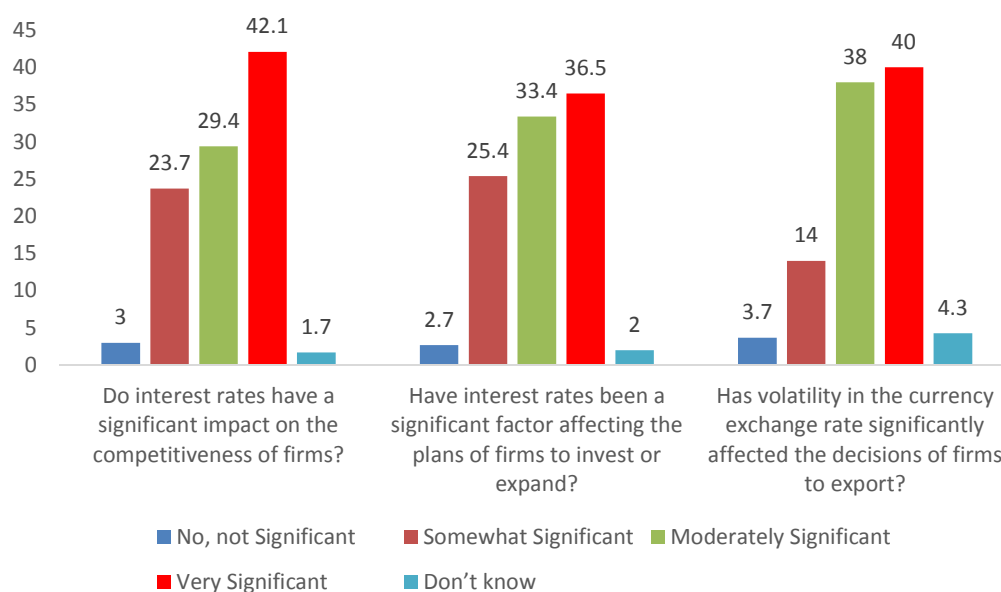
**Graph 20:** Does the inflation rate have a significant impact on the competitiveness of firms?<sup>35</sup>



As shown in the previous graph, the inflation rate represents one of the greatest issues for the competitiveness of companies in Georgia. Apart from that, Georgian companies recognize that the inflation rate is a very significant factor affecting companies' plans to invest and export. For 44% this is a significant factor in the process of planning and exporting. In total, 94.3% of Georgian companies think this is an important factor for investment planning and export.

<sup>35</sup> Source: Georgia EESE survey 2015.

**Graph 21:** Influence of inflation, interest and currency exchange rate<sup>36</sup>

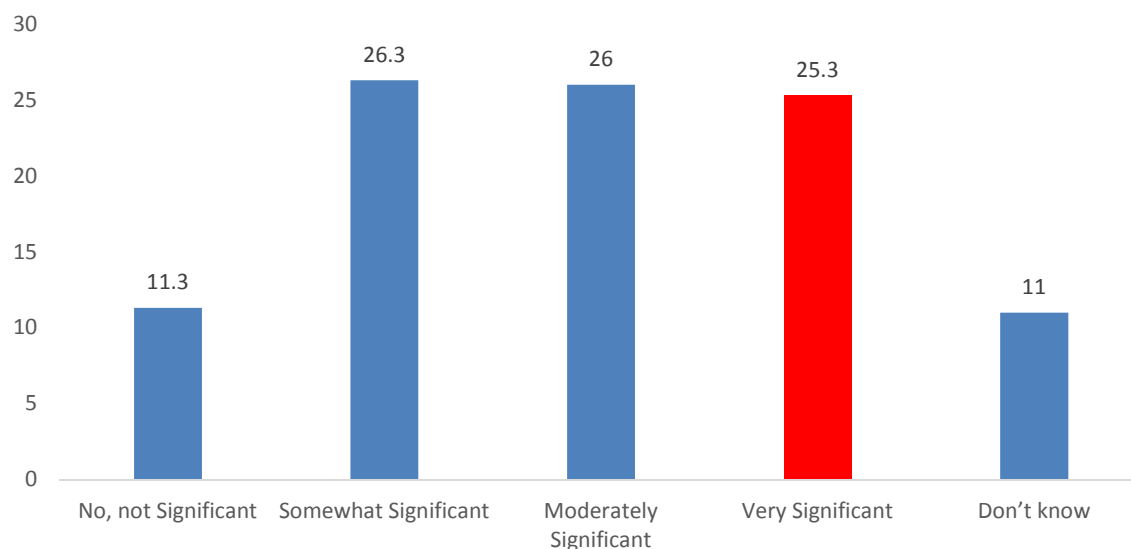


Similarly high interest rates negatively influence the competitiveness of firms and their plans to invest and export. According to the EESE survey, 42.1% of the companies think that interest rates have a very significant impact on the competitiveness of companies along with 29.4% that think this impact is moderately significant. The findings are similar for the influence of interest rate on plans to expand and invest where 36.5% think that this is a very significant factor. Only for 4.7% this does not represent a factor that influences employers' plans to invest and expand.

Finally, Georgian companies recognize exchange rate volatility as an important factor in companies' decision to export. Exchange rate volatility a very bad signal for foreign investors in Georgia. Almost half of the interviewed companies (40%) recognize this factor as very important and very significantly affecting the decision of firms to export. In total, 92% of the Georgian companies recognize this as an important factor affecting the decisions of the companies. The graph below shows that 25.3% of the companies think that changes in commodity prices have a very significant impact on the firms in their sector.

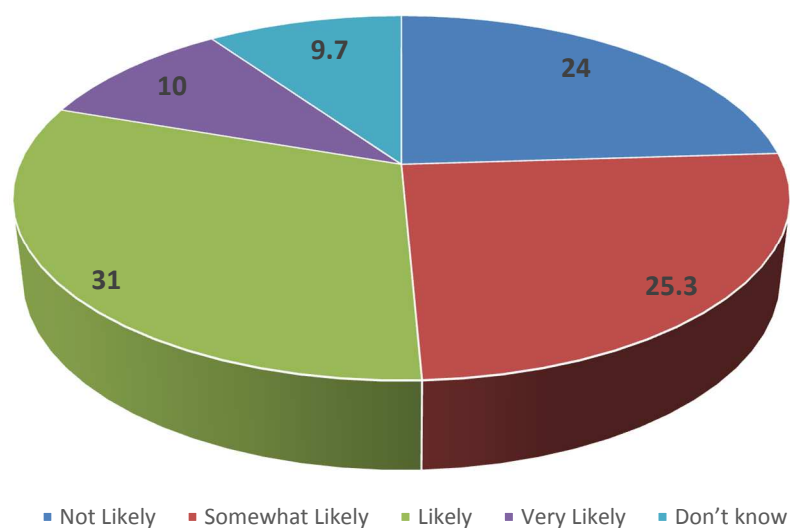
<sup>36</sup> Source: Georgia EESE survey 2015.

**Graph 22:** In your opinion, have changes in commodity prices significantly impacted firms in your sector?<sup>37</sup>



Based on the EESE survey findings, a very small percentage of Georgian companies think they will surely improve profitability over the next 12 months. This is the opinion of only 10% of the companies in Georgia. Another 33% believe that they will likely improve profitability in the target period. On the contrary, 24% of companies are sure of the opposite – that they will not improve their profitability over the next 12 months.

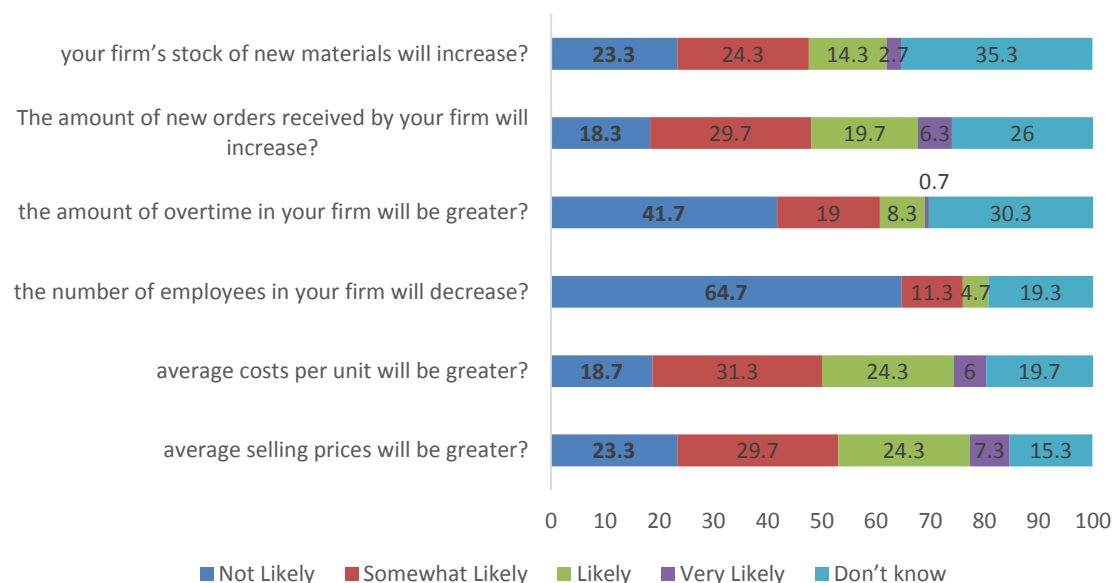
**Graph 23:** Does your company expect profitability to improve over the next 12 months?<sup>38</sup>



<sup>37</sup> Source: Georgia EESE survey 2015.

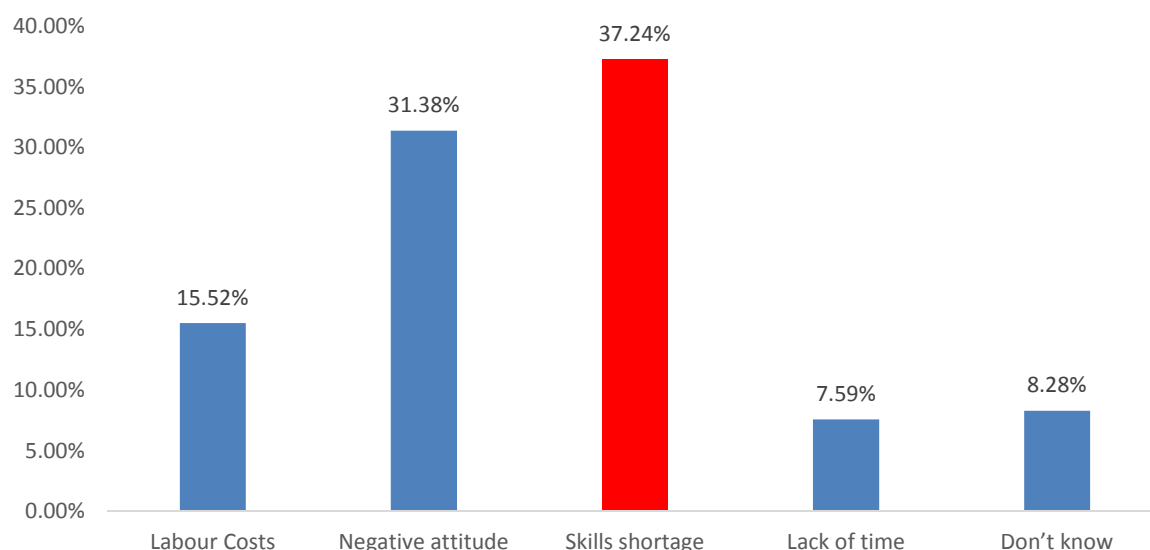
<sup>38</sup> Ibid.

**Graph 24:** Opinion of companies about doing business in following year<sup>39</sup>



As seen in the graph above, Georgian companies expect to increase the average selling prices over the next 12 months since they expect increase in average costs per unit. On the other hand, there is a very positive economic trend indicated in the companies' responses whereby the majority of interviewed companies said they would not decrease the number of employees in their companies. This is very important because it indicates that Georgian companies will continue to work at this level or even to improve their operations.

**Graph 25:** What is the single largest obstacle prohibiting productivity improvement for firms in your country? <sup>40</sup>



<sup>39</sup> Source: Georgia EESE survey 2015.

<sup>40</sup> Ibid.

The greatest obstacle for improvement of productivity of the companies is skills shortage. This is reported by 37.24% of companies. The next big impediment for doing business is the negative attitude of employees (for 31.38% of companies) followed by labour costs (for 15.52% of companies).

Key Indicators							
<b>GDP growth rate (%)</b>  Measures the annual percentage growth rates of all value added goods and services produced in the country. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. <sup>41</sup>  <u>Source:</u> World Bank national accounts data ( <a href="#">World Development Indicators Online</a> ).		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	-3.78	6.25	7.20	6.18	3.32	4.77
	<b>Croatia</b>	-7.38	-1.70	-0.28	-2.19	-0.94	-0.40
	<b>Armenia</b>	-14.15	2.20	4.70	7.20	3.50	3.40
	<b>Latvia</b>	-14.19	-2.87	5.00	4.83	4.23	2.36
	<b>Macedonia</b>	-0.36	3.36	2.34	-0.46	2.67	3.77
	Annual percentage growth rate of GDP. 2015 and 2016: *Forecast IMF World economic outlook 2015 database <sup>42</sup>						
<b>Inflation, consumer prices (annual %)</b>  Measures the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specific intervals, such as yearly. <sup>43</sup>  <u>Source:</u> World Bank national accounts data ( <a href="#">World Development Indicators Online</a> ).		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>Georgia</b>	7.11	8.54	-0.94	-0.51	3.06	3.04
	<b>Croatia</b>	1.04	2.26	3.427	2.192	-0.2	-0.88
	<b>Armenia</b>	7.27	7.65	2.513	5.788	3.11	6.4
	<b>Latvia</b>	-1.22	4.22	2.285	0.011	0.69	0.5
	2015 and 2016: *Forecast IMF World economic outlook 2015 database <sup>44</sup>						
	<b>Labour force participation rate (%)</b>  The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Georgia</b>		67.5	67.7	68.2	68.7	69.3	
<b>Croatia</b>		64.8	64.4	63.9	63.8	64.0	
<b>Armenia</b>		62.7	65.8	67.0	66.7	67.3	
<b>Latvia</b>		73.8	73.0	73.1	74.6	75.2	
<b>Macedonia</b>		63.9	64.2	64.2	63.9	64.2	
The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.							

<sup>41</sup> World Bank. (2015). World Development Indicators. GDP growth (annual %), World Bank national accounts data, and OECD National Accounts data files.

<sup>42</sup> IMF. (2015). World Economic and Financial Surveys. World Economic Outlook Database.

<sup>43</sup> World Bank. (2015). World Development Indicators. Inflation, consumer prices (annual %), International Monetary Fund, International Financial Statistics and data files.

<sup>44</sup> IMF. (2015). World Economic and Financial Surveys. World Economic Outlook Database.

Current account balance/GDP, in percent

Current account balance (also called ‘current account surplus/deficit’) is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country’s transactions with the rest of the world. It shows whether a country is ‘living within its means’. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country’s currency in relation to other countries’ currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice - once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners’ savings.

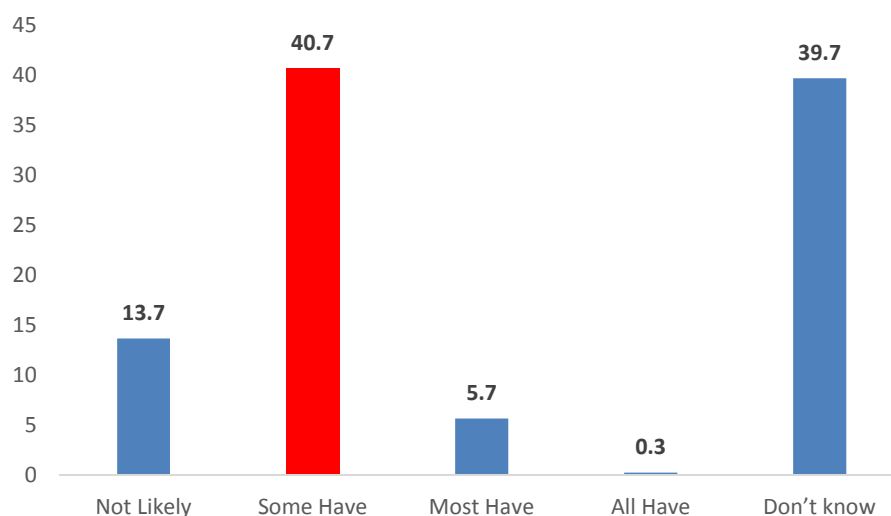
	2011	2012	2013	2014	2015	2016
Georgia	-10.249	-12.751	-11.702	-5.737	-9.635	-11.474
Croatia	-1.116	-0.806	-0.139	0.783	0.665	2.21
Armenia	-14.235	-11.078	-11.085	-8.046	-9.233	-8.645
Latvia	2.316	-2.795	-3.261	-2.337	-3.115	-2.207

in percent of GDP.

### 3.2. Trade and sustainable economic integration

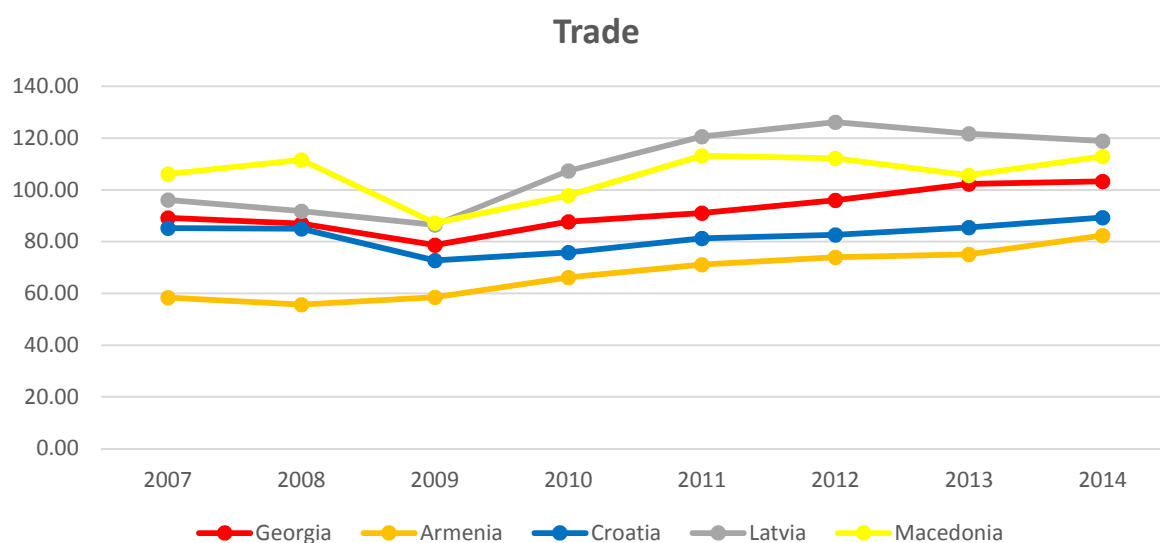
Trade integration can lead to positive economic outcomes which can have positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered. According to trade data, Georgia is improving its situation in this sector year by year. According to the World Trade Organization, Georgia's economy was hit by a combination of significant external shocks in early 2015: the Russia-Ukraine crisis, the deepening recession in the Russian Federation (both of which have created ripple-effects through the region) and currency devaluations in trading partner countries. Because of these shocks, in the first half of 2015 Georgia's exports were 25% lower than in the same period of the previous year and remittances from Georgian workers abroad were down by 23.3%. In 2014, Georgia signed an Association Agreement (AA) with the EU, including a Deep and Comprehensive Free Trade Area (DCFTA), which includes complete elimination of tariff and non-tariff barriers on nearly all goods and substantial liberalization of services trade. Finally, Georgia is a member of the World Trade Organization (WTO) since 2000.

**Graph 26:** Have firms in your country seen an increase in the amount of product they export?<sup>45</sup>



The trade sector in Georgia has improved over the few past years but still all stakeholders try to put more efforts to further improve the situation. Based on the EESE survey findings, more than 46% of companies in Georgia think that the amount of products they export has increased.

**Graph 27:** Trade/GDP<sup>46</sup>



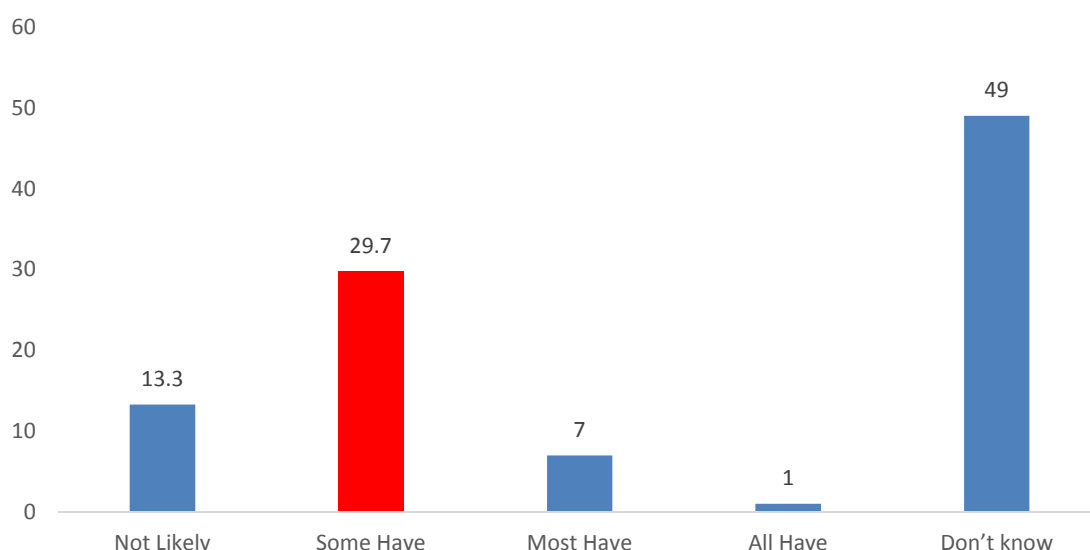
Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and  $+\infty$ . The trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. If we analyse the countries used for comparison, Georgia is in the middle. Results from 2014, show that Georgia performs better than Croatia and Armenia, but lags behind Macedonia and Latvia. It is also necessary to analyse why the share of trade in GDP in Georgia is below 100%.

<sup>45</sup> Source: Georgia EESE survey 2015.

<sup>46</sup> Source: World Bank national accounts data (World Development Indicators Online).

Analysing the absolute value of export in Georgia from 2010, according to National Statistics of Georgia, exports have improved year by year. The biggest growth of exports was reached in 2010-2011 when it was almost 31%. Exports continued to grow in 2011-2013. In the last two years – 2014 and 2015, exports slightly dropped. Similarly, imports had fluctuation from 2010 until now. The greatest imports growth was recorded in 2011, increasing until 2015, when imports for the first time recorded a drop in the absolute value<sup>47</sup>.

