



Position Paper  
Regarding Small and Medium-sized Enterprises in Georgia  
Prepared for Sector Economy and Economic Policy Committee of the Parliament  
January 30, 2018

## ABOUT THE EUROPEAN BUSINESS ASSOCIATION

The European Business Association, (EBA) is a non-profit organization registered in Georgia.

EBA in Georgia is differentiated from other associations in its European membership structure, online format and special focus on SME and regional development. Operating across the whole of Georgia, the Association is prohibited from supporting political parties and companies that do not meet the Association's strict Code of Conduct, which includes principles such as fair competition, safe work environment, protecting employers' rights, corporate social responsibility (CSR), and preventing corruption.

The mission of the association is to advocate/lobby for European Businesses in Georgia, and to broker the development of trade and investment between Georgia and Europe.

Members of European Business Association include companies from different European countries which are operating in Georgia, as well as Georgian companies already exporting or interested in exporting goods and services to the European market.

The vast majority of the European Business Association members are representatives of small and medium-sized enterprises, representing sectors such as agriculture, medical services, tourism, finances, construction, and transportation.

## SMALL AND MEDIAUM-SIZED ENTREPRISES, EUROPEAN EXPERIENCE AND GEORGIAN REALITY

One of the requirements of Georgia under the EU Association Agreement signed in 2014, is to implement SME policy in compliance with Small Business Act Principles (articles 313-315 of the EU Association agreement). The main principle of the Small Business Act – “Think Small First”- underlines the importance of consultations and considering the needs of SMEs. This principle includes the existence of a system of Regulatory Impact Assessment (RIA), for avoiding/mitigating non-proportionate burdens on SMEs.

In 2016, the Organisation For Economic Co-Operation and Development (OECD) published the SME Policy Index for Eastern Partner Countries, which refers to the implementation of the Small Business Act by these countries.

According to this index, for the year 2016 Georgia is the leader in the region for the improvement of the institutional and operative environment for SMEs. During recent years, progress has been made in increasing business infrastructure, access to finance, elimination of technical barriers and the institutionalisation of SMEs.

According to the OECD SME Policy Index, in order to fully benefit from the benefits of the DCFTA, Georgia has to overcome several weaknesses related to SMEs, including:

- Georgian SMEs innovate and export less than their regional peers;
- A lack of formal mechanisms for public-private consultations and regulatory impact assessment (RIA) means that the private sector is not always fully included in the reform process;
- Different definitions of SMEs;
- Gaps in statistical data availability;
- Access to finance: high interest rates (at around 16%) and collateral requirements (up to 220% of the value of the loan), together with relatively underdeveloped non-bank financing, make it difficult for SMEs to finance investments and the working capital required to increase their competitiveness, innovation and export.
- The current education system does not provide the qualified workforce now required by the SME sector;

The OECD report positively mentions the creation of Enterprise Georgia and Georgian Innovation and Technology Agency (GITA), however it says that these agencies need to be accompanied by a strong capacity-building effort to maximise their impact.

To overcome these challenges there exists a Government of Georgia SME Development Strategy 2016-2020 and a 2016-2017 Action Plan was created based on this strategy. The strategy outlines priority goals for the development of SMEs in the country.

On December 28, 2017, the Georgian Government adopted a resolution #582, where the 2018-2020 Action Plan was approved based on the Strategy.

The 2018-2020 Action plan is based on the following strategical directions:

1. Improvement of the legal, institutional and entrepreneurial environment;
2. Improvement of access to finance;
3. To support the development of SMEs skills and promoting entrepreneurial culture;
4. To promote export and internationalization of SMEs;
5. To promote innovation and research and development

The European Business Association does not have information about the implementation of the Strategy and Action plan.

## CHALLENGES WHICH WERE IDENTIFIED BY THE EBA MEMBERS

Recently, the EBA conducted a survey, where our members were asked to identify areas of concern for their businesses. Here are some of the most pressing issues they encounter:

- Lack of involvement of the SME sector in policy elaboration.

For businesses it is important to have a predictable business environment. Despite the fact that meetings with business representatives take place, these consultations are dominated by large businesses and their representatives, SMEs are often not present and their opinions and interests are not included in the policy development processes.

- Skilled Professionals

EBA members identified lack of qualified employees in the labour market as one of the most problematic factors hindering SME development and growth, especially in finding experienced engineers.

- Non-competitive environment in the sector

EBA members think that the reason for the non-competitive environment is in part the legislation itself and also the Government's singular focus on the further development of the large companies with the support of different national, foreign and supranational organizations and the ongoing non-competitive behavior of some of these companies.

In addition, a complete lack of regulation of certain sectors by the government creates additional problems. In order to develop products and services that meet EU export standards, it is usually necessary to also compete in the local market. Where there is no regulation of the local market, (such as qualification standards, product certification/accreditation, technical and safety requirements), a barrier is created to innovation as costs are not equal for all players in that sector.

Among other important concerns are those related to time-consuming court proceedings, access to finance, and public procurement.

## RECOMENDATIONS

- Today there are two definitions for small and medium-sized enterprises in Georgia; a definition used by the statistics services and another one used only in the tax code which uses the terms Small and Micro Enterprises for the purposes of differential taxation. We find it very important to have a uniform definition of small and medium-sized enterprises, especially for the purpose of effective policy elaboration and the implementation of supporting activities and programs.
- We encourage the facilitation of the appropriate involvement of SMEs in consultations between public and private sectors, as well as an introduction of formal mechanisms for Regulatory Impact Assessment (RIA). Additionally, business involvement is important not only after drafting the law, but in the process of policy formation as well, it should carry a systemic and structured character, and ensure that there are clear rules and procedures for dialogue.
- In the process of planning the legislative changes, a Regulatory Impact Assessment should always be conducted to assess the possible impact on SMEs (so called “SME test”).
- In order for Small and Medium-sized Enterprises in Georgia to benefit from the advantages of DCFTA, the ongoing improvement in the Quality Infrastructure should be continued to meet the EU standards; this will assist in overcoming the current technical trade barriers.
- While the state will support market players in any form, during the investment projects or generally, while implementing economic policy, pre-assessment on competitive effect should be conducted. Also effective Legislative and institutional environment for proper functioning of the Competition Agency should be created.
- As one of the solutions to the current prolonged judicial processes, the European Business Association proposes the increased use of alternative dispute resolution, such as mediation and arbitration, however the appropriate legislative and institutional environment should be created and promoted.

Sources of the paper:

SME Policy Index: Eastern Partner Countries 2016. ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE. OECD, European Commission, EBRD, ETF.

#100 Resolution of the Georgian Government. February 26, 2016

#582 Resolution of the Georgian Government. December 28, 2017

EU Georgia Association Agreement signed on 2014

Public-Private Dialogue. IDFI

Views of European Business Association

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