

**TRANSFER OF KNOW-HOW TO SMALL AND MID-SIZE  
BUSINESSES IN GEORGIA, MOLDOVA AND UKRAINE, *The***  
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# Overview of the presentation:

- *Conditions for entrepreneurship and small business sector in Georgia, Czech know-how in the field of SME support during transition and EU accession*
- Identification of main problems and *obstacles to SME development* (results of the survey among experts in Georgia),
- *Roadmap of actions to support SMEs in Georgia* (recommendations for further interventions)

On one hand Georgia receives favourable evaluations of its business environment but on the other hand...

Georgia is small open economy with fast changing structure.

Georgia receives favourable evaluations of its business environment. It ranks high in indices of economic freedom and it is among the top countries with respect to ease of starting and doing business.

On the other hand, unstable legal environment, low purchasing power of the population, lack of qualified human resources, lack of market information and innovations are among weak points of the Georgian SMEs. Also risk-averse lending policies of Georgian banks present certain obstacles in SMEs development. More details on <http://bit.do/georgia-library>

Lovely place with nice people and fantastic sceneries, highest mountain in Europe...Many things in Georgia are in still poor state (roads, postal system, hotels, electricity supply)...

# SME in Georgia

**In Georgia SME statistics should be improved and adjusted to the EU SME definition. SME definition clarification is important for practical implementation of SME programs.**

**Recent definition** Small size enterprises are those for which the average annual number of employees does not exceed 20 persons, medium size enterprises employ 20-100 persons (same in the CR before EU accession)

According to the GeoStat, almost 400 th. firms are officially registered (as by 2012) while only about 15 % of them are active → registration is very simple, closing a business is costly?

Effect of the benefits for the SMEs ? (*exemption from the VA taxation*), once a firm crosses this threshold, it has an incentive to restart its business.

Recent SME policies, projects and institutions in Georgia (see more on <http://bit.do/georgia-library>)

There exists no government strategy or approach to support the SMEs.

Georgian law on supporting small enterprise was abolished in 2006, there has been no legal act regulating SMEs support mechanisms and attaching any specific responsibilities to government institutions.

*Low coordination between organizations supporting the SME's (Ministries, associations, chamber of commerce...)*

# Czech experience (know-how) in the field of SME support

There exists consensus in the governmental bodies, that SMEs deserve assistance. Less consensus exists *how to support SMEs and implement the policy towards small businesses.*

Periods:

1990-1992 tax allowances for firms < 25 people, tax advice by tax collectors, credit provision without collateral, business plans simple elaborated often with assistance of bank officials

1994-2004 EU accession

2005- EU membership

Czech experience of programs to assist selected SMEs shows that administration can absorb big share of the available means, less successful enterprises can be subsidised to the detriment of more efficient ones. Programs may lack flexibility. The implementation of certain kind of programs can create certain frustration and be counterproductive.

For Recent Czech SME institutions see <http://bit.do/georgia-library>

**Recent Czech experience: creation of *Contact Points, Information Points* for entrepreneurs - information needed to start a business, assistance and help for doing business in the EU, regulatory information, funding opportunities, and searching for business contacts .**

# Identification of major problems: Survey among Georgian experts

Confirmed the information of previous studies and provided interesting information on the problems of the Georgian SMEs.

<http://bit.do/georgia-library>

The most problematic areas include

- low market skills of entrepreneurs,
- lack of education and business experience,
- as well as low availability of high skilled labour force,
- small market size and
- barriers for export to foreign markets,
- low level of activity of venture capital,
- political instability,
- difficulties in accessing financial services and high cost of credit.

# Practical recommendations for selected industries based on the direct Georgian experience

*Banking sector* failures, especially high collateral requirements, could be compensated by government guarantees.

*Health sectors* suffers from limited managing experience and frequent changes. A gradual reform is needed that would respect the capabilities of individual agents.

*Agricultural sector* is potentially vulnerable vis-à-vis the EU competition. It has to improve its efficiency and transform to a modern technology.

The revealed comparative advantage is in minerals, nuts and wine, but the quick opportunity to export also encompass metals, electricity, chemicals, stone and glass and clothing.

The competitive advantage will be in diversifying the export portfolio and removing obstacles to export (lack of export strategy, finances, skill inadequacy of employees, and information), encouragement the high value added goods to be exported and the candidates might be ICT Services, movie production, bio-tech and pharmaceuticals, industrial design and machinery .



# Government SME policies - recommendations

Policies aimed at attracting foreign direct investments should focus on diversification of Georgian economy and protection of investment.

Competition policy also needs improvement.

Business sector awareness is yet another issue that requires attention. Many firms are not aware of all the grants and programs they can benefit from.

Procurement could be made more accessible to the SMEs.

Further issues that call for intervention are in the area of

- human capital,
- research and development, and innovation.

# Selected practical recommendations: Roadmap of activities

1. Innovative financial mechanism
2. Research, development, innovation, venture capital
3. Start-up grants for entrepreneurs from distant and under-developed areas
4. **European regulations and export opportunities**
5. Business sector awareness
6. Entrepreneurship skills

## Programmes to connect entrepreneurs in Georgia with European markets, training

Younger generation of university graduates is better equipped for entrepreneurship compared to their predecessors. These people need to be motivated to stay in Georgia and contribute to its economy.

Training for older generation is recommended to reduce the generation gap. Innovation could be stimulated by improved protection of intellectual property rights.

These programmes should offer expertise and practical assistance.