**Graph 28:** Do exporting firms benefit from government incentives such as tax breaks, etc.?<sup>48</sup>



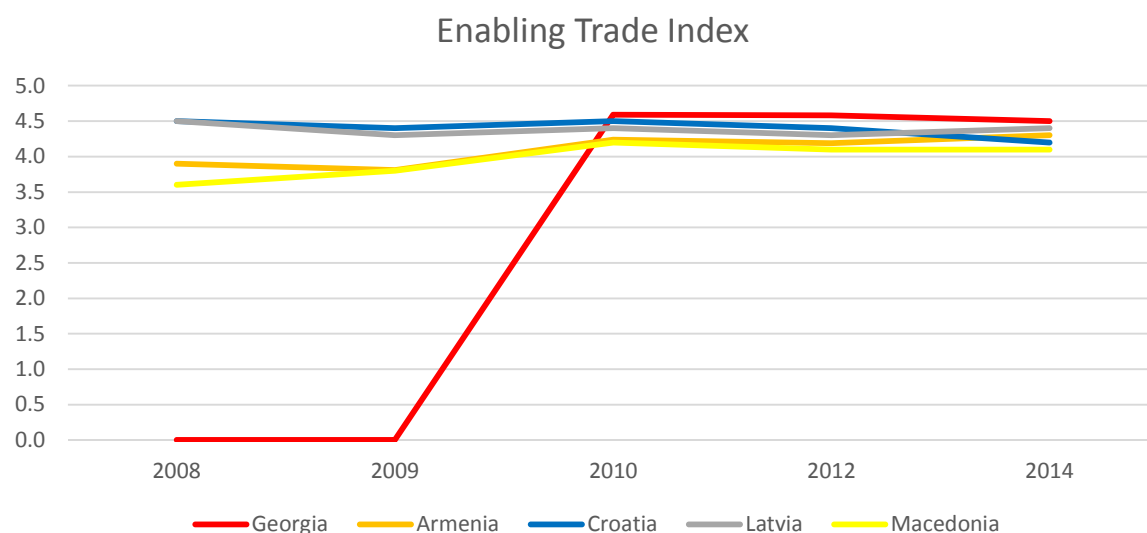
Many of the interviewed companies were not aware of the benefits arising from government incentives such as tax breaks for exporting companies (49%). From the companies that knew about these incentives, 13.3% thought that exporting companies do not benefit from government incentives such as tax breaks while only 1% said that all exporting companies benefit from these incentives. The situation is the same regarding the access to trade finance and credit guarantees. The majority of companies in the sample do not know about the existence of such schemes but almost 50% of the companies think that firms have access to credit guarantees.

<sup>47</sup> Source: National Statistic Office of Georgia , [http://pc-axis.geostat.ge/Table.aspx?rxid=c8ca81e9-2824-4c5b-a46a-c80202913531&px\\_db=Database&px\\_type=PX&px\\_language=en&px\\_tableid=Database%5cExternal+Trade%5cTrade+Balance%5c1\\_Georgian\\_Trade\\_by\\_ExportsImportsBalanceTurnover\\_and\\_Years.px&layout=tableViewLayout1](http://pc-axis.geostat.ge/Table.aspx?rxid=c8ca81e9-2824-4c5b-a46a-c80202913531&px_db=Database&px_type=PX&px_language=en&px_tableid=Database%5cExternal+Trade%5cTrade+Balance%5c1_Georgian_Trade_by_ExportsImportsBalanceTurnover_and_Years.px&layout=tableViewLayout1)

<sup>48</sup> Source: Georgia EESE survey 2015.



**Graph 28:** Enabling Trade Index<sup>49</sup>



The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment. Values are on a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade. Data for Georgia exist from 2010. Overall, Georgia performs very well in this context and in 2014 the value of the indicator was 4.5. In comparison to other countries in the report Georgia records the best result.

**Table 1:** Doing Business Report - Trading across borders<sup>50</sup>

	DB 2009	DB 2010	DB 2011	DB 2012	DB 2013	DB 2014	DB 2015
<b>Georgia</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Rank</b>	-	-	-	-	-	31	33
<b>Cost to export (US\$ per container)</b>	1380	1270	1329	1355	1355	1355	1355
<b>Documents to export (number)</b>	8	4	4	4	4	4	4
<b>Documents to import (number)</b>	7	4	4	4	4	4	4
<b>Time to export (days)</b>	12	10	10	10	9	9	9
<b>Time to import (days)</b>	14	11	11	11	10	10	15

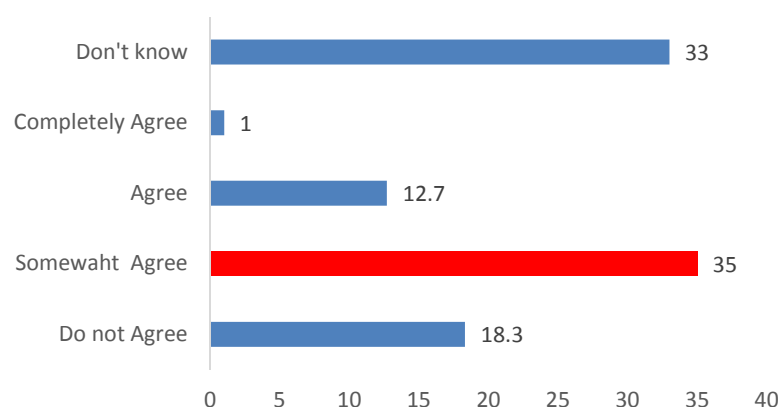
The Ease of Doing Business Index ranks economies from 1 to 189 (2015), with first place being the best. Based on the latest WB report Georgia is ranked 33rd indicating that the situation is pretty good in trading across borders. According to the WB and compared to other countries taken

<sup>49</sup> Source: World Economic Forum.

<sup>50</sup> Source: International Finance Corporation.

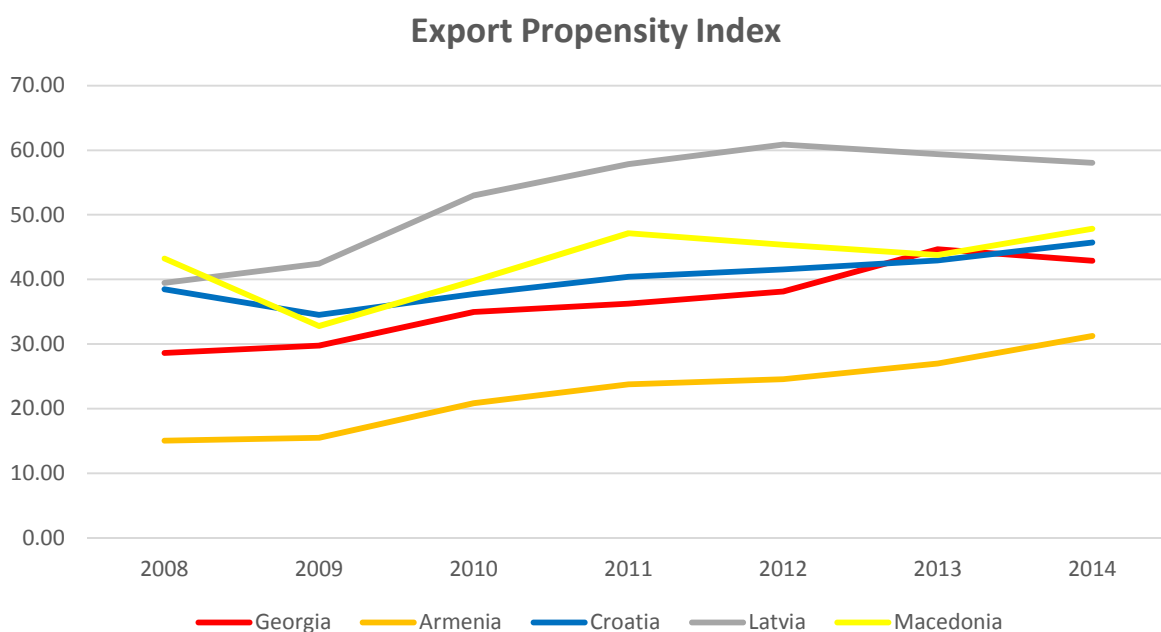
into account in this report, the highest costs to export are recorded in Armenia and Georgia is in the middle of the compared countries. If we look at time to export/import Georgia is very competitive compared to other countries.

**Graph 29:** To what extent do you agree with the statement “firms that rely exclusively on the domestic market do so because they lack the capacity to export, i.e., dealing with licenses, regulations, etc.”?<sup>51</sup>



EESE survey findings show that those relying exclusively on the domestic market do so because they lack the capacity to export, i.e. dealing with licences, regulations, etc. Almost 49% of the companies share this opinion with only 18.3% of companies thinking the opposite.

**Graph 30:** Export Propensity Index<sup>52</sup>



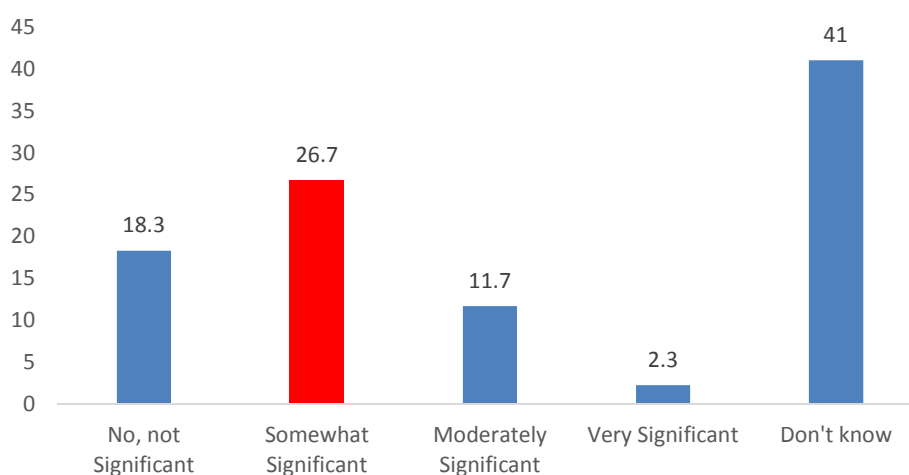
<sup>51</sup> Source: Georgia EESE survey 2015.

<sup>52</sup> Source: World Bank national accounts data, and OECD national accounts data files (World Development Indicators Online).

The Export Propensity Index looks at the share of exports of goods and services in GDP. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments. The value of this indicator ranges from 0 to 100. Georgia performs in the middle and in 2014 the value of this indicator was 42.89. In this context, Georgia is outperformed by almost all countries, only Armenia is lagging behind.

For conducting trade in a country, it is necessary for employers to have clear and up-to-date information on trading procedures, tariffs, duties, and taxes. 87.3% of interviewed companies think there is sufficient information on trading procedures as opposed to 8.7% who think that there is no sufficient available information on trading procedures.

**Graph 31:** In your view, do firms consider customs and trade regulations to be a significant constraint to trading across borders?<sup>53</sup>

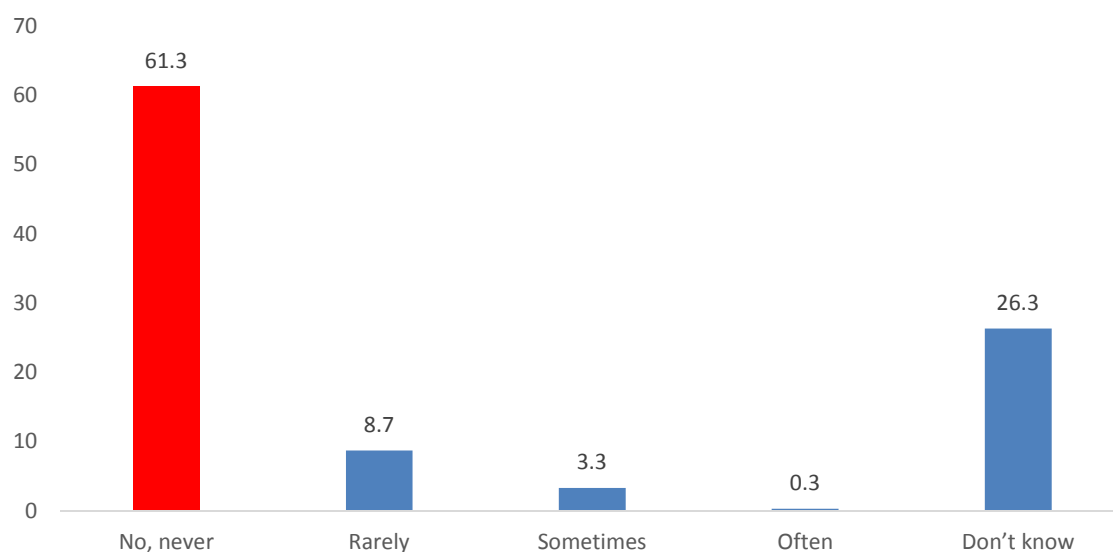


Employers in Georgia recognized that one of the main obstacles perceived is customs and trade regulations for trading across borders. 18.3% of companies think that customs and trade regulations are not a significant constraint for trading across borders. On the contrary, 38.4% of companies think those are a somewhat or moderately significant constraint for trade across borders.

Moreover, 37% of companies think that it is difficult for firms to obtain certificates of origin and other essential documentation for export in addition to 25.7% of companies that believe government officials unnecessarily or arbitrarily hold up shipments.

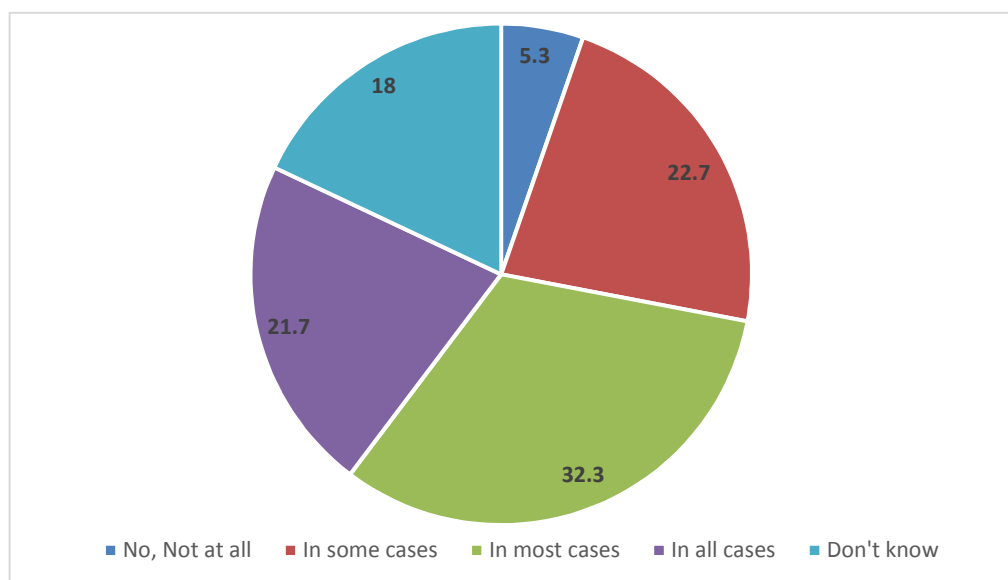
<sup>53</sup> Source: Georgia EESE survey 2015.

**Graph 32:** In your view, are illicit payments to government officials necessary to speed up procedures?<sup>54</sup>



When asked whether illicit payments to government officials were necessary to speed up procedures, 61.5% of the companies said they did not have to provide illicit payment to government officials to speed up procedures. This is representative of the overall presence of illicit payments in the country.

**Graph 33:** Are firms able to submit documents electronically?<sup>55</sup>



A very positive step in trade liberalization is the implementation of the electronical system for submission of documents. This is recognized by the majority of employers as one of the best services as it saves time.

<sup>54</sup> Source: Georgia EESE survey 2015.

<sup>55</sup> Ibid.

Overall, trade in Georgia has developed well over the few recent years. According to available data, it is clear that all interested parties in Georgia make large efforts to create a trade-attractive environment. The resulting priorities for Georgia in this domain should be the further simplification of procedures for export/import and the harmonization with EU standards.

Key Indicators					
<b>Trade (% of GDP)</b> Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product (GDP). <sup>56</sup> Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. Source: World Bank ( <a href="#">World Development Indicators Online</a> ).		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	91.02	95.95	102.33	103.28
	<b>Croatia</b>	81.27	82.68	85.42	89.36
	<b>Armenia</b>	71.11	73.92	75.04	82.44
	<b>Latvia</b>	120.6	126.16	121.71	118.91
	<b>Macedonia</b>	113.1	112.22	105.70	112.96
	Trade share (%) in GDP.				
<b>Enabling Trade Index (ETI)</b> The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destinations. The index breaks the enablers into four overall drivers: market access, border administration, infrastructure and operating environment. <sup>57</sup> Source: World Economic Forum. WEF Global Trade Reports 2010/2012/2014.		<b>2010</b>	<b>2012</b>	<b>2014</b>	
	<b>Georgia</b>	4.6	4.6	4.5	
	<b>Croatia</b>	4.5	4.4	4.2	
	<b>Armenia</b>	4.2	4.2	4.3	
	<b>Latvia</b>	4.4	4.3	4.4	
	<b>Macedonia</b>	4.2	4.1	4.1	
	Rating between 1-7 higher rating indicates better performance				
<b>FDI net inflow/GDP, in percent</b> Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP. Source: World Bank ( <a href="#">World Development Indicators Online</a> ).		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	7.51	5.25	5.93	7.71
	<b>Croatia</b>	2.00	2.37	1.02	-
	<b>Armenia</b>	6.44	4.91	3.55	3.52
	<b>Latvia</b>	5.30	3.77	3.20	2.45
	<b>Macedonia</b>	4.84	3.41	3.84	1.12
	FDI net inflow (in current US\$ as % of GDP)				
<b>Export Propensity Index= exports of goods and services/GDP, in percent</b> Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	36.24	38.15	44.69	42.89
	<b>Croatia</b>	40.41	41.57	42.94	45.73
	<b>Armenia</b>	23.76	24.57	26.99	31.26
	<b>Latvia</b>	57.83	60.87	59.40	58.02
	<b>Macedonia</b>	47.12	45.37	43.79	47.86
	It ranges from 0 (with no exports) to 100 (with all domestic production exported).				
<b>Trading Across Border Data</b>	<b>Georgia</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>

<sup>56</sup> World Bank. (2015). World Development Indicators. Trade (% of GDP), World Bank national accounts data, and OECD National Accounts data files.

<sup>57</sup> World Economic Forum. (2010), (2012), (2014). The Global Enabling Trade Report. Geneva.

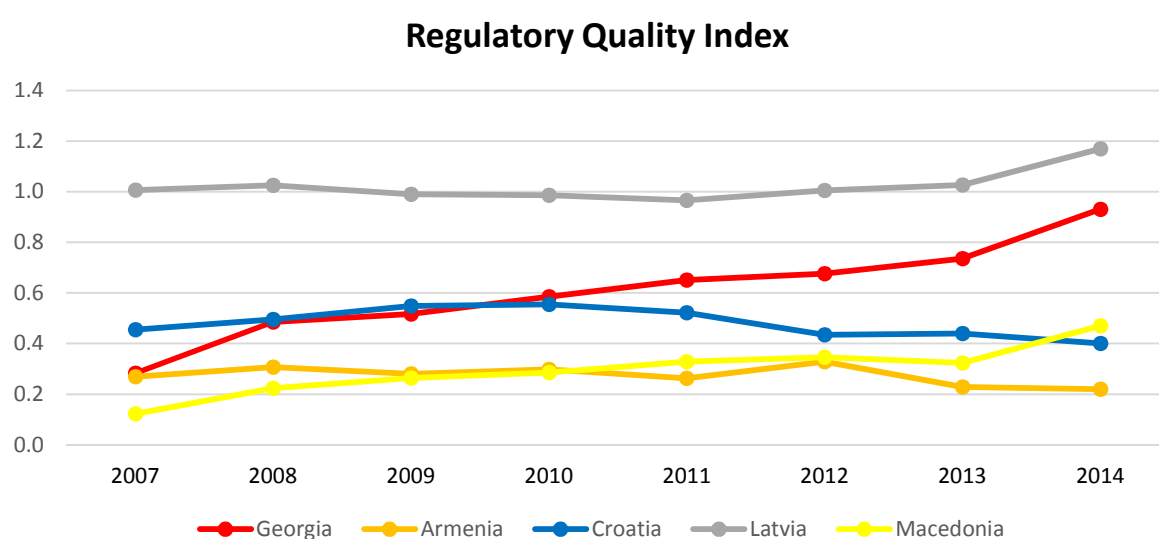
Ease of doing business index ranks economies from 1 to 183, with first place being the best. The cost to export is the cost US\$ per container. The number of import and export documents required to carry out an international trade transaction. The time to export and import is measured in days.

Rank	-	-	31	33
Cost to export (US\$ per container)	1355	1355	1355	1355
Documents to export (number)	4	4	4	4
Documents to import (number)	4	4	4	4
Time to export (days)	10	9	9	9
Time to import (days)	11	10	10	15
<b>Croatia</b>				
Rank	-	-	88	86
Cost to export (US\$ per container)	1300	1300	1335	1335
Documents to export (number)	6	6	6	6
Documents to import (number)	7	7	7	7
Time to export (days)	20	20	18	16
Time to import (days)	16	16	15	14
<b>Armenia</b>				
Rank	-	-	-	124
Cost to export (US\$ per container)	1735	1885	1885	1885
Documents to export (number)	5	5	5	5
Documents to import (number)	8	8	8	8
Time to export (days)	16	16	16	16
Time to import (days)	18	18	18	18
<b>Latvia</b>				
Rank	-	-	88	86
Cost to export (US\$ per container)	1300	1300	1335	1335
Documents to export (number)	6	6	6	6
Documents to import (number)	7	7	7	7
Time to export (days)	20	20	18	16
Time to import (days)	16	16	15	14
<b>Macedonia</b>				
Rank	-	-	83	85
Cost to export (US\$ per container)	1376	1376	1376	1376
Documents to export (number)	6	6	6	6
Documents to import (number)	8	8	8	8
Time to export (days)	12	12	12	12
Time to import (days)	11	11	11	11
It ranges from 0 (with no exports) to 100 (with all domestic production exported).				

### 3.3. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. Concerning the regulatory framework, focus groups participants believe that it is not primarily legislation itself that is problematic but rather its implementation. Frequently changing regulations result in distrust by companies and is perceived as lack of stability. Furthermore, the time to adapt to new regulation is said to be insufficient. All stakeholders share the same concern that they are not included in the process of creation and drafting of legislation.

**Graph 34:** Regulatory Quality Index<sup>58</sup>



The Regulatory Quality Index measures the ability of the government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance is measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. Georgia performs somewhere in the middle of this indicator. Since 2005, the value of this indicator has improved in Georgia and from a negative value in 2005, the 2014 value of this indicator was 0.9. Compared to other countries, Georgia outperformed almost all countries except Latvia. The indicator represents the state of regulatory stability in the country with lower values representing lower trust in the Government. After many reforms and legislative changes this indicator in Georgia has improved and keeping this positive momentum should be a priority.

Regulation in Georgia is well created and has a good base to be very effective and favourable for companies. The implementation of regulation is however problematic and is described as weak and often unpredictable.

The Ease of Doing Business Index ranks economies from 1 to 189 (in 2015), with first place being the best. A high ranking corresponds to the regulatory environment being assessed as conducive to business operations. This index averages the country's percentile rankings on 10 topics giving equal weight to each topic.

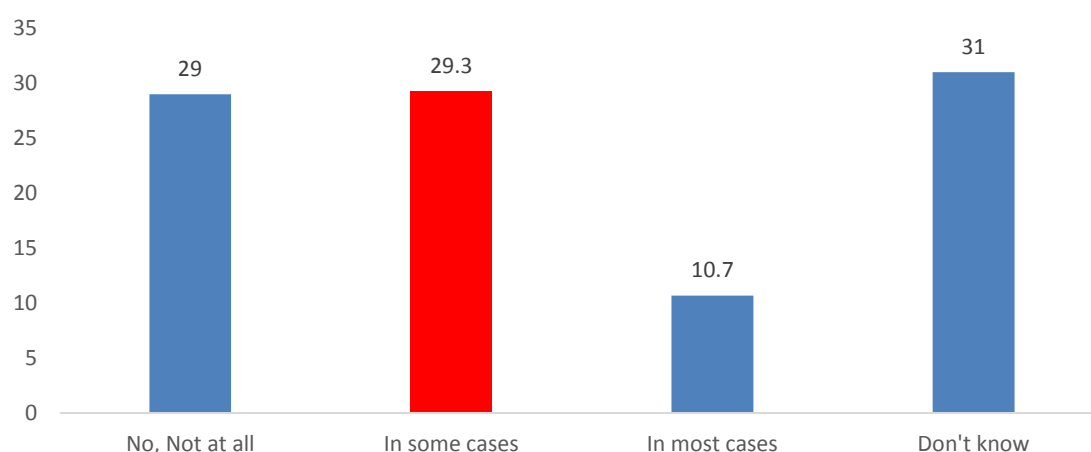
<sup>58</sup> Source: World Bank, Worldwide Governance Indicators.

**Table 2:** Ease of Doing Business Rank<sup>59</sup>

	DB 2014 Report	DB 2015 Report
<b>Georgia</b>	14	15
<b>Croatia</b>	67	65
<b>Armenia</b>	49	45
<b>Latvia</b>	21	23
<b>Macedonia</b>	31	30

The data show that Georgia performs very well in this context. Compared to the comparator countries in the report, Georgia ranks the best; in 2015 it was 15<sup>th</sup> among 189 countries. Georgia outperforms Armenia at 45, Latvia at 23 and Macedonia at 30 and Croatia at 65.

The situation revealed by the secondary data is to a great extent confirmed by the EESE survey responses from the firms. Nearly half of interviewed enterprises (42.7%) agree with the statement: “The amount of overall management time firms spend dealing with the requirements of government regulation is a major issue for firms.”

**Graph 35:** Do firms have to deal with overlapping regulatory bodies? <sup>60</sup>

The overlapping jurisdiction of regulatory bodies (agencies, inspections) is another major problem undermining the business environment in Georgia. The above chart reflects the extent of this problem, where 29.3% of respondents report the overlap to be a phenomenon in some cases, and 10.7% says that it is the case in most or even in all cases. On the contrary, 29% of companies responded that there were no regulatory bodies with overlapping jurisdictions. In relation to this issue, 33.7% of the companies say they have to pay separate cost to each regulatory body with overlapping jurisdictions.

Apart from overlapping of the regulatory bodies, tax administration and tax burden are recognized as important obstacle in the business environment in Georgia. Based on the EESE survey, the tax burden is not an obstacle for 17% of the companies while for 67.3% of companies in Georgia tax burden is problematic and impedes companies' daily operations. Along with the tax

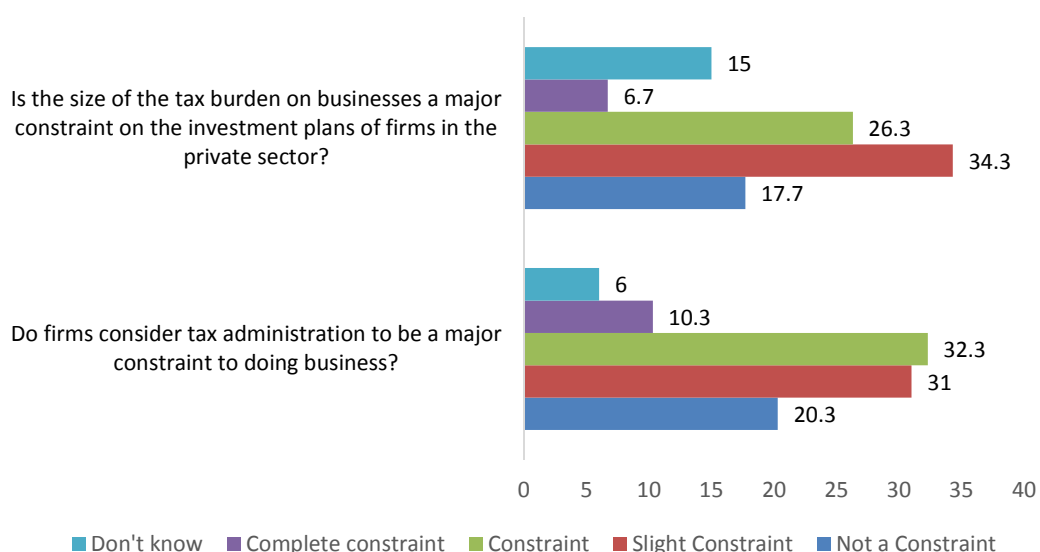
<sup>59</sup> Source: World Bank, Doing Business project.

<sup>60</sup> Source: Georgia EESE survey 2015.



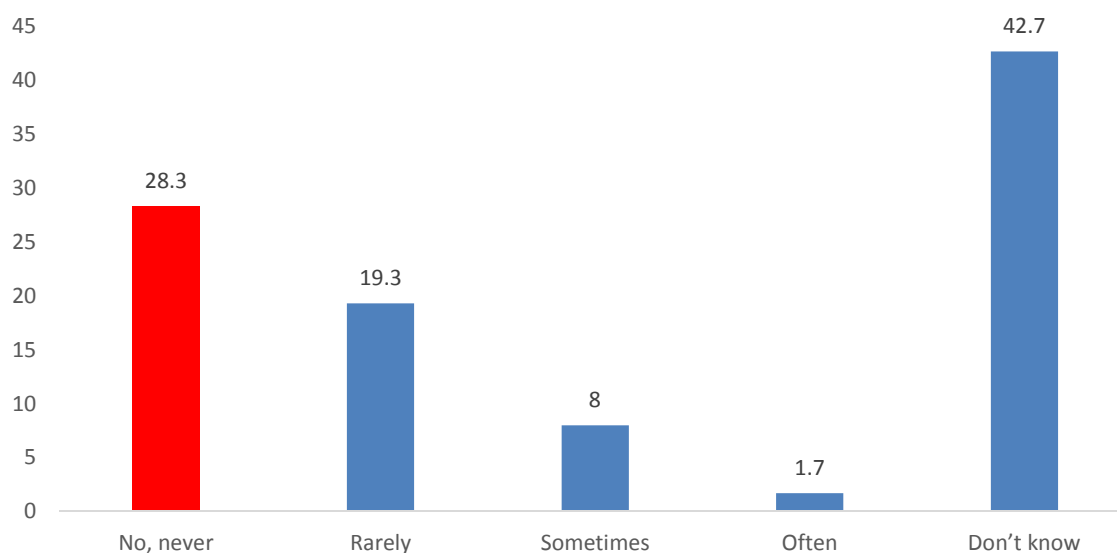
burden, employers recognize the work of the tax administration as a constraint for doing business, as perceived by 73.6% of the companies in the survey.

**Graph 36:** Opinion of firms about tax administration and tax burden<sup>61</sup>



Along with the size of the tax burden and tax administration, companies in Georgia identified the big potential for simplifying the tax collection process. This is the opinion of 86% of the companies with only 4.3% of the companies in Georgia believing there is no need for such action.

**Graph 37:** Do firms ever have unhelpful experiences whereby interference by inspectorates has impacted unfairly on operations?<sup>62</sup>



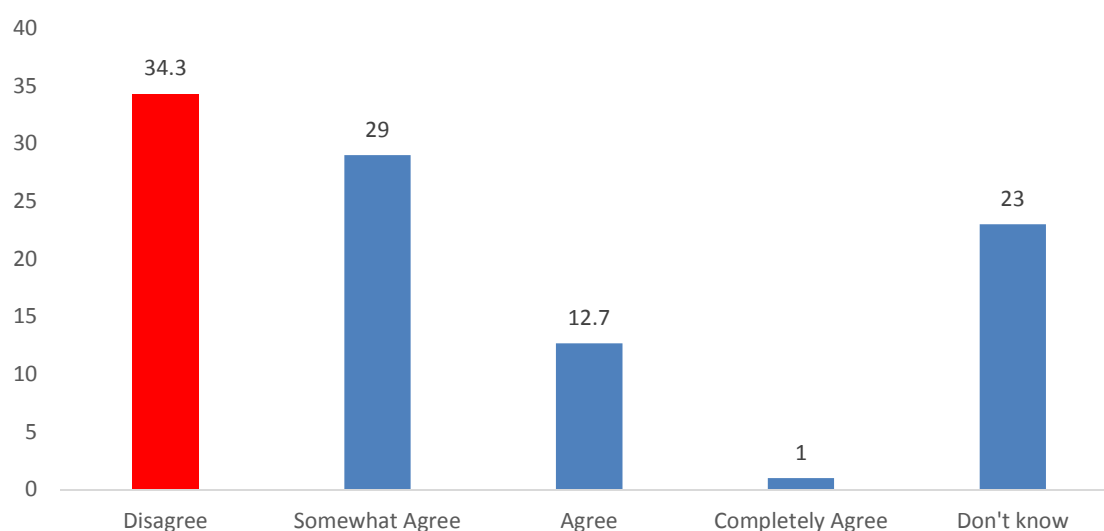
One of the key concerns of focus group participants were inspections. The work of inspections as seen by focus group participants is still developing and represents a significant

<sup>61</sup> Source: Georgia EESE survey 2015.

<sup>62</sup> Ibid.

challenge for the country. Participants say there is no specific control of quality of some kind of services which influence the market, especially in the tourism sector, where the quality of the products is low. This was confirmed by the survey findings. 29% of respondents said companies had unhelpful experiences whereby interference by inspectorates had impacted unfairly on their operations. Moreover, 33% of the interviewees thought that labour administration services were politically motivated. Only 34.7% thought the opposite.

**Graph 38:** To what extent do you agree with the statement “overall the amount of time involved in complying with statutory worker entitlements is a major issue for firms”?<sup>63</sup>



Overall, the regulatory framework for the development of sustainable enterprises in Georgia is improving. Some major issues such as: the unpredictability of and unequal implementation of regulations, the selective work of inspections, the need for improved communication between Government and social partners in the process of legislation creation, the work of the tax administration and the size of the tax burden remain and need to be addressed in the near future.

***“Government is not a partner to employers and this relation is too much like a one way street”***  
*- from the focus group discussion*

<sup>63</sup> Source: Georgia EESE survey 2015.

## Key Indicators

### Regulatory quality

The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Scale -2.5 to +2.5

-2.5 = low control;

+2.5 = high control

Source: World Bank Governance indicators 2015.

	2010	2011	2012	2013	2014
<b>Georgia</b>	0.6	0.7	0.7	0.7	0.9
<b>Croatia</b>	0.6	0.5	0.4	0.4	0.4
<b>Armenia</b>	0.3	0.3	0.3	0.2	0.2
<b>Latvia</b>	1.0	1.0	1.0	1.0	1.2
<b>Macedonia</b>	0.3	0.3	0.3	0.3	0.5

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

### 3.4. Rule of law and secure property rights

A formal and effective legal system, which guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. In many of the lower-middle income CIS countries (Armenia, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, Ukraine and Uzbekistan), the dominant problem is underdeveloped institutions of a market economy which includes security of property rights.

According to secondary data, the rule of law still underperforms compared to other countries in the report. The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society. This includes quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. It is measured on a scale from -2.5 to 2.5 with higher values corresponding to better governance. From 2009-2013 Georgia has slightly improved on this index (-0.2 in 2009 and 0.0 in 2013), but still underperforms with respect to the countries of comparison as for instance Latvia with 0.7 or Croatia with 0.2.

Another important indicator in this area is the Property Rights Indicator by the World Economic Forum. The World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: “Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law”. In 2014 Georgia was at the level of 3.9 so it was better than Croatia but lagging behind Armenia (4.2), Macedonia and Latvia (4.6).

The related indicator on Intellectual Property Protection is based on the World Economic Forum (WEF) Survey where business leaders are asked to provide their expert opinions on the following: “Intellectual property protection and anti-counterfeiting measures in your country are 1= weak and not enforced, 7=strong and enforced”. Compared to all other countries Georgia had the worst result in 2014 when the value of this indicator was 3 which shows that intellectual property protection is still weak in the country.

Key Indicators						
<b>Rule of Law Index</b>  The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. <u>Source:</u> World Bank, Governance Matters database. <sup>64</sup>		2009	2010	2011	2012	2013
	<b>Georgia</b>	-0.2	-0.2	-0.1	0.0	0.0
	<b>Croatia</b>	0.1	0.2	0.2	0.2	0.3
	<b>Armenia</b>	-0.5	-0.5	-0.4	-0.4	-0.3
	<b>Latvia</b>	0.8	0.8	0.8	0.8	0.7
	<b>Macedonia</b>	-0.3	-0.3	-0.3	-0.2	-0.2
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.					
Other Useful Indicators						
<b>Property Rights</b>  The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “Property rights in your country, including over financial assets, are 1=poorly defined and not protected by law, 7=clearly defined and well protected by law”. <u>Source:</u> World Economic Forum, The Global Competitiveness Report. <sup>65</sup>		2010	2011	2012	2013	2014
	<b>Georgia</b>	3.2	3.2	3.1	3.4	3.9
	<b>Croatia</b>	4.0	3.9	3.8	3.8	3.8
	<b>Armenia</b>	3.7	3.8	4.3	4.6	4.2
	<b>Latvia</b>	4.3	4.1	4.2	4.3	4.6
	<b>Macedonia</b>	3.6	3.7	4.0	4.5	4.6
	1=poorly defined and not protected by law, 7=clearly defined and well protected by law.					
<b>Intellectual Property Protection</b>  The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced”. <u>Source:</u> World Economic Forum, The Global Competitiveness Report. <sup>66</sup>		2011	2012	2013	2014	
	<b>Georgia</b>	2.8	2.6	2.7	3.0	
	<b>Croatia</b>	3.5	3.5	3.5	3.6	
	<b>Armenia</b>	3.0	3.4	3.6	3.5	
	<b>Latvia</b>	3.6	3.8	4.0	4.0	
	<b>Macedonia</b>	3.1	3.5	3.9	4.0	
	1=weak and not enforced, 7=strong and enforced.					

### 3.5. Fair competition

As a precondition for private sector and sustainable enterprises development and growth, it is important to have competition rules, including those ensuring respect for labour and social standards. Additionally, anti-competitive practices at the national level must be eliminated. All focus groups participants agree that fair competition does not exist in Georgia and that is one of the major issues for the country. Concrete examples of unfair competition were presented for each sector. For

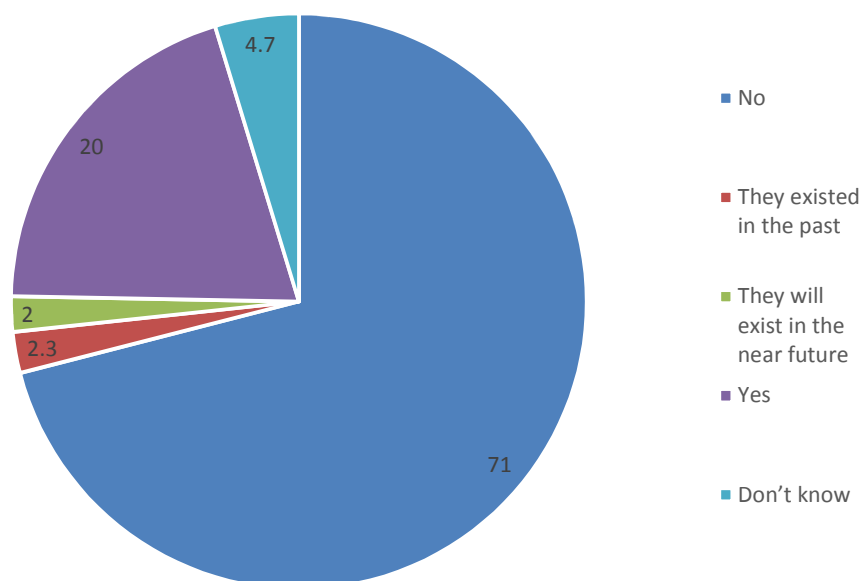
<sup>64</sup> [World Bank World Governance Indicators.](#)

<sup>65</sup> [World Economic Forum Global Competitiveness report.](#)

<sup>66</sup> Ibid.

instance, especially in the hospitality industry, regulation does not prevent price dumping which negatively affects competition among hotels.

**Graph 39:** Do monopolies or monopolistic practices exist in your sector?<sup>67</sup>

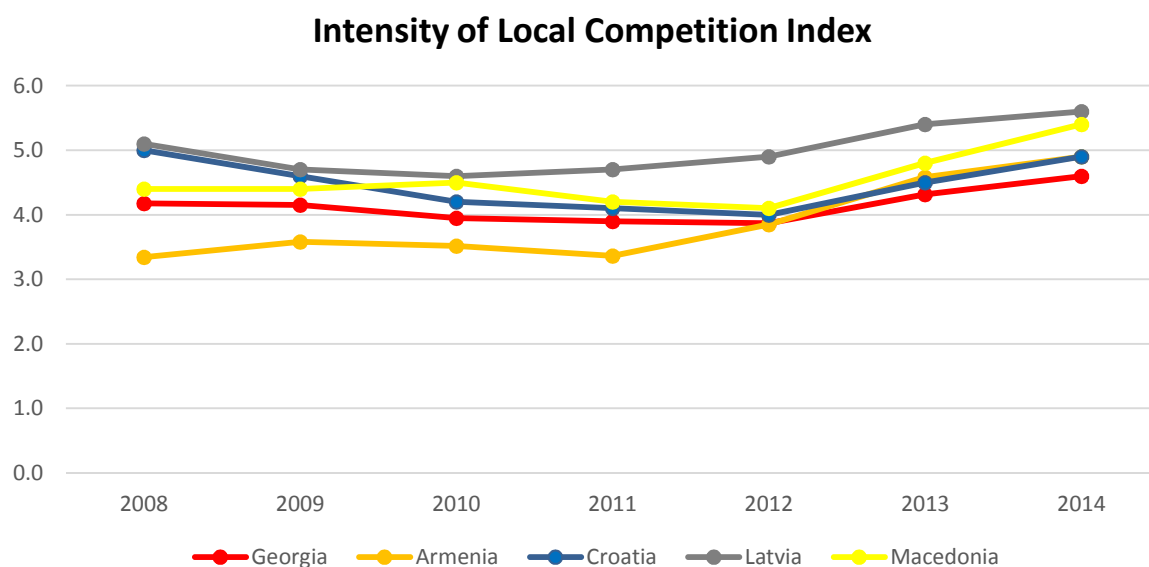


Based on the survey findings, 71% of companies think that monopolies or monopolistic practices do not exist in their sector while 24.3% of the companies say the opposite.

One of the indicators that measures competition is the Intensity of Local Competition Index. The Intensity of Local Competition Index is based on the survey data drawn from the following questions: “Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)”. The available data show that Georgia’s score was lower than average (4.6) in 2014 which is the worst compared to the countries analysed in the report.

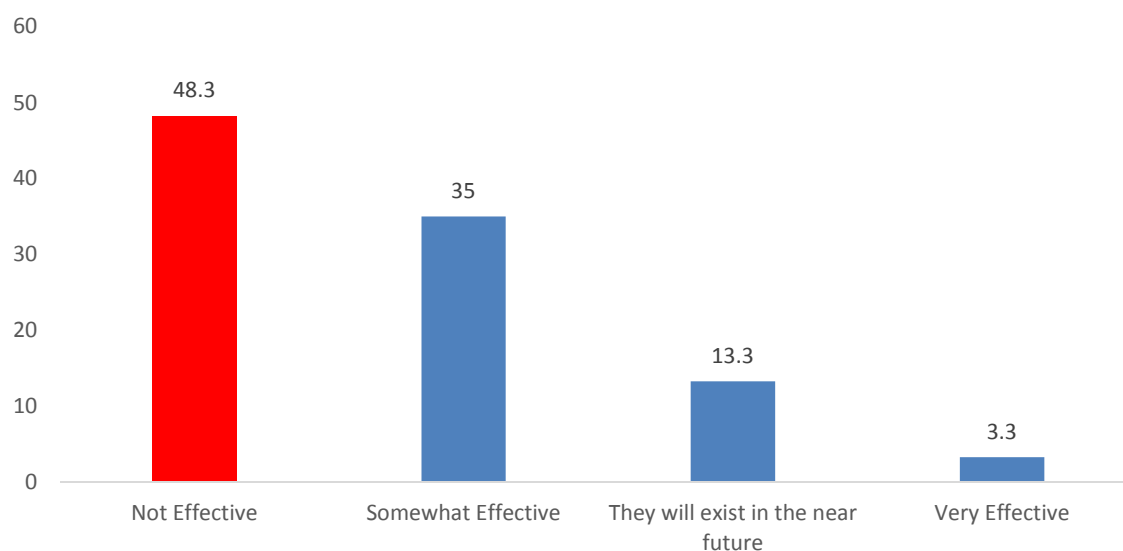
<sup>67</sup> Source: Georgia EESE survey 2015.

**Graph 40:** Intensity of Local Competition Index<sup>68</sup>



The previous graph shows that monopolistic practices do exist in Georgia. An important tool to deal with it is the existence of anti-trust legislation. 48.3% of companies think that anti-trust legislation is not effective compared to 38.3% of companies believing that anti-trust legislation is effective along with only 3.3% of them saying that anti-trust legislation is very effective.

**Graph 41:** If so, how effective has anti-trust legislation been in breaking them up?<sup>69</sup>



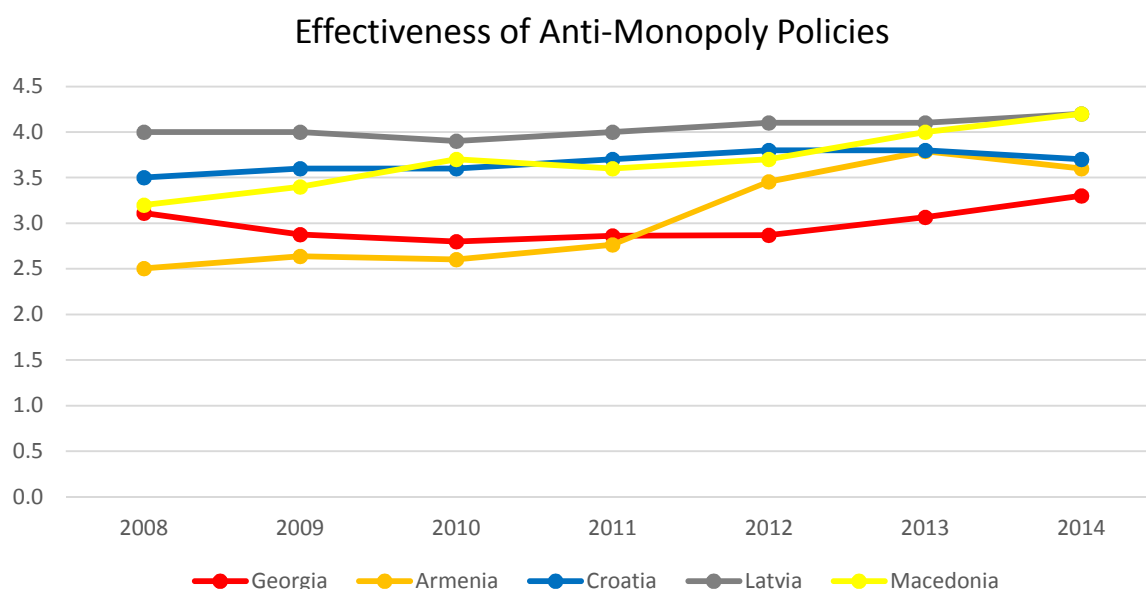
The survey results coincide with the secondary data. The Effectiveness of Anti-Monopoly Policies Index is based on annual survey data. The respondents are asked to rate the effectiveness of anti-monopoly policy in their country: “Antimonopoly policy in your country is (1 = lax and not effective at promoting competition, 7= effective and promotes competition)”.

<sup>68</sup> Source: World Economic Forum Executive Opinion Survey, the Global Competitiveness Report.

<sup>69</sup> Source: Georgia EESE survey 2015.

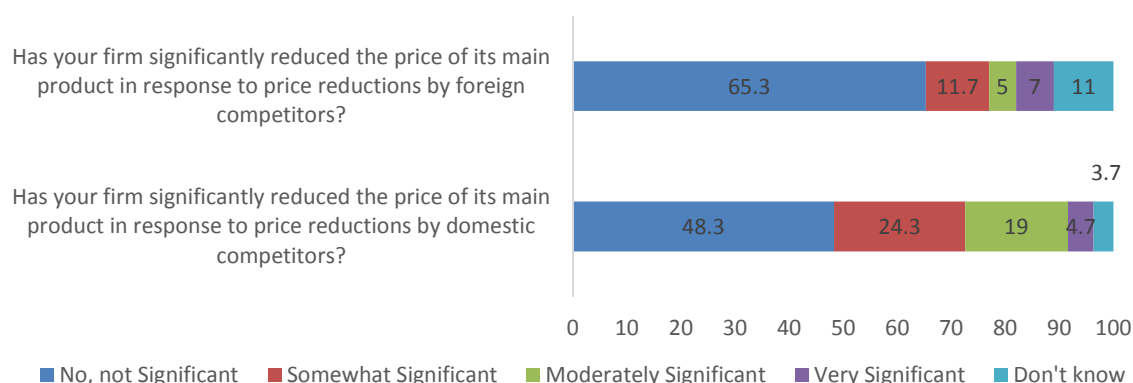
According to this indicator, Georgia, in 2014, with a score of 3.3 still lags behind Armenia, Croatia, Latvia and Macedonia. On the other hand, bearing in mind all the reforms and improvements in the economy in other domains, little progress has been made in this domain if compared to the 2008 score (the same score as in 2013). As only a small growth was achieved in 2014, putting more efforts on Anti-Monopoly Policies measures is called for.

**Graph 42:** Effectiveness of Anti-Monopoly Policies index<sup>70</sup>



Georgian companies are aware that the pressure by competitors forces firms to continuously innovate. More than 88% of companies agree with this and only 6.7% have a different opinion. An open economy that attracts foreign direct investors puts greater pressure on domestic companies. Still, the majority of Georgian companies did not reduce prices of their main products in response to price reductions by both domestic and foreign competitors. Only 7% of the companies reduced prices very significantly due to the pressure of foreign investments.

**Graph 43:** Has your firm significantly reduced the price of its main product in response to price reductions by foreign/domestic competitors?<sup>71</sup>



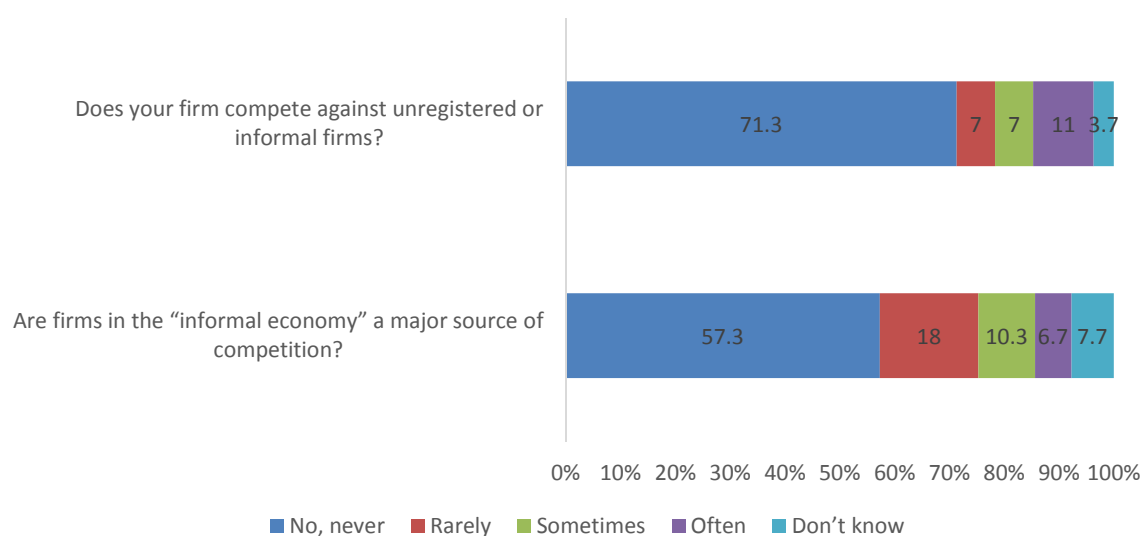
<sup>70</sup> Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

<sup>71</sup> Source: Georgia EESE survey 2015.

Although policies to decrease the level of informal economy and monopolistic practices were implemented, Georgia still needs further actions in this regard. Companies in Georgia also have big concerns over some political factors that negatively influence commercial activity. According to the findings of the EESE survey, 57.7% of companies think that there are political factors at play that negatively influence commercial activity.

Also, participants at focus groups meetings pointed out the existence of informal economy and informal competitors in some sectors. Based on some studies, the share of informal economy in Georgia is approximately 20-30% of GDP. Such situation puts formal tax-paying companies into an uneven playing field. This is partly confirmed by the survey where 25% of the companies consider informal economy a major source of competition, compared to 57.3% of companies that do not.

**Graph 44:** Competition against unregistered or informal firms?<sup>72</sup>



Only 5% of companies use informal suppliers or subcontractors, whereas 95% of companies do not use any informal suppliers or subcontractors. Decisive factors for cooperation with informal suppliers or subcontractors identified by respondents are price and quality level.

The available data reveal that Georgia still needs to make strong efforts to achieve fair competition. The critical factors that are still not adequately developed are anti-monopoly measures and activities aimed at tackling the informal economy. Legislation should be implemented in a way to be non-selective and equally applied.

<sup>72</sup> Source: Georgia EESE survey 2015.

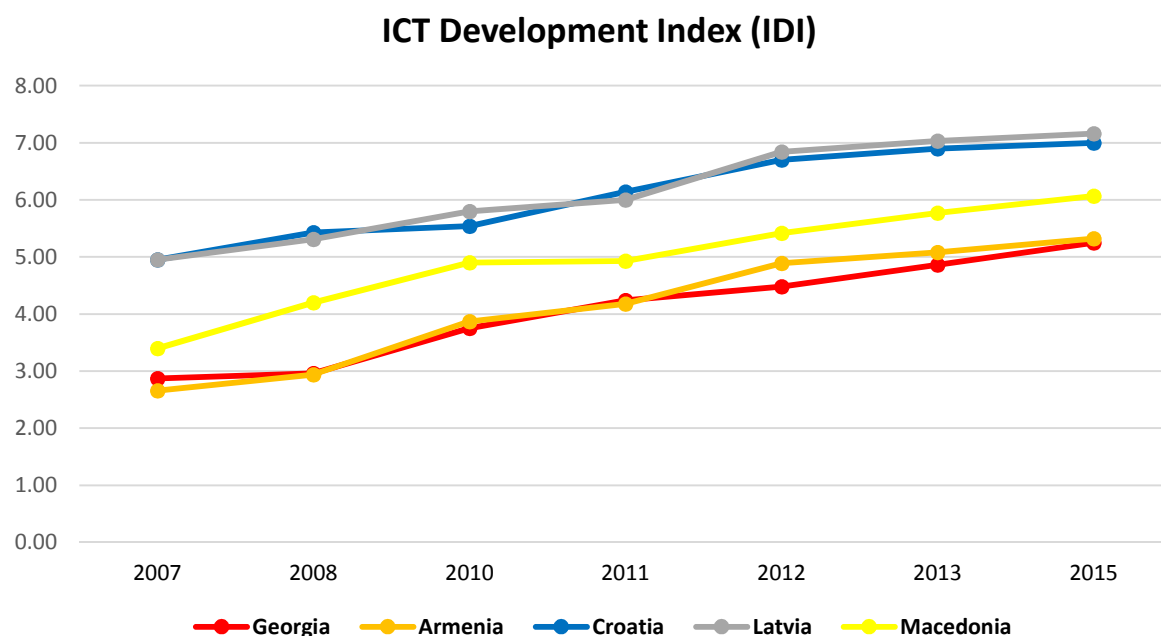


Key Indicators						
<b>Intensity of local competition index</b>  Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)".		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	3.9	3.9	3.9	4.3	4.6
	<b>Croatia</b>	4.2	4.1	4.0	4.5	4.9
	<b>Armenia</b>	3.5	3.4	3.8	4.6	4.9
	<b>Latvia</b>	4.6	4.7	4.9	5.4	5.6
	<b>Macedonia</b>	4.5	4.2	4.1	4.8	5.4
	1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership.					
<b>Effectiveness of anti-monopoly policies</b>  Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)".		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	2.8	2.9	2.9	3.1	3.3
	<b>Croatia</b>	3.6	3.7	3.8	3.8	3.7
	<b>Armenia</b>	2.6	2.8	3.5	3.8	3.6
	<b>Latvia</b>	3.9	4.0	4.1	4.1	4.2
	<b>Macedonia</b>	3.7	3.6	3.7	4.0	4.2
	1=lax and not effective at promoting competition, 7=effective and promotes competition.					
<b>Extent of market dominance index</b>  Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".		<b>GC 2010/ 11</b>	<b>GC 2011/ 12</b>	<b>GC 2012/1 3</b>	<b>GC 2013/ 14</b>	<b>GC 201 4/15</b>
	<b>Georgia</b>	3.2	3.2	3.2	3.2	3.3
	<b>Croatia</b>	3.0	3.1	3.2	3.3	3.3
	<b>Armenia</b>	2.8	2.7	3.4	3.7	3.5
	<b>Latvia</b>	3.7	3.7	4.0	3.9	3.8
	<b>Macedonia</b>	3.4	3.4	3.4	3.5	3.7
	1=dominated by a few business groups, 7=spread among many firms.					

### 3.6. Information and communication technologies

With the continuing shift towards knowledge based economies, the use of information and communication technologies is fundamental to the development of sustainable enterprises. Affordable access to information technology (ICT) enhances competitiveness and innovation. All countries that want to increase their competitiveness on the market need to invest in ICT and foster an ICT culture both at company and household levels to increase the usage of ICT in all segments of the community.

**Graph 45: ICT Development Index**<sup>73</sup>



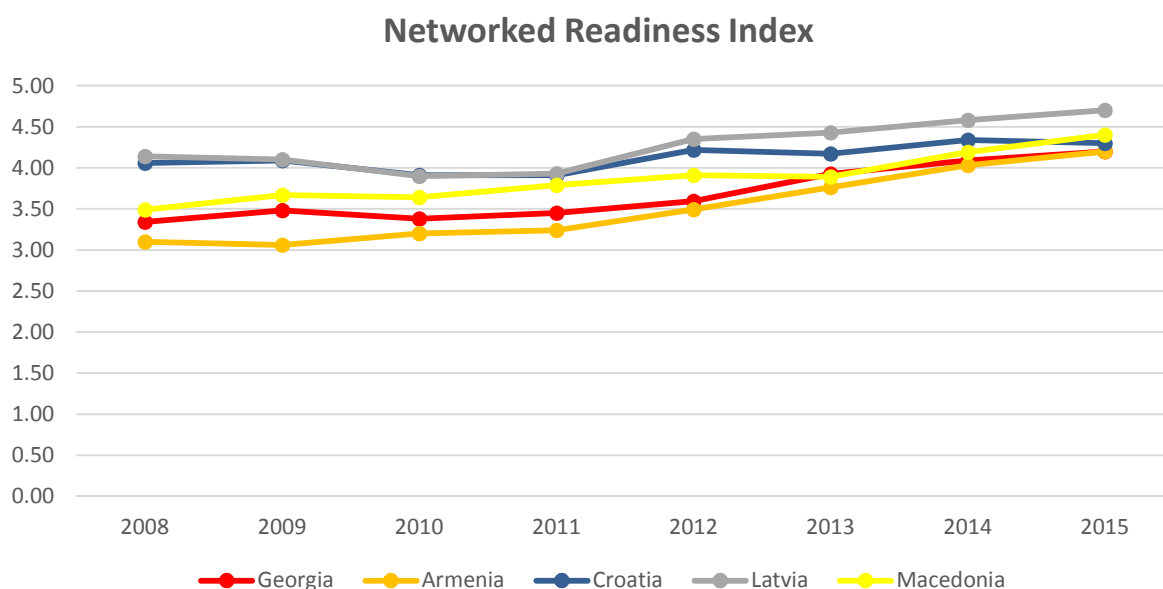
The ICT Development Index compares developments in information and communication technologies (ICT) in 154 countries over a six-year period from 2007 to 2015. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer, the number of Internet users and literacy levels. Measures of this indicator are on a scale from 1 to 10, with lower scores reflecting lower development levels. The ICT Development Index in Georgia records progress from year to year. From 2002-2015 the value of the indicator grew from 2.13 to 5.25. Although the value of the indicator had been improving from year to year, the state of affairs is still far from satisfactory. Georgia is out-performed by all countries used for comparison.

One of the problems related to ICT development in Georgia identified by focus groups participants is that the quality of the services provided by operators does not correspond to the price paid by users. The employers' opinion is that the services in this area are quite expensive. Also, the coverage is quite a concern simply because of the fact that in some parts of the country Internet is not available.

The Networked Readiness Index (NRI) measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indices that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.

<sup>73</sup> Source: International Telecommunication Union.

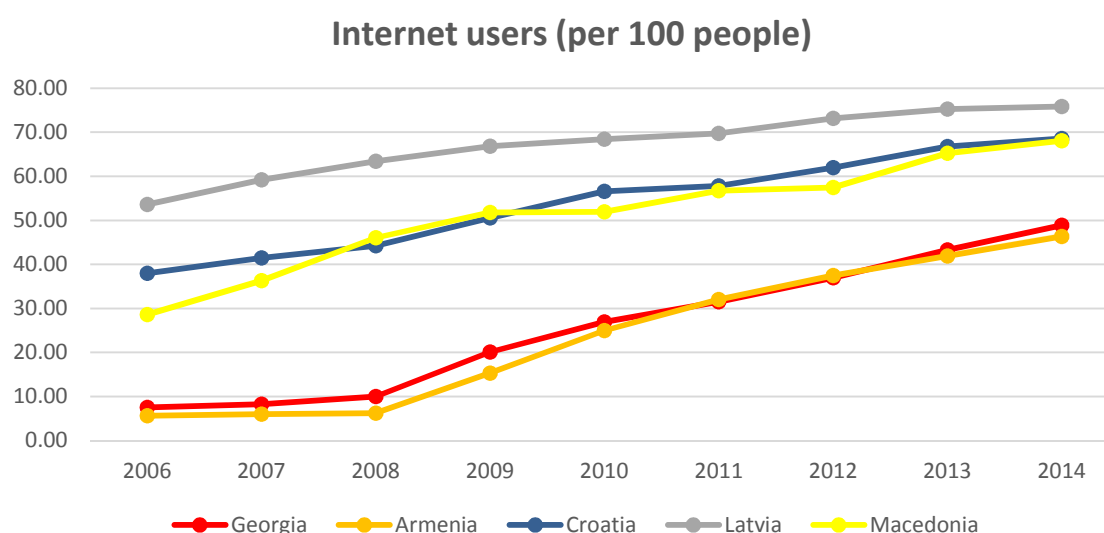
**Graph 46:** Networked Readiness Index<sup>74</sup>



In relation to the Networked Readiness Index there are no substantial differences between the compared countries, with Armenia and Georgia at the bottom of the list. The current value of this indicator in Georgia is 4.2, the same in Armenia, while in Latvia it was 4.7.

The most important indicators for development of ICT in a country are the number of Internet users and the number of mobile and fixed-telephone subscriptions. Georgia performs moderately in almost all mentioned indicators. According to World Economic Forum's Global Information Technology Report, approximately 48.9% of Georgia citizens use the internet.

**Graph 47:** Internet users (per 100 habitants)<sup>75</sup>



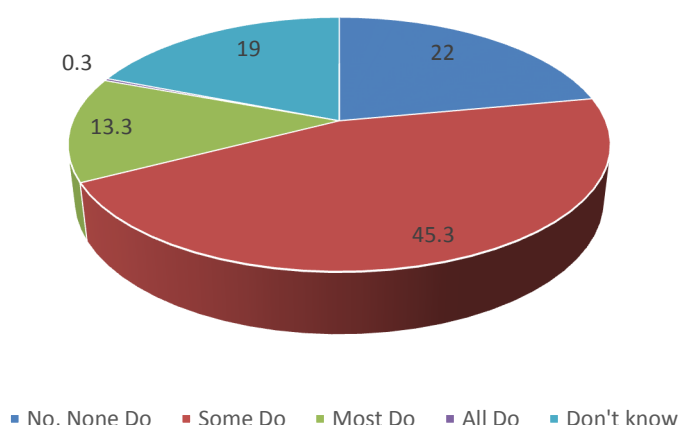
<sup>74</sup> Source: World Economic Forum, The Global Information Technology Report.

<sup>75</sup> Source: International Telecommunication Union.

The Government of Georgia has set the following priorities in ICT development for the following period: 1) the creation of new information and communication spaces through Georgia to Europe and Asia; 2) the projection and construction of a digital broadcast network; 3) the creation of both an ICT technology park and an ICT business incubator; 4) the availability of high speed internet for everyone; 5) the construction of a national infrastructure super highway; 6) the creation of a normative base; and 7) the development of a system for electronic commerce.

Positive shifts in the development of the ICT sector in Georgia are evident over the several past years. But having in mind that ICT development has to be followed by the investments of companies in research and development, Georgia should strive towards improvements in this direction. Based on the EESE survey findings, 58.6% of respondents say that companies invest in R&D. On the other hand, only a very small number of respondents think that all companies invest in R&D (only 0.7%). In addition, 22% of the companies are totally sure that companies in Georgia do not invest in R&D, while 25.3% of companies say there is no specific government assistance for firms willing to invest in research and development. It is therefore recommended that in the following period cooperation between the private sector, Government and universities is improved for ICT development to be intensified. The changing role of ICT can only be properly utilized through the engagement of all stakeholders in the country.

**Graph 48:** Do firms engage in research and development?<sup>76</sup>



Key Indicators							
ICT Development Index (IDI)		2007	2008	2010	2011	2012	2013
IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer the number of Internet users; and literacy levels.	Georgia	2.87	2.96	3.75	4.24	4.48	4.86
	Croatia	4.95	5.43	5.54	6.14	6.70	6.90
	Armenia	2.66	2.94	3.87	4.18	4.89	5.08
	Latvia	4.95	5.31	5.80	6.00	6.84	7.03
	Macedonia	3.40	4.20	4.90	4.93	5.42	5.77
Scale from 1 to 10, with lower scores reflecting lower development levels.							

<sup>76</sup> Source: Georgia EESE survey 2015.

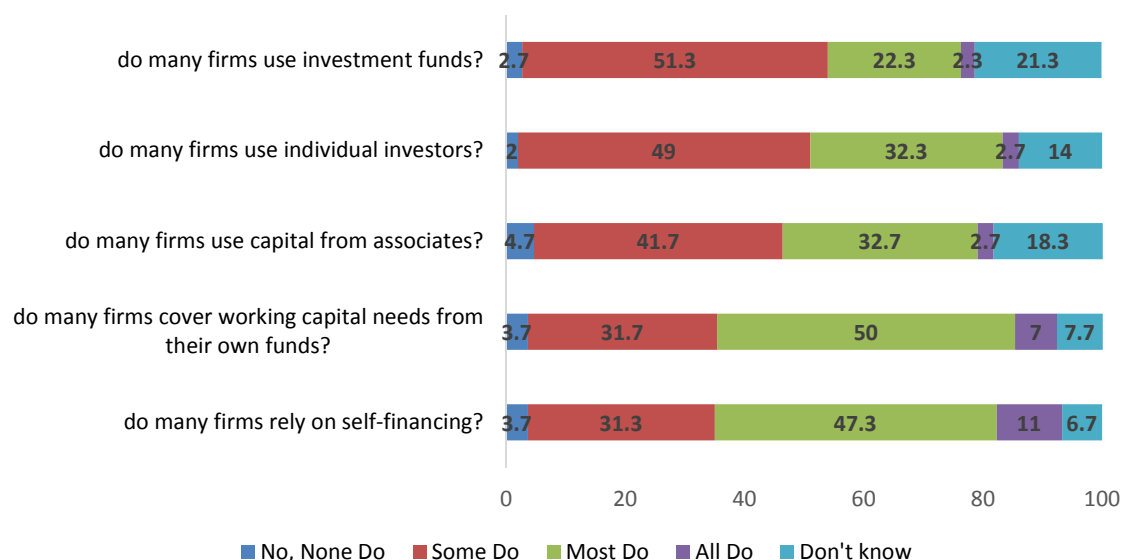
<b>Networked Readiness Index</b> The NRI measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indexes that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<b>Georgia</b>	3.38	3.45	3.60	3.93	4.09	4.2
	<b>Croatia</b>	3.91	3.91	4.22	4.17	4.34	4.3
	<b>Armenia</b>	3.20	3.24	3.49	3.76	4.03	4.2
	<b>Latvia</b>	3.90	3.93	4.35	4.43	4.58	4.7
	<b>Macedonia</b>	3.64	3.79	3.91	3.89	4.19	4.4
	Scale of 1 to 7, with higher scores reflecting a better readiness to utilize the opportunities created by ICT.						
<b>Internet users (per 100 people)</b> The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	20.07	26.90	31.52	36.94	43.30	48.90
	<b>Croatia</b>	50.58	56.55	57.79	61.94	66.75	68.57
	<b>Armenia</b>	15.30	25.00	32.00	37.50	41.90	46.30
	<b>Latvia</b>	66.84	68.42	69.75	73.12	75.23	75.83
	<b>Macedonia</b>	51.77	51.90	56.70	57.45	65.24	68.06
	Percentage of individuals using the internet.						
<b>Fixed-telephone subscriptions (per 100 inhabitants)</b> Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	14.09	25.34	30.65	29.27	27.65	25.39
	<b>Croatia</b>	42.74	43.01	42.74	40.48	38.89	36.72
	<b>Armenia</b>	20.21	19.99	19.80	19.66	19.43	18.92
	<b>Latvia</b>	26.59	25.45	24.90	23.11	20.63	18.96
	<b>Macedonia</b>	20.82	19.65	20.06	19.39	18.82	18.62
	Number of subscribers per 100 people.						
<b>Mobile-cellular telephone subscriptions (per 100 inhabitants)</b> Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	64.46	90.65	101.28	107.81	115.03	124.94
	<b>Croatia</b>	107.47	113.61	118.30	115.41	110.05	104.43
	<b>Armenia</b>	73.83	130.43	108.34	111.91	112.42	115.92
	<b>Latvia</b>	109.05	110.31	111.36	127.69	124.76	124.20
	<b>Macedonia</b>	92.51	102.44	105.20	106.17	106.17	109.10
	Number of subscribers per 100 people.						
<b>Fixed (wired)-broadband subscriptions (per 100 inhabitants)</b> Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	3.41	4.16	5.68	10.62	11.91	12.15
	<b>Croatia</b>	16.49	19.31	20.65	21.34	22.26	23.04
	<b>Armenia</b>	-	3.16	5.42	7.14	8.17	9.13
	<b>Latvia</b>	21.53	20.80	22.06	-	24.19	24.74
	<b>Macedonia</b>	11.08	12.31	13.38	14.83	16.06	16.19
	Number of subscribers per 100 people.						

### 3.7. Access to financial services

One of the key factors for the development of an economy and its companies is the existence of good and affordable financial services. This is of special importance for all kinds of companies, regardless of their size or the sector they operate in. The financial sector is important for the promotion and encouragement of new companies but also to support existing companies to increase production and exports of their products and services. Sources of financing are often one of the main barriers for existing and potential entrepreneurs in most countries. A good financial system does not only include affordable interest rates but other factors as well, such as collateral and grace periods just to name a few.

At focus groups meetings, access to financial services was identified as one of the greatest obstacles to the development of companies in Georgia. Sources of finance and sector-oriented credit lines are the greatest concerns of companies in Georgia. The banking sector provides very expensive credit lines (with 15% to 36% annual interest rates). Another significant problem is that the loans are given in USD and not in local currency, because of Lari instability, which in return results in the value and expenses of credits to vary every day. Focus groups participants recognized leasing as a problem, too. Interest rates are high again.

**Graph 49:** Sources of financing?<sup>77</sup>

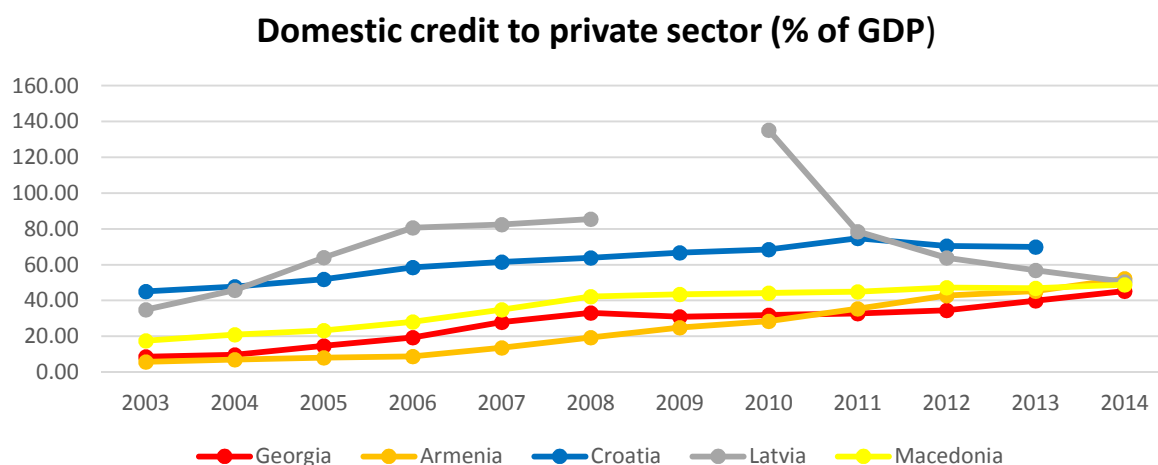


Based on survey findings, self-financing is the main source of finance for companies. In total, 89.6% of respondents think that companies rely on self-financing in their daily operations, whereby 11% of companies think that it is practiced by all companies while 47.3% think that most companies do that. Half of the companies in Georgia state that the majority of companies cover working capital needs from their own funds compared to 32.7% of companies believing that many companies use individual investors' funds for daily operations. The main sources of finance are provided by banks (92%), credit unions (2.3%) and leasing firms (2.7%).

This is confirmed by the indicator of Domestic Credit to Private Sector (% of GDP). It refers to financial resources provided to the private sector, such as loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment.

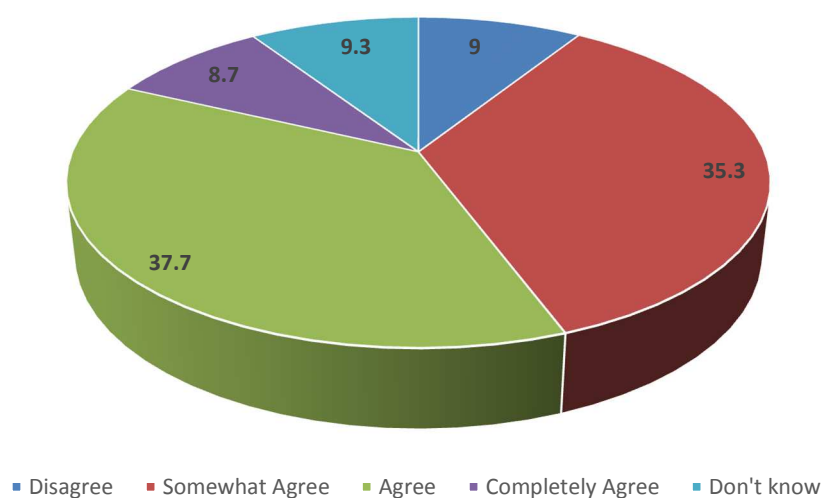
<sup>77</sup> Source: Georgia EESE survey 2015.

**Graph 50:** Domestic credits to private sector<sup>78</sup>



According to the latest available data, the share of domestic credit to the private sector as a percentage of GDP is the highest in Armenia and the lowest in Georgia, Latvia and Macedonia. This indicator shows that credits to private sector are lowest in Georgia which indicates low level of banking activities to the private sector in this country. This is not a favourable situation for private sector development.

**Graph 51:** To what extent do you agree with the statement “information about financial services is well disseminated among the business sector”?<sup>79</sup>



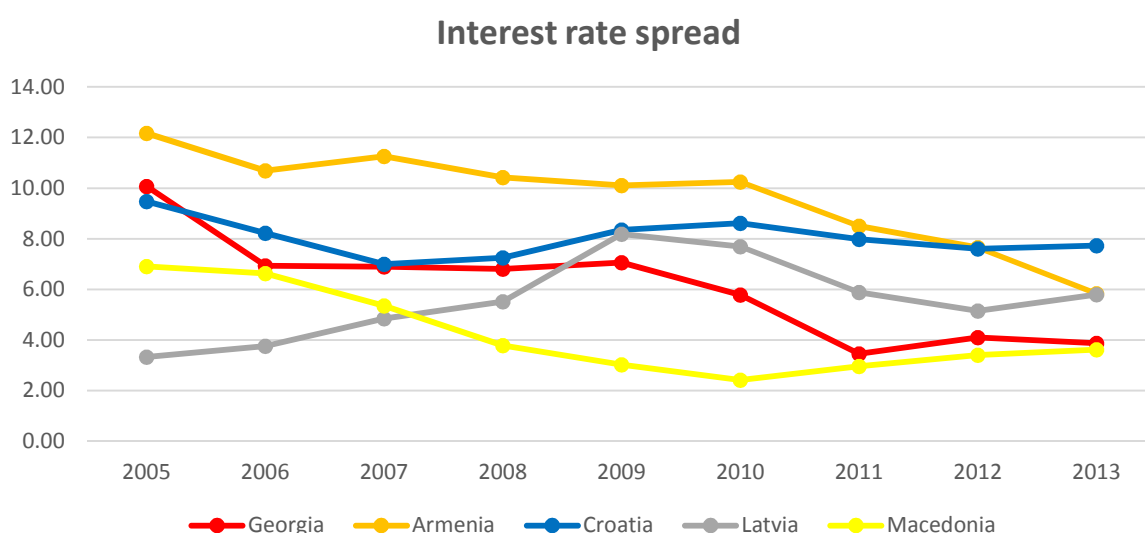
Based on information received at focus groups meetings, communication between the financial sector and companies in Georgia is obscure so information about financial products is not well disseminated to companies in Georgia. This might lead to the conclusion that financial products might be available but are currently unknown to enterprises.

<sup>78</sup> Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

<sup>79</sup> Source: Georgia EESE survey 2015.

The Credit Information Index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. Georgia scored 8 in 2014, meaning that information about financial products was well disseminated. This is also confirmed by the survey findings whereby only 9% of surveyed companies stated that information about financial products is not well disseminated among the business sector.

**Graph 52:** Interest rate spread<sup>80</sup>

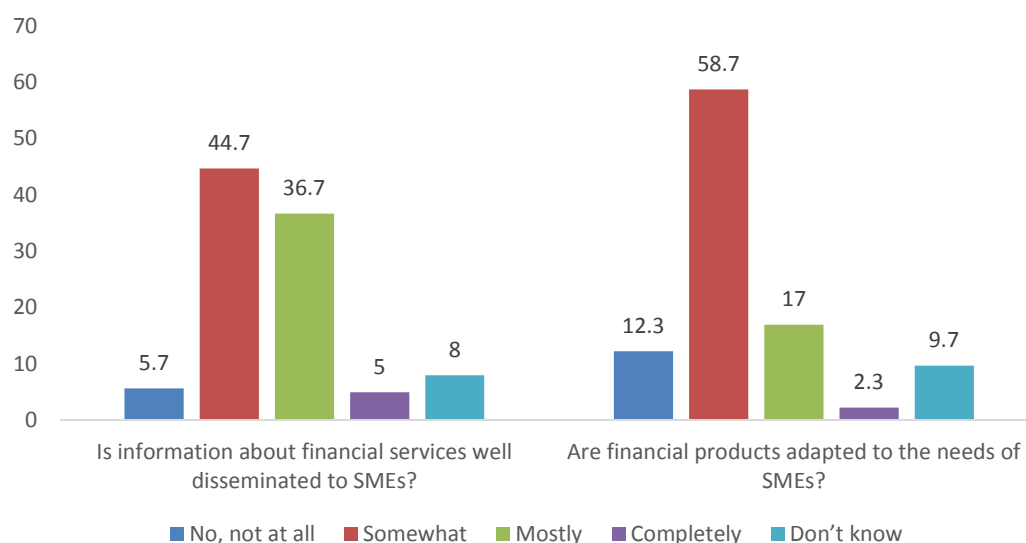


The Interest Rate Spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. The value of this indicator for Georgia is 3.48% and thus is lower than in all other countries analysed in the report.

<sup>80</sup> International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online).

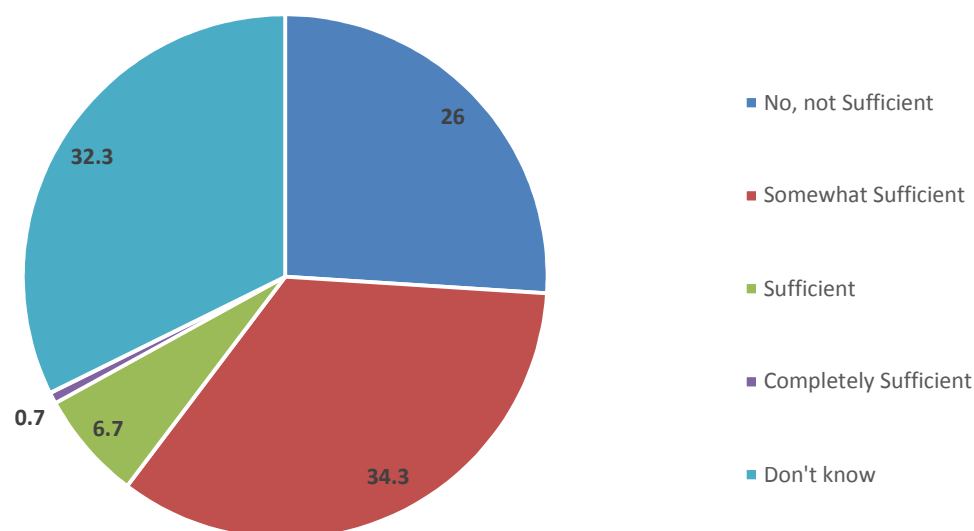


**Graph 53:** Have financial products been adapted to the needs of enterprises of differing sizes?<sup>81</sup>



As mentioned before, the interest rate is one of the greatest obstacles for companies in Georgia. In addition, at focus groups meetings companies said that financial products were not adapted to the needs of companies of different sizes in Georgia. Only 2.3% of companies think that financial products are completely adapted to the needs of SMEs. Concerning the dissemination of information about financial products, only 5% of companies said that information was completely well disseminated to SMEs.

**Graph 54:** Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs?<sup>82</sup>

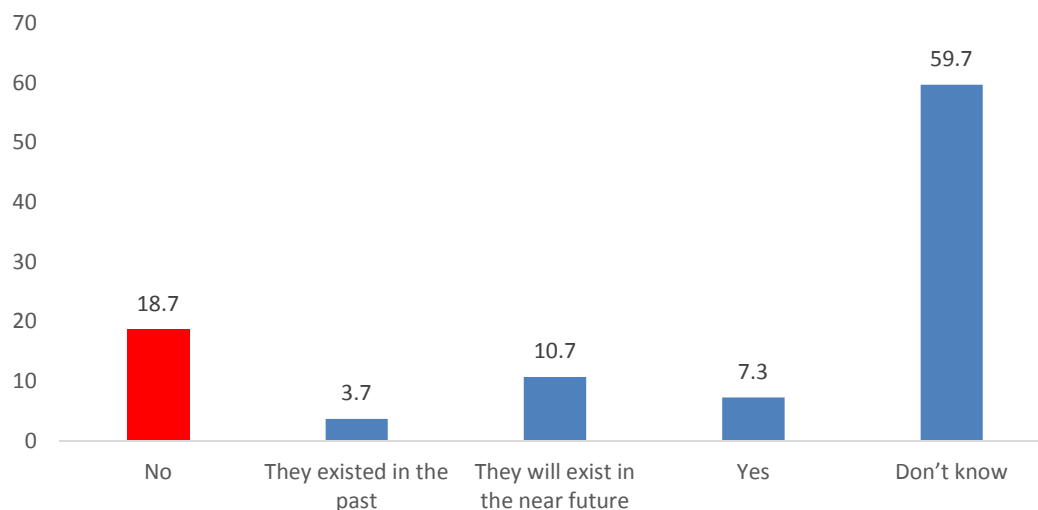


<sup>81</sup> Source: Georgia EESE survey 2015.

<sup>82</sup> Ibid.

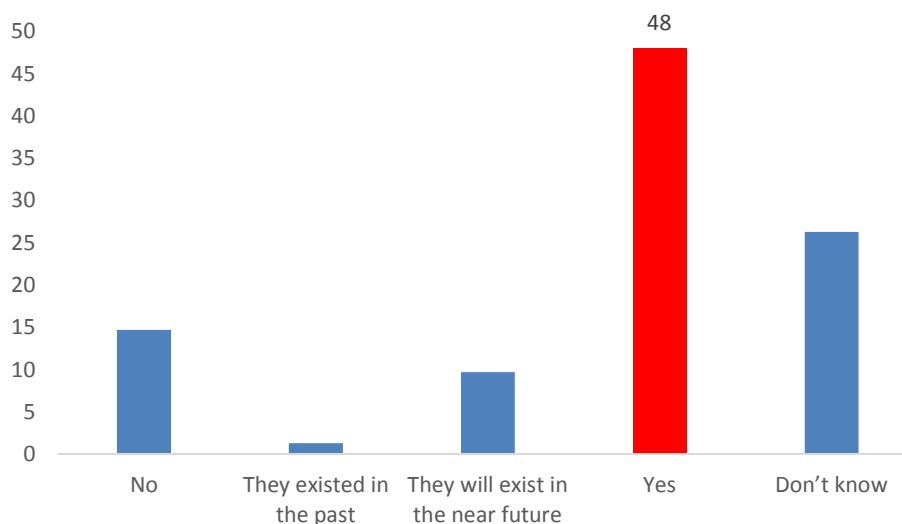
About 26% of companies think that there is no sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs compared to only 0.7% that think policy and regulatory incentives to encourage financial institutions to lend to SMEs are completely sufficient.

**Graph 55:** Are collateral share risk schemes available to firms?<sup>83</sup>



The majority of companies in Georgia do not know if collateral share risk schemes are available to firms (59.7%). 18.7% of the companies say that there is no collateral share risk schemes available for companies and only 7.3% of companies think that such schemes exist. On the other side, most of the companies (52.7%) are confident that enterprises can use their positive credit history as ‘collateral’ to access loans at better rates and seek more competitive terms from different lending institutions compared to 15.3% of companies that think oppositely.

**Graph 56:** Are affordable financial products and services available that enterprises need at each stage of their evolution?<sup>84</sup>



<sup>83</sup> Source: Georgia EESE survey 2015.

<sup>84</sup> Ibid.

Overall, financial products in Georgia are not harmonized with the needs of all companies. Other than the interest rate, companies concerns are related to the lack of well disseminated information about financial products and the lack of financial products in each stage of companies' development.

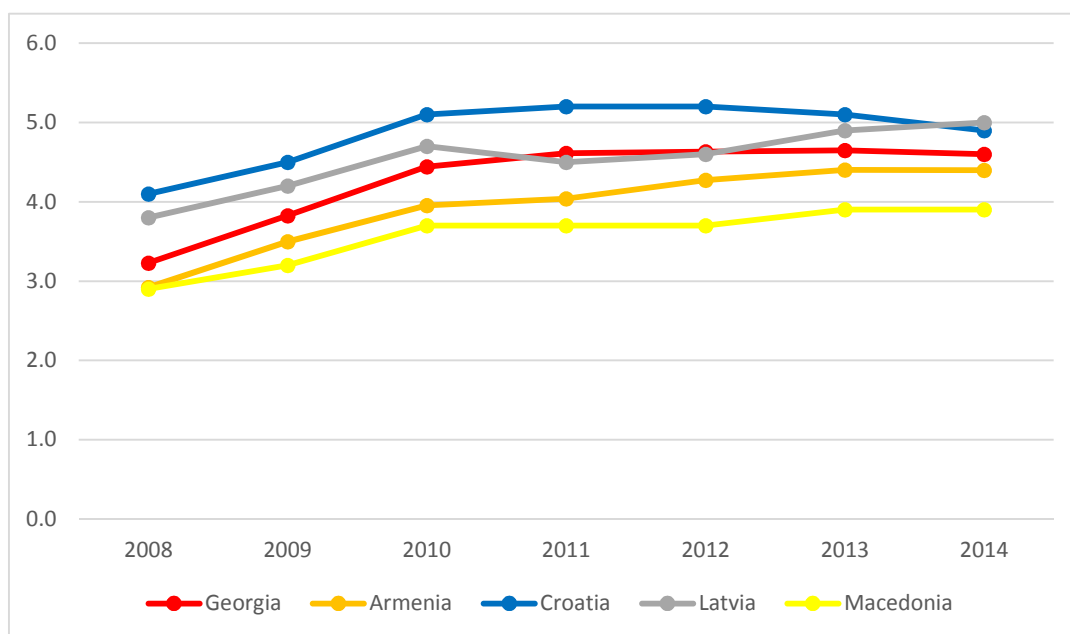
Key Indicators							
<b>Domestic Credit to Private Sector (% of GDP)</b>  Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	30.93	31.81	32.68	34.44	39.85	45.19
	<b>Croatia</b>	66.71	68.44	74.72	70.56	69.87	
	<b>Armenia</b>	24.85	28.45	35.37	42.72	45.18	52.28
	<b>Latvia</b>		135.26	78.46	63.84	56.94	50.41
	<b>Macedonia</b>	43.46	44.22	44.85	47.17	46.88	48.89
	Credit to private sector (% of GDP).						
<b>Credit Depth of Information Index</b>  Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	6	6	6	6	8	8
	<b>Croatia</b>	4	4	5	5	6	6
	<b>Armenia</b>	5	5	6	6	8	8
	<b>Latvia</b>	4	4	4	4	5	5
	<b>Macedonia</b>	4	4	6	6	7	7
	0=less information to 8=more information.						
<b>Interest rate spread</b>  Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits.		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	7.06	5.78	3.46	4.10	3.87	3.48
	<b>Croatia</b>	8.35	8.62	7.99	7.60	7.73	-
	<b>Armenia</b>	10.11	10.25	8.51	7.66	5.83	5.98
	<b>Latvia</b>	8.19	7.69	5.88	5.15	5.80	-
	<b>Macedonia</b>	3.03	2.42	2.96	3.41	3.62	3.76
	Interest rate spread (lending rate minus deposit rate, %).						

### 3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems but also access to water and energy play a pivotal role. All of these factors directly influence business in every country.

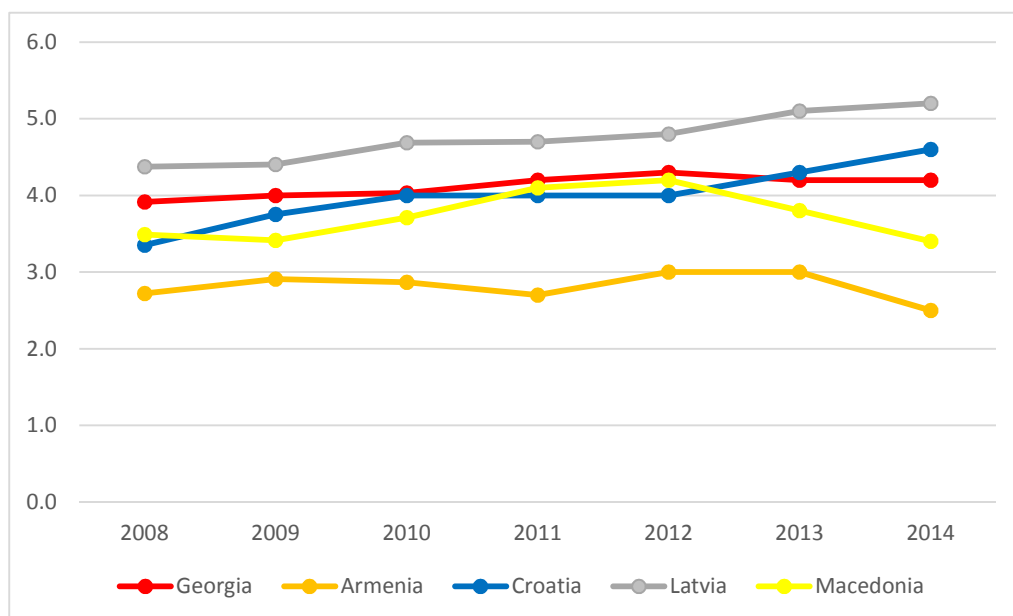
The Quality of Overall Infrastructure Index reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Since 2008, Georgia recorded significant improvements in this area and the value of this indicator was improved year by year. In 2008 the value of this indicator was 3.2 and in 2014 it was 4.6. Compared to other countries, Georgia performs better than Armenia and Macedonia but is outperformed by Croatia and Latvia.

**Graph 57: Quality of Overall Infrastructure Index<sup>85</sup>**



The Quality of Port Infrastructure Index reflects the level of development of port facilities and inland waterways on a range from 1 to 7 with higher values indicating better development. According to latest available data from 2014, the value of this indicator for Georgia was 4.2 and it placed Georgia in the middle when compared to other countries considered in this report.

**Graph 58: Quality of Port Infrastructure Index<sup>86</sup>**



Along with overall infrastructure and specifically port infrastructure Georgia needs to have a good road infrastructure in order to become a transit country for the region. According to Georgian

<sup>85</sup> Source: World Economic Forum, The Global Competitiveness Report.

<sup>86</sup> Ibid.

employers, the condition of roads is quite good but there are some problems in the management (maintenance) of the roads. This is recognized as one of the priorities of the Georgian Government as well. Namely, Government priority measures for private sector development in this domain include developing the infrastructure and fully realizing the country's transit potential.<sup>87</sup> According to the Ministry of Development and Infrastructure, road infrastructure is rapidly developing throughout Georgia. The Government spent 501,226,113 USD for the development of road infrastructure in the last two years. In 2015, planned expenses for the same purpose were 267,190,476 USD. There are 1,500 km of international roads and 20,000 km of other roads in Georgia. In 2013 and 2014 289,523,938 USD were spent for the construction of highways. In 2015 the expenditure is planned to be 165,476,190 USD. In this respect, 125 km of new east-west highway were constructed; with another 100 km being an on-going project.<sup>88</sup>

*“There are some road taxes that increase price of each transportation through Georgia, which is not good because of the fact that Georgia can be a transit country” – from the focus group discussion.*

Employers also mentioned problems in the energy sector. The high energy price is considered the biggest problem in Georgia. This is a significant factor in pricing other products. Based on last available data, Electric Power Consumption (kWh per capita) in Georgia was 1934.66 in 2012.

Key Indicators							
Electric power consumption (kWh per capita)		2007	2008	2009	2010	2011	2012
		2007	2008	2009	2010	2011	2012
Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution, and transformation losses and own use by heat and power plants.	Georgia	1609.70	1651.76	1585.16	1742.95	1917.99	1934.66
	Croatia	3737.60	3878.00	3711.61	3813.68	3900.60	3819.28
	Armenia	1739.20	1630.23	1616.49	1676.06	1754.65	1837.94
	Latvia	3169.08	3213.12	3026.61	3229.95	3264.54	3588.42
	Macedonia	3567.65	3621.17	3370.06	3520.57	3824.82	3626.09
	kWh per capita.						
Improved water source (% of population with access)		2007	2008	2009	2010	2011	2012
		2007	2008	2009	2010	2011	2012
Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 liters a person a day from a source within one kilometer of the dwelling.	Georgia	94.9	95.7	96.5	97.3	98.1	98.7
	Croatia	98.5	98.5	98.5	98.5	98.5	98.6
	Armenia	96.7	97.3	98.0	98.6	99.2	99.8
	Latvia	98.4	98.4	98.4	98.4	98.4	98.4
	Macedonia	99.3	99.4	99.4	99.4	99.4	99.4
	% of population with access.						

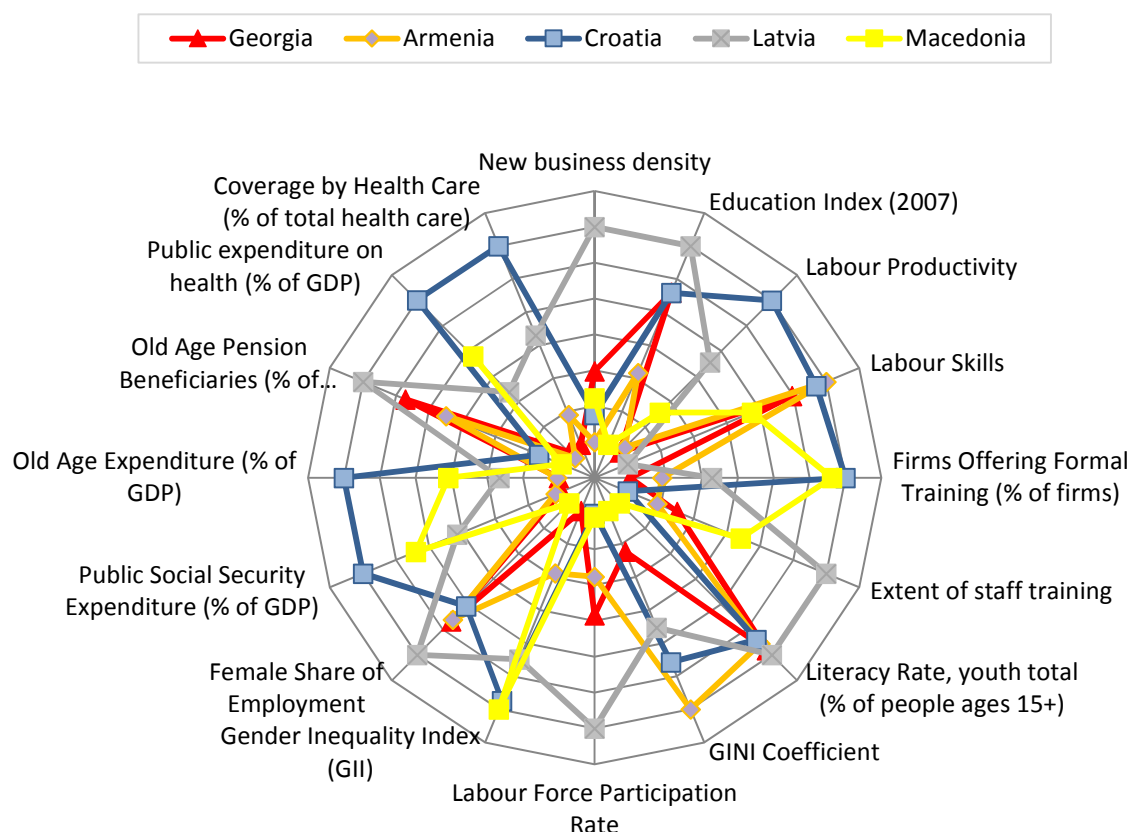
<sup>87</sup> Source: Government of Georgia, Socio-Economic Development Strategy of Georgia – Georgia 2020.

<sup>88</sup> Source: [www.investinggeorgia.org](http://www.investinggeorgia.org)

<b>Quality of Overall Infrastructure Index</b>		<b>2009/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>	<b>13/14</b>	<b>14/15</b>
Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution, and transformation losses and own use by heat and power plants.	<b>Georgia</b>	3.8	4.4	4.6	4.6	4.6	4.6
	<b>Croatia</b>	4.5	5.1	5.2	5.2	5.1	4.9
	<b>Armenia</b>	3.5	4.0	4.0	4.3	4.4	4.4
	<b>Latvia</b>	4.2	4.7	4.5	4.6	4.9	5.0
	<b>Macedonia</b>	3.2	3.7	3.7	3.7	3.9	3.9
	1 = underdeveloped, 7= as extensive and efficient as the world's best.						
<b>Quality of Port Infrastructure Index</b>		<b>09/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>	<b>13/14</b>	<b>14/15</b>
Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7= as developed as the world's best. For landlocked countries this measures the ease of access to port facilities and inland waterways".	<b>Georgia</b>	3.9	4.0	4.0	4.2	4.3	4.2
	<b>Croatia</b>	3.4	3.8	4.0	4.0	4.0	4.3
	<b>Armenia</b>	2.7	2.9	2.9	2.7	3.0	3.0
	<b>Latvia</b>	4.4	4.4	4.7	4.7	4.8	5.1
	<b>Macedonia</b>	3.5	3.4	3.7	4.1	4.2	3.8
	1 = underdeveloped, 7= as extensive and efficient as the world's best.						

## 4. Social Elements

**Indicators assessing social elements of an enabling environment for sustainable enterprises\***



\* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Gender inequality has diverse manifestations in Georgia, being deeply embedded in social and cultural attitudes and beliefs. It has been extremely hard for women to be elected to parliament, the supreme legislative body of Georgia.
- Despite some progress being made through legislative initiatives, the number of women in local self-governance bodies has been decreasing with each successive election. In many families, women have taken on the role of breadwinners in spite of having to take on low-paid jobs. This has given them a certain degree of empowerment through some measure of economic independence, but this new situation has done little to alter the traditional gender division of labour and women remain the primary care givers, responsible for the housework and feeding and caring for the children.
- Georgia made significant progress with business registration and in comparison with 189 countries it is on the 18<sup>th</sup> place regarding the indicator of starting up a business.
- Georgia faces three main labour market issues: (a) underutilization of labour resources, (b) earnings inequality, and (c) skills mismatch. All three have a negative impact on poverty as well as the modernisation of the Georgian economy. There is a mismatch between the demand for highly educated workers and their supply.
- Public spending on education is relatively little and in 2014 it was only 1.98% of GDP.
- Skills shortages negatively affect private sector business according to more than 98% of companies and 90.3% of the companies don't have a budget reserved for training of employees.

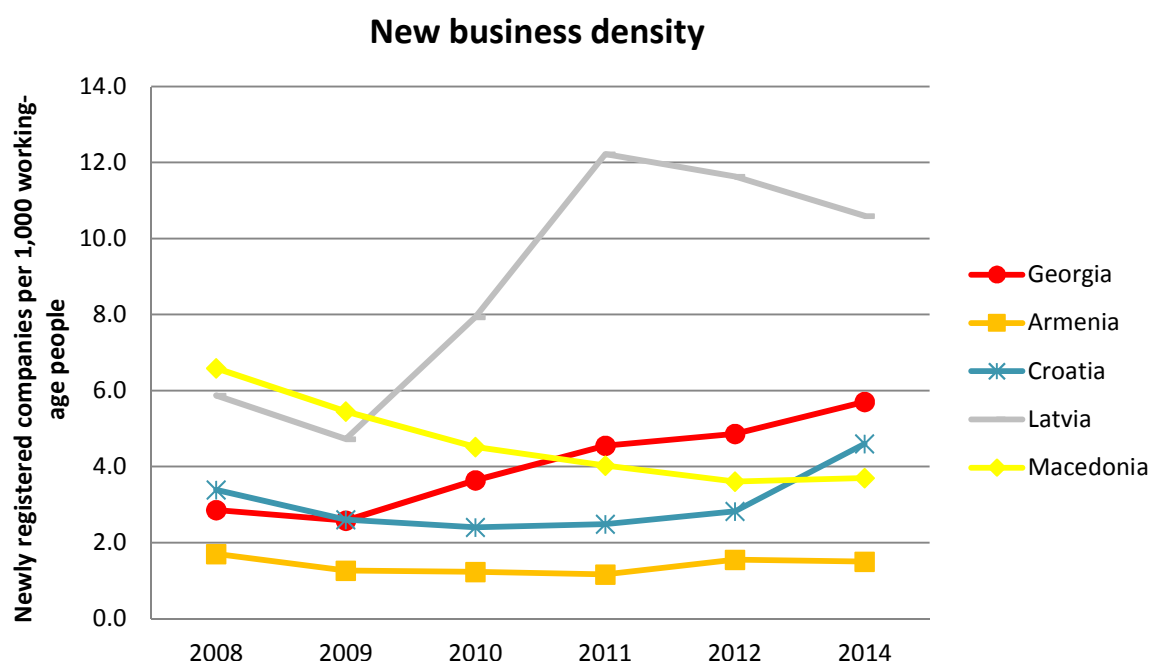
## 4.1. Entrepreneurial culture

One of the most important pillars for the development of society is entrepreneurial culture. Entrepreneurs make big contributions to GDP and in many countries represents the main engine for global economic development.

Based on focus group discussions, the process of opening a company in Georgia is very simple and the costs of opening are not high. Focus group participants say that real problems start after the registration of business because new companies do not have any additional support in the initial years.

*“To open a company is very easy, you can open it in 10-15 minutes, but new companies don’t have any support in the initial period of their operations” – from focus group discussion.*

**Graph 59:** New business density <sup>89</sup>



This indicator shows the number of newly registered limited liability companies per 1,000 working-age people (15-64) in a particular year. Over the past few years, Georgia improved significantly in this area. From 1.4 in 2009, the value of this indicator increased to 5.7 in 2014. This shows the strong orientation towards a more open country, attractive to foreign investors. Compared to other countries in the report, Georgia performs better than Croatia, Armenia and Macedonia and is outperformed only by Latvia.

The ease of establishing a business and promotion of entrepreneurial culture in Georgia started to reform in 2009 when the WB Doing Business report recognized positive steps in this area. In 2009 Georgia made starting a business easier by making the tax authority responsible for state and

<sup>89</sup> Source: World Bank’s Entrepreneurship Survey (World Development Indicators Online).



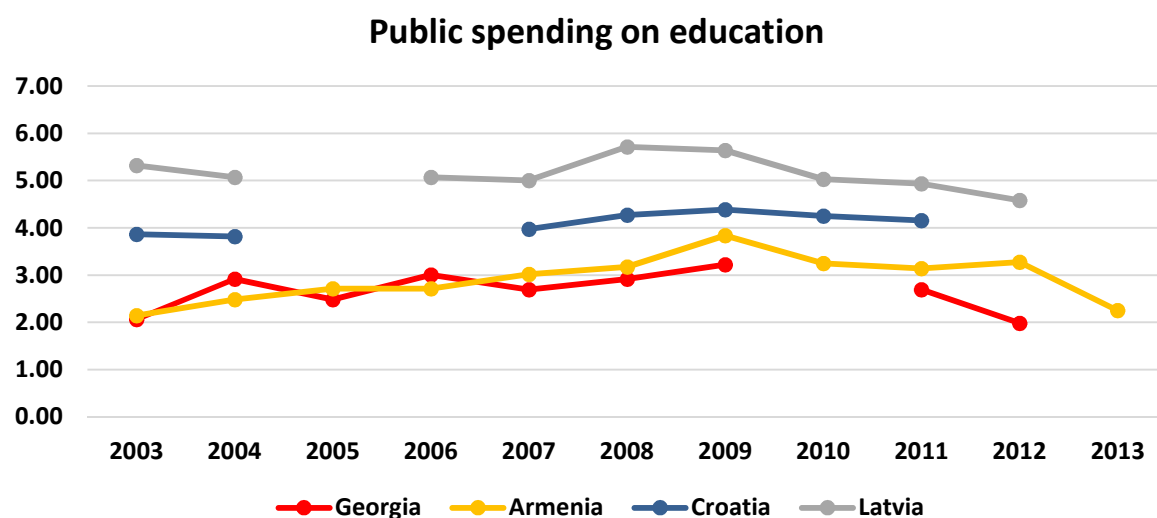
tax registration and eliminating the paid-in minimum capital requirements.<sup>90</sup> Later on Georgia made the next positive step regarding the indicative capital for starting a business and introduced shorter times for tax payment upon establishing a company. This is all recorded in the overall ranking and in the indicator Starting a Business where Georgia ranked 4<sup>th</sup> out of 189 economies in 2015 and 6<sup>th</sup> in 2016.

Key Indicators							
<b>New business density</b>  The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>Georgia</b>	2.32	2.86	2.58	3.64	4.55	4.86
	<b>Croatia</b>	3.61	3.38	2.60	2.40	2.49	2.82
	<b>Armenia</b>	1.76	1.70	1.27	1.23	1.17	1.55
						12.2	11.6
	<b>Latvia</b>	7.76	5.87	4.73	7.94	2	3
	<b>Macedonia</b>	6.37	6.59	5.45	4.51	4.02	3.60
The number of newly registered limited liability companies per 1,000 working-age people.							

## 4.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning are important for helping workers to find good jobs and enterprises to find the skilled workers they require. A well-educated and well skilled workforce is the main strength of every country. On the other hand, in reality, the lack of a well-educated and skilled workforce is often one of the biggest challenges facing countries.

*Graph 60: Public spending on education*<sup>91</sup>



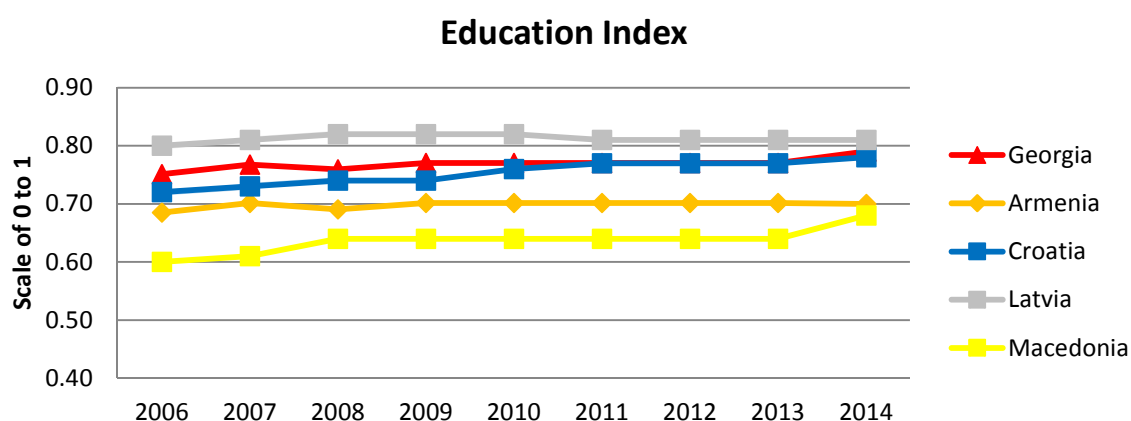
<sup>90</sup> Source: World Bank Doing Business Report - <http://www.doingbusiness.org/reforms/overview/economy/georgia>

<sup>91</sup> Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online).

Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. Last available data for Georgia are from 2012 and not so positive. Georgia is the only country from the analysed that have public spending on education lower than 2% of GDP. In 2012, this share was 1.98%.

The second important indicator is the Education Index. It measures educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of the Adult Literacy Index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross Enrolment Index [0, 100]) (with one-third weighting). Measure of this indicator is on a scale from 0 to 1 where higher values correspond to better performance.

**Graph 61:** Education index<sup>92</sup>



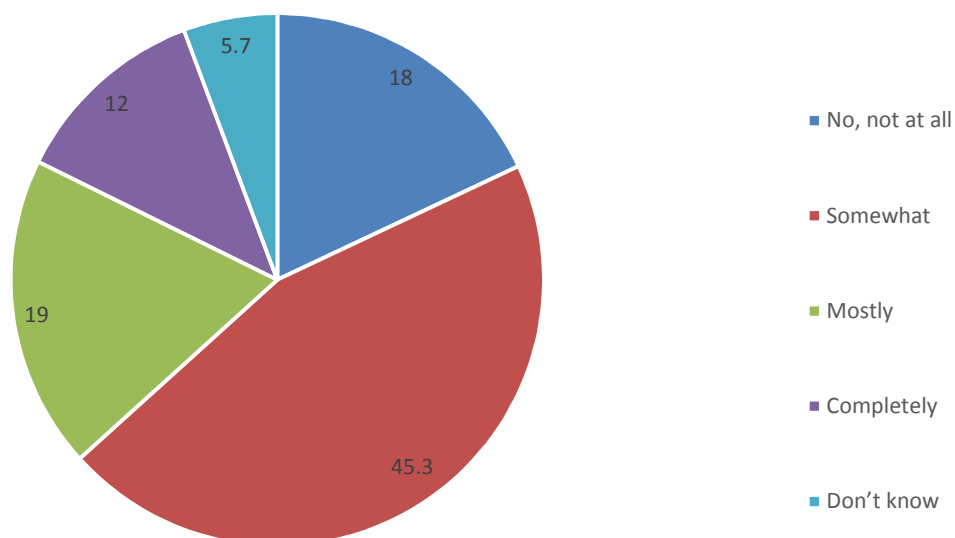
Based on available data, Georgia performs well in the context of the Education Index. In 2014, the value of this indicator was 0.79. Compared to other countries, Georgia did better than Macedonia, Armenia and Croatia and was outperformed only by Latvia.

At focus groups meetings, employers shared the same opinion – that the education system is not harmonized with the needs of employers i.e. labour market needs in Georgia. Participants spoke about many problems of the education system but the most important one is the lack of qualifications and specialized programmes for some sectors. For example, there is no specific education programme which can provide adequate skills and knowledge for the tourism sector.

***“One of the main issues in the education system is the lack of communication and trust between employers and universities as well as the lack of will by students to have practical education in private companies” – from focus groups discussion.***

<sup>92</sup> UNDP, Human Development Report.

**Graph 62:** Are school leavers generally equipped with the literacy and numeracy skills required by firms in the private sector?<sup>93</sup>



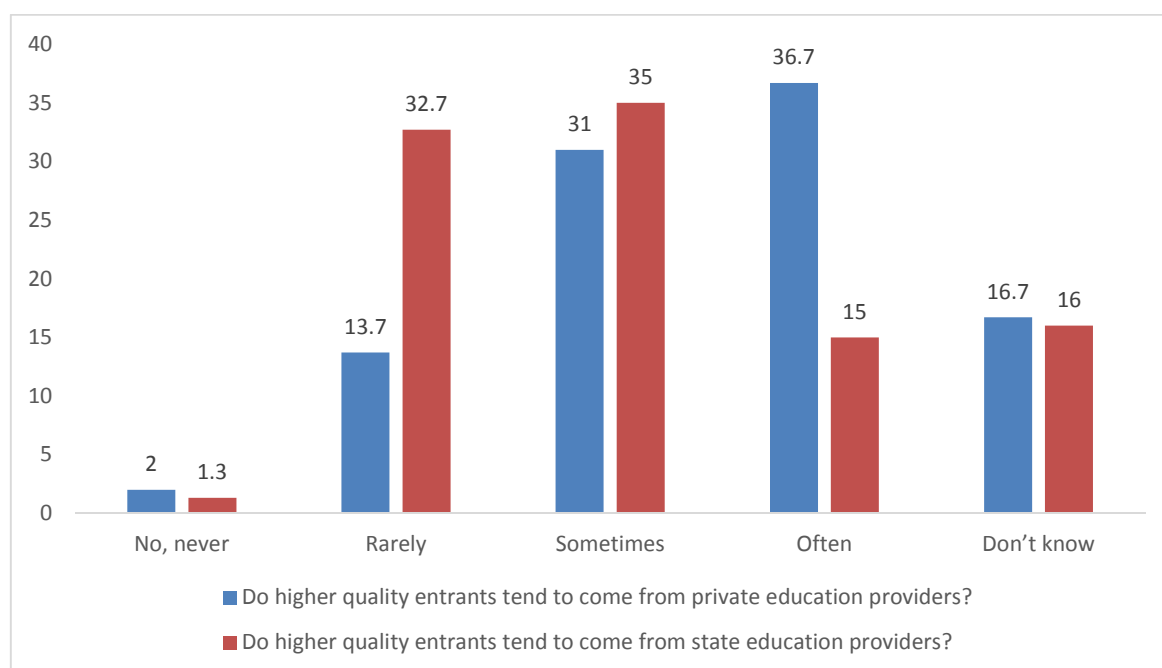
Focus group discussions and findings of various reports are confirmed by survey findings. 18% of survey participants think that school leavers are not generally equipped with the literacy and numeracy skills required by firms in the private sector. Only 12% of the companies said that school leavers were completely equipped or mostly equipped (19%) with the literacy and numeracy skills required by firms in the private sector. The majority of companies think that the average school leaver applying for work just somewhat meets the needs of firms in the private sector (45.3%).

When asked do many firms have relationships, formal or informal, with local education providers (at any level) 11% of the companies said that none of the companies had such relations and 31.3% thought that only some companies had relations with local education providers.

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<sup>93</sup> Source: Georgia EESE survey 2015.

**Graph 63:** Comparison between private and public education providers<sup>94</sup>



Overall, there are no substantial differences in companies' opinions regarding the quality of labour market entrants from private or public education providers. By examining companies' responses, a slight preference to private education providers can be noted, as they are perceived to provide better quality by 36.7% of companies. This is also confirmed by focus groups discussions where participants said that private education providers offered some kind of practical work in their study programmes which was the most important issue for Georgian companies.

Regarding the companies' needs the following skills are perceived to be the most important for firms in the current climate:

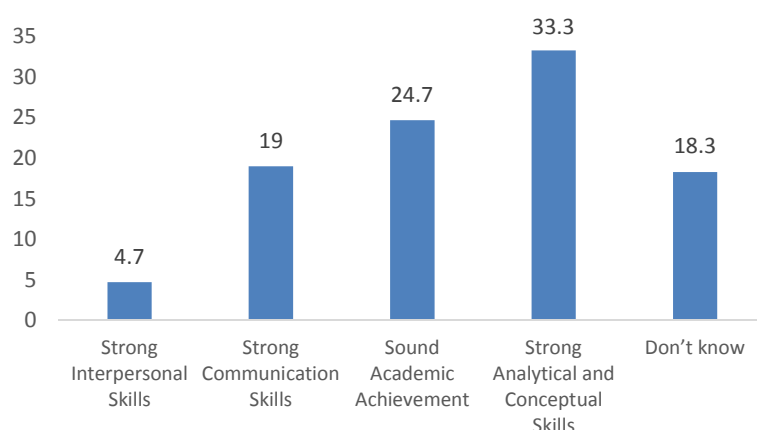
1. Strong analytical skills for 31% of companies;
2. Strong communication skills for 27.3% of companies;
3. Sound academic Achievements for 22%
4. Strong interpersonal skills for 6% of companies etc.

In relation to attributes of employees, the following are perceived to be the most important for firms in the current climate:

1. Team player for 26.3% of companies;
2. Flexible 'Can do' attitude for 25% of companies;
3. Energy and enthusiasm for 23.7% of companies and
4. Self-motivated self-starter for 12.7% of companies.

<sup>94</sup> Source: Georgia EESE survey 2015.

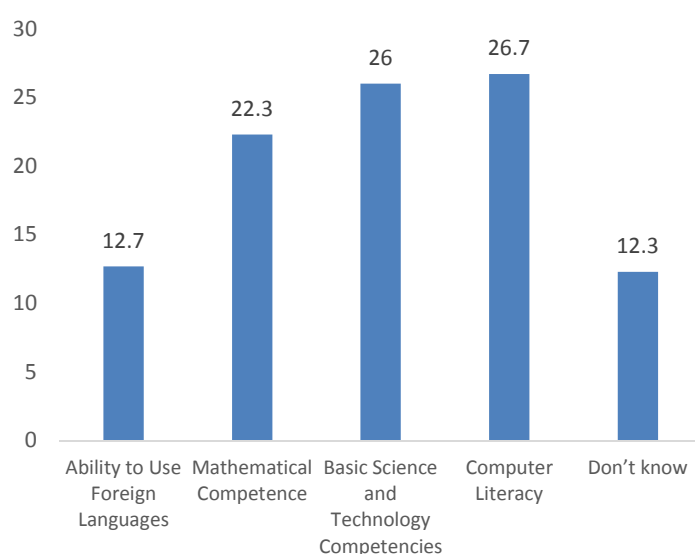
**Graph 64:** Which of the following skills is the main missing competency among school leavers today?<sup>95</sup>



Based on survey findings, the main missing competences among school leavers today are strong analytical and conceptual skills (33.3%) followed by sound academic achievements 24.7% and communication skills (19%).

**Graph 65:** Which of the following competencies is the main missing to firms in the current climate?<sup>96</sup>

According to survey findings, companies identified the following main missing competences: basic science and technology competences (26%), mathematical competence (22.3%) and computer literacy (26.7%).



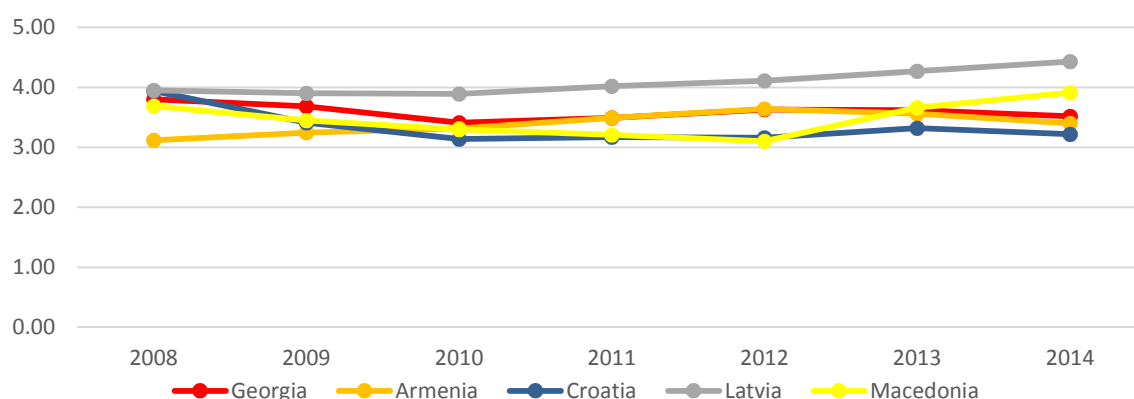
About 82.3% of the interviewed companies stated they don't conduct 'skills audits', in comparison to 7.7% of companies that say they rarely conduct 'skills audits' while only 3.3% performs 'skills audits' often.

<sup>95</sup> Source: Georgia EESE survey 2015.

<sup>96</sup> Ibid.

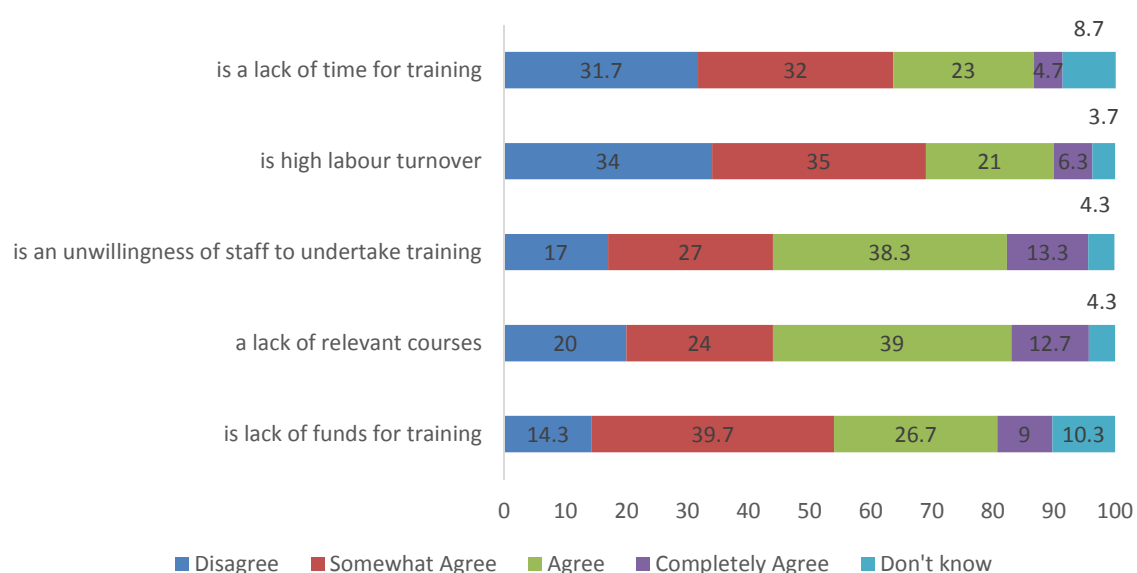
With the indicator Extent of Staff Training the World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources is: (1 = to invest little in training and employee development, 7 = to invest heavily to attract, train, and retain employees)”.

**Graph 66:** Extent of staff training<sup>97</sup>



In regards to this indicator, Georgia recorded 3.52 in 2014. Compared to other countries, Georgia does better than Armenia but is outperformed by other countries analyzed in the report. 25.3% of companies think that there is no government employment and training schemes available that could assist companies with skills shortages. The opposite opinion was shared by 20.3% of companies. It is the same with private employment and training schemes available that could assist with skills shortages whereby 30% companies believe that they do exist in contrast to 22% that believe the opposite.

**Graph 67:** Significant barriers to developing and maintaining a proficient workforce in Georgia<sup>98</sup>

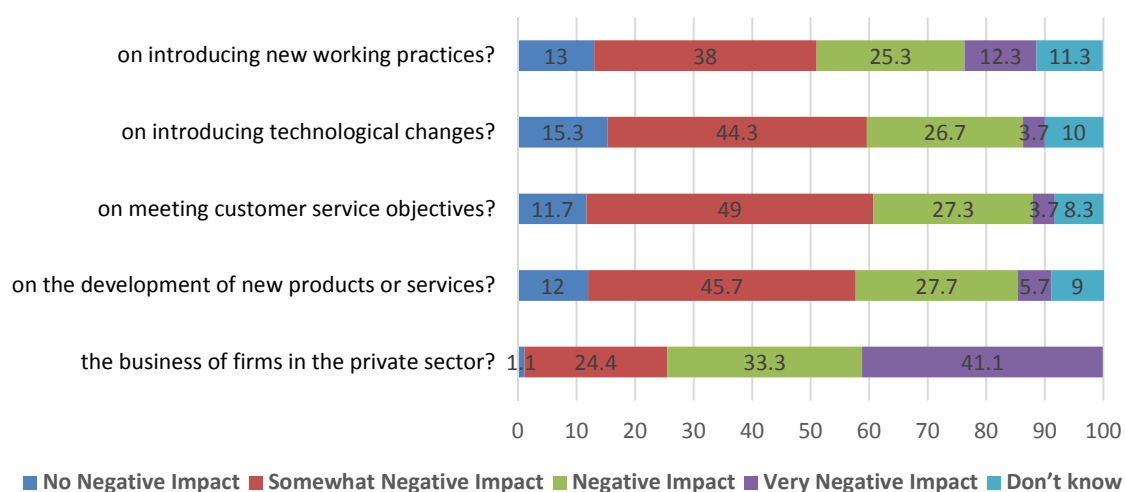


<sup>97</sup> Source: World Economic Forum, The Global Competitiveness Report.

<sup>98</sup> Source: Georgia EESE survey 2015.

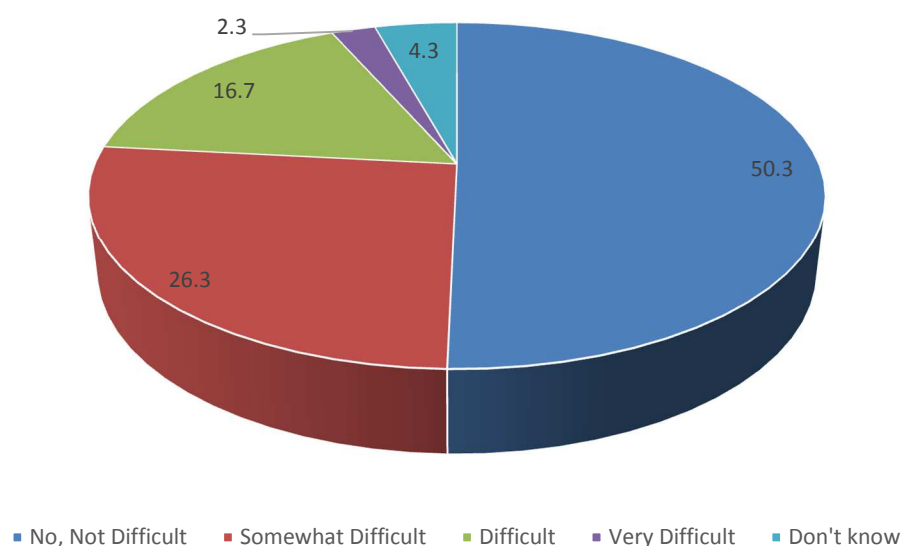
The majority of companies think that the lack of funds for training is a significant barrier to developing and maintaining a proficient workforce in addition to the lack of relevant courses and unwillingness of staff to undertake trainings.

**Graph 68:** To what extent do the current skills shortages negatively affect<sup>99</sup>



Skills shortages negatively affect private sector business according to more than 98% of companies. Only 1.1% think it does not have negative effects on businesses in the private sector. For 41.1% skills shortage has a very negative impact on the business of firms in the private sector. According to survey findings skills shortages have negative effects on new working practices, the introduction of new technologies and the development of new products or services.

**Graph 69:** Is it difficult, in the current market, for firms to keep highly skilled employees?<sup>100</sup>



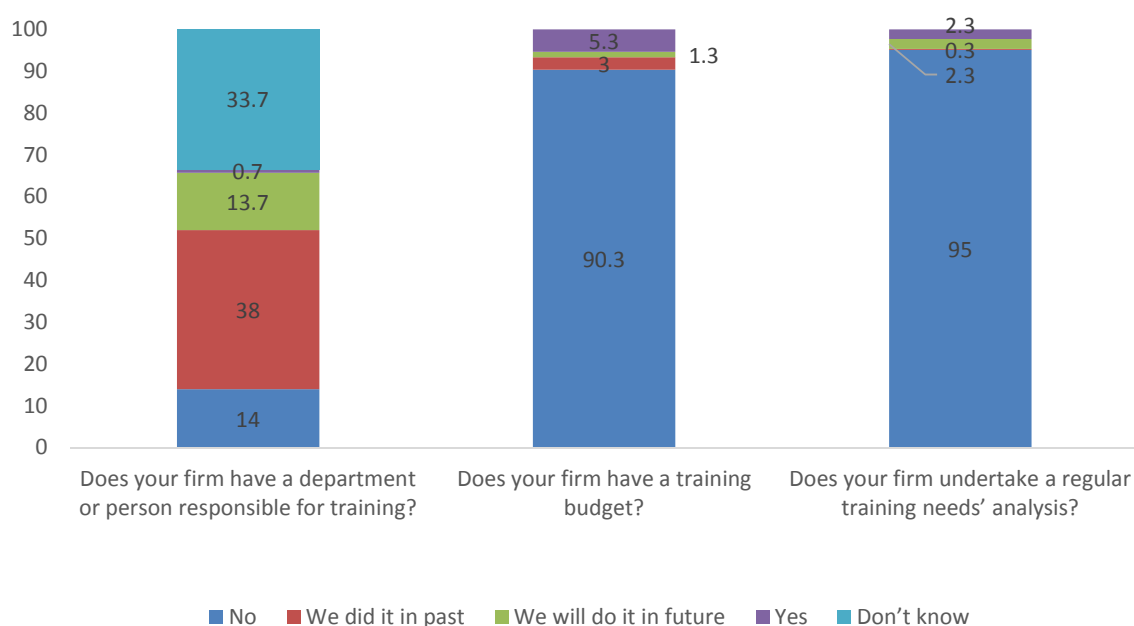
<sup>99</sup> Source: Georgia EESE survey 2015.

<sup>100</sup> Ibid.

Companies have divided opinions on whether it is difficult to keep highly skilled employees in the current market. Among them 50.3% think it is not difficult while for 45.7% it is.

A total of 52 % of companies do not have a department or a person responsible for training compared to only 0.7% that do. Regarding the financing of trainings, 90.3% of companies do not have a training budget compared to only 5.3% that do. Most of the companies do not undertake regular training needs analysis (95%), 2.3% undertake it and 0.3% have plans for doing it in the future. Ultimately, 87% of companies say that there were no government-funded trainings available to firms, in contrast to 7.7% that said such trainings were available. 3.7% believe such trainings will be available in the future.

**Graph 70:** Financing of the training<sup>101</sup>



Key Indicators							
Public expenditure on education		2008	2009	2010	2011	2012	2013
Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.	Georgia	2.70	2.92	3.22		2.70	1.98
	Croatia	3.97	4.27	4.39	4.25	4.16	
	Armenia	3.02	3.17	3.84	3.25	3.14	3.28
	Latvia	5.00	5.71	5.64	5.03	4.93	4.59
	Macedonia	3.02	3.17	3.84	3.25	3.14	3.28
	Public spending on education as share (%) of GDP						

<sup>101</sup> Source: Georgia EESE survey 2015.



<b>Education Index</b>  It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting).		<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Georgia</b>	0.77	0.76	0.77	0.77	0.77	0.77
	<b>Croatia</b>	0.73	0.74	0.74	0.76	0.77	0.77
	<b>Armenia</b>	0.70	0.69	0.70	0.70	0.70	0.70
	<b>Latvia</b>	0.81	0.82	0.82	0.82	0.81	0.81
	<b>Macedonia</b>	0.61	0.64	0.64	0.64	0.64	0.64
	On a scale from 0 to 1. Higher values correspond to better performance.						
<b>Extent of staff training</b>  The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Georgia</b>	3.68	3.41	3.49	3.63	3.62	3.52
	<b>Croatia</b>	3.41	3.14	3.17	3.16	3.32	3.22
	<b>Armenia</b>	3.24	3.32	3.49	3.64	3.56	3.40
	<b>Latvia</b>	3.90	3.89	4.02	4.11	4.27	4.43
	<b>Macedonia</b>	3.45	3.30	3.21	3.10	3.66	3.91
	1= to invest little in training and employee development, 7= to invest heavily to attract, train, and retain employees.						
<b>Labour force participation rate, in percent</b>  The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.		<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Georgia</b>	67.2	67.5	67.7	68.2	68.7	69.3
	<b>Croatia</b>	65.2	64.8	64.4	63.9	63.8	64.0
	<b>Armenia</b>	63.9	62.7	65.8	67.0	66.7	67.3
	<b>Latvia</b>	74.4	73.8	73.0	73.1	74.6	75.2
	<b>Macedonia</b>	63.5	63.9	64.2	64.2	63.9	64.2
	The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.						

### 4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed.

The 'GINI coefficient'<sup>102</sup> measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality. Georgia had a score of 41.35 in 2012 and is better than Armenia in this regard with a score of 30.30.

In 2014, 11.6% of the population were under the poverty threshold, which represents officially registered poverty. The latest data show an increase in the proportion of the population under poverty thresholds. In 2013 this percentage was 9.7% compared to 6.4% in 2007.

<sup>102</sup> <http://databank.worldbank.org/data/home.aspx>

Looking at the poverty rate, estimated using the \$2.5/day PPP measure, there has been significant progress in poverty reduction and shared prosperity in recent years. The poverty rate fell from 46.7 percent in 2010 to 32.3 percent in 2014 and the average consumption of the bottom 40 grew by 8.3% annually, exceeding the growth enjoyed by the population overall.<sup>103</sup>

With regards to gender equality and the status of women in Georgia the following indicators are relevant. The Gender Equality Rating <sup>104</sup> assesses the extent to which the country has installed institutions and programmes to enforce laws and policies that promote equal access for men and women in education, health, the economy, and protection under law (1=low to 6=high). Georgia has a stable and positive score of 4.5. Based on data on average salary, in 2015 men had higher salaries than women in Georgia. On average, men's monthly salaries were by 58% higher than women's. <sup>105</sup>

Finally, the Gender Inequality Index <sup>106</sup> is a composite index measuring loss in achievements in three dimensions of human development – reproductive health, empowerment and labour market, due to inequality between genders. On this indicator Georgia scores relatively poor compared to other countries with a score of 0.4 (values range from 0 (perfect equality) to 1 (total inequality)). Croatia scored 0.17 and Latvia and Macedonia 0.2. But, it is clear that the situation in the country has improved in few recent years because the value of this indicator was only 0.6 in 2008. However, Georgia had a GII value of 0.382, ranking it 77 out of 155 countries in 2014.

In Georgia, 11.3% of parliamentary seats are held by women. 89.7% of adult women have reached at least a secondary level of education compared to 92.7 percent of their male counterparts. 41 women die from pregnancy related causes in every 100,000 live births; and the adolescent birth rate is 46.8 births per 1,000 women of ages 15-19. Female participation in the labour market is 56.5 percent compared to 75.1 for men.<sup>107</sup>

Key Indicators					
GINI coefficient		2006	2008	2010	2012
The GINI index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.  Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments. <sup>108</sup>	Georgia	40.09	50.57	42.13	41.35
	Croatia	-	33.61	-	-
	Armenia	32.49	30.71	31.07	30.30
	Latvia	35.60	35.82	35.27	-
	Macedonia	42.78	44.20	-	-
	0=perfect equality, 100=perfect inequality.				

<sup>103</sup> Source: ILO, Second Programmatic Inclusive Growth DPO (DPO2).

<sup>104</sup> <http://databank.worldbank.org/data/home.aspx>

<sup>105</sup> Source: GEOSTAT [http://geostat.ge/cms/site\\_images/files/english/Gender%20Statistics.pdf](http://geostat.ge/cms/site_images/files/english/Gender%20Statistics.pdf)

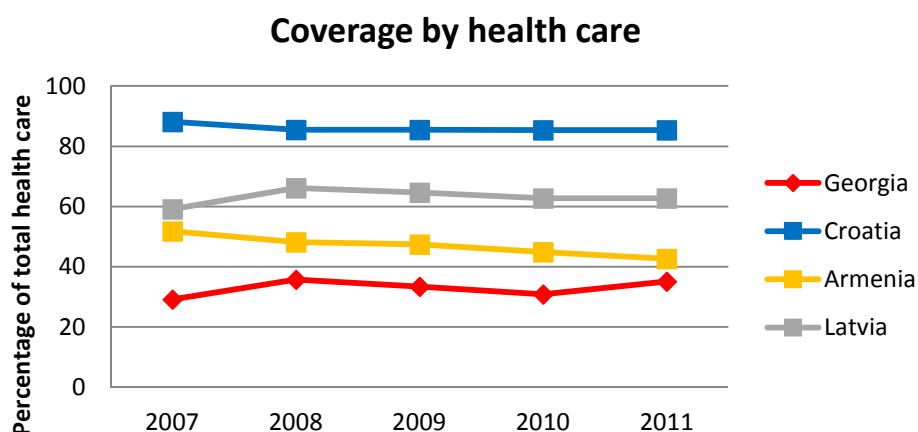
<sup>106</sup> <http://hdr.undp.org/en/data>

<sup>107</sup> Source: UNDP, Human develop Report 2015.

<sup>108</sup> [World Bank World Development Indicators.](http://www.worldbank.org/indicators)

Values range from 0 (perfect equality) to 1 (total inequality).

Graph 72: Coverage by health care<sup>112</sup>



The expenditure on old age pensions which is 1.64% of GDP seems to be rather low compared to other countries (Croatia 6.38%, Macedonia 4.08%) and the coverage (89.8% in 2011) could be improved as well, although the latest available data on both indicators are from 2013 and 2011 respectively. Still, further improvements can and should be made to ensure adequate social protection.

Key Indicators							
Public expenditure on health (% of GDP)		2002	2009	2010	2011	2012	2013
	Georgia	1.40	2.27	2.29	1.70	1.65	2.03
	Croatia	5.02	7.06	7.16	5.72	5.82	5.84
	Armenia	1.36	2.01	1.92	1.94	1.88	1.89
	Latvia	3.28	4.07	3.94	3.87	3.58	3.54
	Macedonia	5.50	4.50	4.32	4.31	4.50	4.44
	% of GDP.						
Coverage by health care (% of total health care)		2002	2007	2008	2009	2010	2011
	Georgia	30.1	29.2	35.8	33.5	30.9	35.1
	Croatia	82.8	88.1	85.5	85.5	85.4	85.4
	Armenia	36.5	51.8	48.2	47.5	44.9	42.6
	Latvia	52.4	59.1	66.2	64.7	62.8	62.8
	Macedonia	-	-	-	-	-	-
	Government expenditure, excluding military, as a % of GDP.						

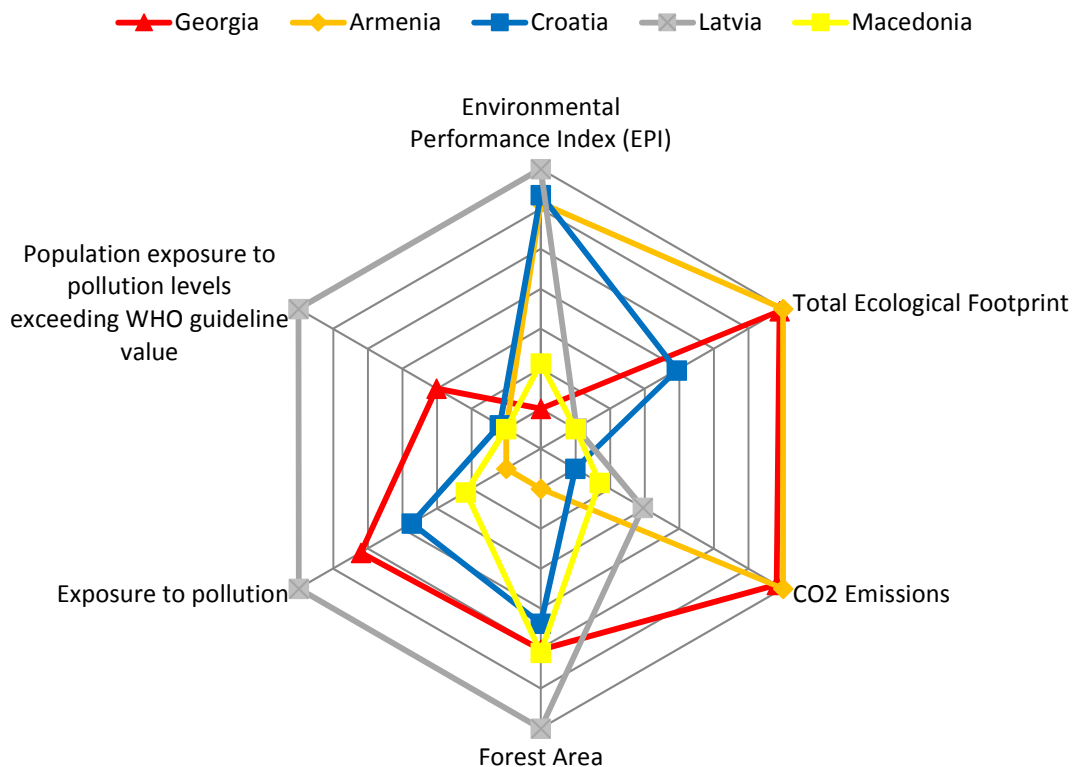
<sup>112</sup> Source: World Health Organization WHOSIS

<sup>113</sup> [World Health Organization WHOSIS133](#).

<sup>114</sup> Ibid.

## 5. Environmental elements

**Indicators assessing environmental elements of an enabling environment for sustainable enterprises\***



\* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Since 1990, Georgia started reforms in the area of environmental protection.
- The main institutions engaged in environmental protection in Georgia are the Ministry of Environment and Natural Resources Protection and the National Environmental Agency.
- Georgia's main ecosystems comprise forests (about 40% of the land area), grasslands (26%), wetlands (19%), and deserts and semi deserts (6%).
- Georgia suffered severe environmental degradation during the Soviet period. Significant amounts of agricultural lands have been lost in land erosions. As a legacy of these policies, Georgia now suffers from serious pollution.
- The biggest threat to the environment are over 2,5 tons of hazardous chemicals that have been buried at the Mt. Iagluji, at the depth of 20 meters, over 10 years, since the mid-1970s.
- The government has ratified international environmental agreements pertaining to air pollution, biodiversity, climate change, ozone layer protection, ship pollution, and wetlands.

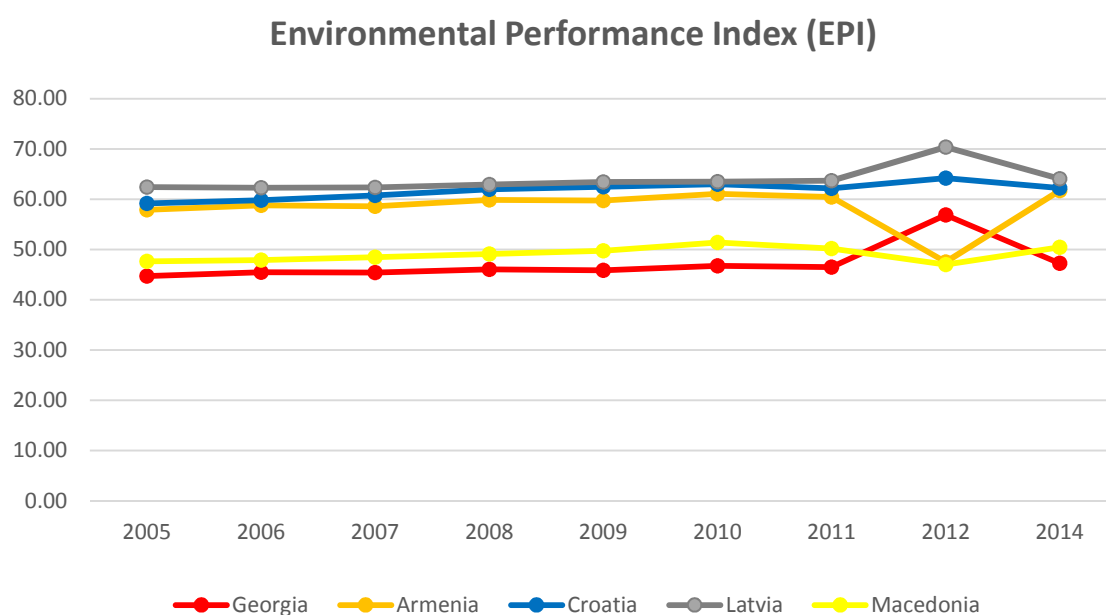
## 5.1. Responsible stewardship of the environment

Sustainable enterprise development is intertwined with responsible stewardship of the environment and requires appropriate regulations, incentives and public procurement policies that promote consumption and production patterns compatible with a country's environmental sustainability.

Georgia's main ecosystems comprise forests (about 40% of the land area), grasslands (26%), wetlands (19%), and deserts and semi deserts (6%).

The Environmental Performance Index (EPI) is constructed through the calculation and aggregation of several indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals. Performance score from 0 to 100 where the higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.

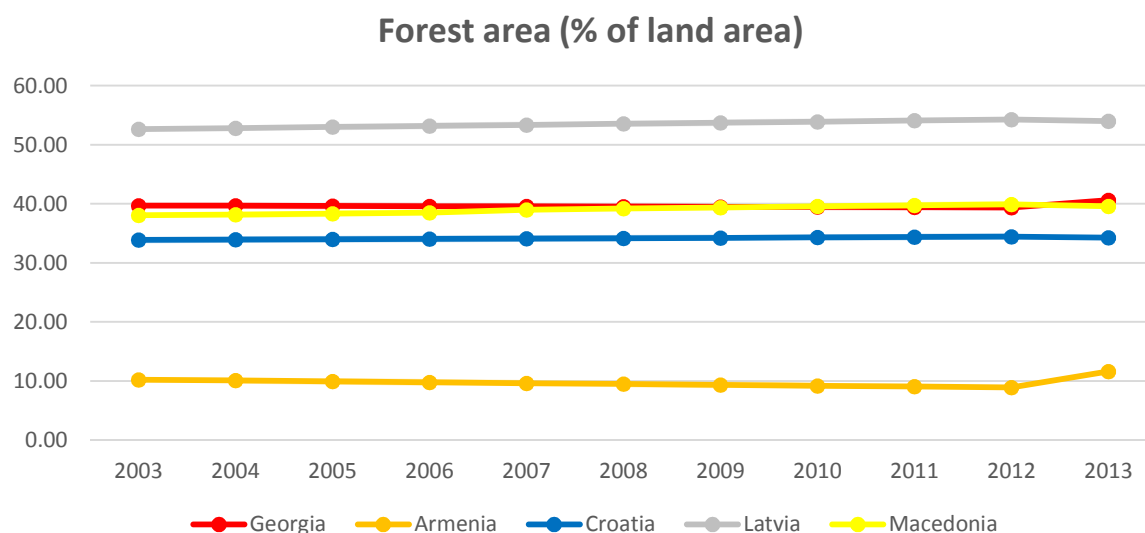
**Graph 73:** Environmental Performance Index (EPI)<sup>115</sup>



In regards to this indicator, Georgia is at the bottom of the list of countries taken in consideration for this report. Some progress was made in 2012 but results in 2014 show negative trends still. The value of the indicator for Georgia in 2014 was 47.52.

<sup>115</sup> Source: Yale University's Yale Center for Environmental Law and Policy (YCELP) and Columbia University's Center for International Earth Science Information Network (CIESIN).

**Graph 74: Forest area** <sup>116</sup>



The Forest Area indicator has been recording a constant drop year by year. The forest area is the land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, excluding tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens. Based on relevant data, Georgia is at approximately 40% and it is in line with Macedonia and performing better than Armenia and Croatia.

As stated in the Regional Development Programme of Georgia for 2015-2017, since 1990 air pollution has reduced dramatically in Georgia due to the closure of many large industrial enterprises. Moreover, in the last decade, despite the growth of economic activity, industrial emissions continued to reduce. There is no exact data on air pollution caused by the construction sector. However, overall air pollution is increasing in Georgia.<sup>117</sup>

Based on the Asia Development Bank Country Partnership Strategy: Georgia, 2014-2018, the management of natural ecosystems has been constrained by inconsistent environmental policies; inappropriate governance systems for natural resources; the absence of a natural resource inventory and reliable data; unsustainable operations and weak law enforcement; pollution in some rivers and in the Black Sea, and unsustainable fishing, hunting, and poaching practices; low levels of public participation in decision-making processes; and limited public awareness. Georgia's protected areas play a significant role in biodiversity conservation and catalysing socioeconomic development. The management system for protected areas is not yet effective.<sup>118</sup>

Also Georgia, in its association agreement with the EU, has committed to respecting the principles of sustainable development, to protecting the environment and mitigating climate change, to continuous improvement of environmental governance and meeting environmental needs, including cross-border cooperation and implementation of multilateral international agreements.

<sup>116</sup> Source: Food and Agriculture Organization, electronic files and web site.

<sup>117</sup> Source: Government of Georgia Regional Development Programme of Georgia 2015-2017.

<sup>118</sup> Source: Asia Development Bank: Country Partnership Strategy: Georgia, 2014-2018.

## Key Indicators

<b>Environmental Performance Index (EPI)</b>		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<p>The 2014 Environmental Performance Index (EPI) is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change.</p> <p>The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals.</p>	<b>Georgia</b>	45.84	46.72	46.46	56.84	47.23	45.84
	<b>Croatia</b>	62.49	63.00	62.15	64.16	62.23	62.49
	<b>Armenia</b>	59.69	61.05	60.42	47.48	61.67	59.69
	<b>Latvia</b>	63.43	63.49	63.68	70.37	64.05	63.43
	<b>Macedonia</b>	49.70	51.40	50.17	46.96	50.41	49.70
	Performance score from 0 to 100. The higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.						
<b>CO2 emissions (metric tons per capita)</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<p>Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.</p>	<b>Georgia</b>	1.40	1.46	1.46	1.42	1.47	1.77
	<b>Croatia</b>	5.22	5.50	5.27	4.87	4.73	4.80
	<b>Armenia</b>	1.46	1.69	1.87	1.47	1.42	1.67
	<b>Latvia</b>	3.42	3.78	3.63	3.44	3.96	3.79
	<b>Macedonia</b>	5.22	4.53	4.48	4.14	4.09	4.44
	Metric tons of CO2 emitted per capita.						
<b>Forest area (% of land area)</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<p>Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.</p>	<b>Georgia</b>	39.57	39.54	39.50	39.46	39.43	39.39
	<b>Croatia</b>	34.13	34.19	34.25	34.31	34.37	34.43
	<b>Armenia</b>	9.65	9.50	9.35	9.20	9.06	8.91
	<b>Latvia</b>	53.38	53.56	53.76	53.89	54.11	54.31
	<b>Macedonia</b>	39.01	39.19	39.39	39.57	39.75	39.94
	In percentage of land area.						



## 6. Assessment results and ways forward

Georgia is one of the faster growing economies and one of the most attractive countries for foreign direct investments. Nevertheless, to improve the situation and environment for the development of sustainable enterprises, Georgia needs to recognize its problems and to take concrete steps forward and define a clear set of activities which will result in a more enabling environment for sustainable enterprises.

In 2015 and 2016, in the context of deep analysis of the business environment in Georgia, with the support of external experts and a professional Research Company, GEA implemented the survey using the EESE methodology. This methodology is implemented in a way that firstly GEA organized 3 focus group meetings in order to choose the most important pillars for the deeper analyses through the survey (direct interviews with 300 companies).

By realizing the three above mentioned focus groups and the survey, various data about the business environment in the country were collected. Based on that and according to the EESE methodology, the main pillars to be improved in Georgia are:

- good governance and some issues pertaining to political stability;
- sound and stable macroeconomic policy and good management of the economy;
- trade and sustainable economic integration;
- enabling legal and regulatory environment;
- fair competition;
- access to financial services; and
- education, training and lifelong learning.

The collected data have shown the improvements of the business environment in Georgia over the past years. Still, according to reports and based on responses received by companies there is room for further improvement in various fields contributing to a better business climate.

The following table provides the list of main problems under each pillar and concrete improvement measures proposed to be taken in the coming period:

CONDITION FOR ACTION	DESIRED RESULTS	CONCRETE MEASURES
Good governance	Better and effective public administration,	<ul style="list-style-type: none"><li>- The mechanism of consultations between public and private sector should be improved.</li><li>- Improve the efficiency of public administration through good management, better organization and higher level of responsibility;</li><li>- Improve control and monitoring over the public resources spent by the state;</li><li>- Improve the usage of e-services especially for companies;</li><li>- Improve the work of inspectors and create working practice to be equal for all;</li><li>- Change government administration mind-sets so that they become more business oriented and more supportive to SMEs.</li></ul>

<b>Education, training and lifelong learning</b>		<ul style="list-style-type: none"> <li>- The funding of the educational system should be aligned with results of research on labour market needs (more is needed for VET system);</li> <li>- Implement national skills needs analyses;</li> <li>- Have both employers and Government invest in education &amp; training;</li> <li>- Work on the promotion of university-business links in the fields of R&amp;D and innovation;</li> <li>- plan education in accordance to forecasted skill needs</li> <li>- Incorporate a business skills component (entrepreneurial learning) in school curricula to equip students with skills for starting a businesses;</li> <li>- Develop new training programmes that currently lack in Georgia and employers need them;</li> <li>- Improve practical component of educational programmes in schools and universities;</li> <li>- There should be more support for private providers or at least an even playing field.</li> <li>- A concept for lifelong learning should be developed based on the joint work of the social partners;</li> <li>- Create new and improve current communication and cooperation between employers, universities and other education providers;</li> <li>- The education system should principally be analysed in tripartite format;</li> <li>- It is recommended to popularize the vocational education and training system and to develop the concept of informal education;</li> </ul>
<b>Enabling legal and regulatory environment</b>	<p>Stable and predictive regulatory framework both for citizens and companies;</p> <p>Improved implementation of regulation in a way it is equal for all;</p> <p>Efficient tax administration and lowered tax burden</p>	<ul style="list-style-type: none"> <li>- Make legislation more predictive and equal for all and improve its implementation;</li> <li>- Improve the work of regulatory bodies and decrease the number of overlapping bodies;</li> <li>- Improve the work of inspection so that each employer is treated equally;</li> <li>- Reduce the tax burden and make the tax administration more efficient and responsive to employers' needs.</li> <li>- The concept of property ownership should be further developed by the government in order to clearly outline rights of owners (public and private)</li> <li>- The legislative should be based on consultations and assessments of private sector, for instance with regards the security of domestic production.</li> <li>- There is a necessity of a state analytical program for regulations (REA) based on consultations with social partners.</li> </ul>
<b>Access to financial services</b>	<p>Favourable loans for SMEs with reduced collateral</p> <p>Better dissemination of information to SMEs</p>	<ul style="list-style-type: none"> <li>- Improve financial products so that they are available to all companies in each stage of their evolution;</li> <li>- Adequate classification should be created for business e.g small, medium etc.</li> <li>- Grant schemes for SMEs should be improved and the legislation revised (R&amp;D, GITA)</li> <li>- Increase the access to long term capital so that SMEs can improve their competitiveness;</li> <li>- Create credit lines with more favourable interest rate and less demanding collateral;</li> <li>- SMEs should be supported in finding other means of capital as for instance venture capital</li> <li>- Create Government policies for financial sector so that it become more affordable to private sector;</li> <li>- Improve communication between real sector and financial institutions.</li> </ul>

		- Broadening of the state program as 'Produce in Georgia' is recommended
<b>Fair competition</b>	Reduced informal economic activities and monopolistic practices	<ul style="list-style-type: none"> <li>- Improve policies on formalization of the informal economy;</li> <li>- Analyse taxation policies to stimulate formalization;</li> <li>- Create policies and targeted actions against monopolistic practices in certain sectors, especially in trade</li> <li>- Improve knowledge and raise awareness of all segments of society about informal economy;</li> <li>- Improve the work of anti-monopoly bodies</li> <li>- Improve the licencing system, especially the certificate of origin.</li> </ul>

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