



Ministry of Economy and Sustainable Development of
Georgia

20²¹₂₅

SME Development
Strategy of Georgia

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Abbreviations

AA	Association Agreement between the European Union and the European Atomic Energy Community and their Member State, of the one part, and Georgia, of the other part
DCFTA	Deep and Comprehensive Free Trade Area Agreement between Georgia and the European Union
EBRD	European Bank for Reconstruction and Development
ETF	European Training Foundation
FDI	Foreign Direct Investment
GEOSTAT	National Statistics Office of Georgia
GITA	Georgia's Innovation and Technology Agency
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
IBRD	International Bank for Reconstruction and Development
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium Enterprise
SBA for EU	Small Business Act for European Union
EFTA	Europe Free Trade Association
GSP	Generalized System of Preferences
MFN	Most Favored Nation
WTO	World Trade Organisation
CIS	Commonwealth of Independent States

Introduction

The economic policy of Georgia is based on the principles of free market, where private sector is the driving force of economic growth and core generator of workplaces. Accordingly, the country's economic policy is focused on supporting the development of private sector, especially small and medium-sized enterprises (SMEs) and creating favorable business environment for its further advancement. This is also reflected in the Governmental program for 2021-2024 "Towards Building an European State".

Small and medium-sized enterprises, with their potential for employment growth and job creation, as well as their contribution to the development of the economy and its growth, could be considered as the backbone of any country's economy. A strong and well-developed SME sector plays a crucial role in raising the overall welfare of the country. It supports significantly the export growth, innovation and the creation of a modern entrepreneurial culture. In addition, SMEs can make significant contributions to the improvement and application of new technologies due to their innovative and flexible structures.

In Georgia, as in many countries around the world, including the European Union, the development of small and medium-sized enterprises is considered as a key instrument of achieving the goals of "inclusive growth" and "employment".

Approximately 26 million small and medium-sized enterprises operating in the EU provide for the employment of 109 million people and constitute 2/3 of the Europe's Gross National Product (GNP).¹ In Georgia, the share of employees in SME sector is 65%, and its share in total value added equals 59% (2019).²

The Government of Georgia (GoG) has developed the first SME Development Strategy of Georgia (2016-2020) and the Action Plan, with the support of the European Union, in close cooperation with the Organisation for Economic Co-operation and Development (OECD) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The GoG adopted the document in 2016. The strategy implementation process brought together all the key actors in the field, that in turn ensured its successful implementation. It is noteworthy that the target indicators defined by the strategy for 2016-2020 were being successfully achieved from the very first year, that is also reflected in the strategy implementation annual progress reports.³

The last, 2020 year of the strategy implementation, coincided with the COVID 19 global pandemic and crisis caused by it, that negatively affected all aspects of public life, damaged the business activity and eventually threatened country's economic growth.

Against this background, the elaboration of the new SME development strategy for 2021-2025, determination of vision and priority directions, as well as of relevant objectives and activities in this sector, has gained particular significance. The urgency of the strategic vision for the further development of the SME sector is reinforced by the EU-Georgia Association Agreement (the integral part of which is the Deep

¹ EuroStat. 2019. Statistics on SMEs. https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises

² Data of Geostat, 2019, www.geostat.gov.ge

³ Ministry of Economy and Sustainable Development of Georgia <http://www.economy.ge/?page=economy&s=85>

and Comprehensive Free Trade Agreement (DCFTA)), in the context of which raising of competitiveness of SMEs and meeting the DCFTA requirements by private sector, especially by SMEs is of utmost importance. The goal of the 2021-2025 SME Development Strategy of Georgia is to restore the positive trends of pre-pandemic and to support further development of SME sector.

The current strategy is based on the main principles of the Small Business Act for Europe, including its main principle “Think Small First”⁴ and on the best practices of the EU countries regarding SME development policy. It intends to increase the competitiveness of the SME sector, that ensures a way-out of the pandemic crisis and will create an important foundation for an inclusive and sustainable economic growth. Therefore, the main purpose for the development of the strategy based on the abovementioned principle is to determine specific interests of the country related to SMEs, to fit relevant policy with them taking into account the successful international practice and to respond effectively to the challenges faced by SME sector through its implementation.

The priorities, goals and objectives determined by the Strategy are in full compliance with the main directions identified by the GoG Government Program. At the same time, the strategy sets target indicators, that are foreseen to be achieved by year 2025. It is also noteworthy, that the strategy includes and reflects upon the recommendations developed by the Organisation for Economic Co-operation and Development (OECD)⁵ in 2018, based on monitoring the implementation of the previous strategy, as well as the issues identified in the roadmap for Georgia by OECD in its “SME Policy Index 2020” study report⁶.

The SME Development Strategy of Georgia 2021-2025 and respective Action Plan have been developed with the support of the European Union and German Government, in close cooperation with the OECD and GIZ. In addition, the strategy was developed with the extensive involvement of Georgia’s state institutions and the private sector. The existing platform for strengthening public-private dialogue - the “Private Sector Development Advisory Council”⁷ (PSDAC), as well as „Sub-committee under the PSDAC for supporting Women Economic Strengthening“ were actively utilized in the strategy development process⁸.

⁴ „Think Small First”: A Small Business Act for Europe, 2008, https://ec.europa.eu/commission/presscorner/detail/en/IP_08_1003

⁵ OECD „Monitoring Georgia’s SME Development Strategy 2016- 2020“, 2018

⁶ OECD, SME Policy Index: Eastern Partner Countries 2020, Assessing the implementation of the Small Business Act for Europe, “Georgia: Roadmap for policy reforms”

⁷ Order #1-1/48, 03.02.2016 of the Minister of Economy and Sustainable Development of Georgia

⁸ <http://www.economy.ge/?page=economy&s=84&lang=en>

1. Georgia Country Profile

Country Profile - Georgia (2019)	2019	2020 ⁹
Population, number of people (as of January 1st)	3, 723, 464	3,716,858
GDP Current Prices	49.3 Bln. GEL	49.4 Bln. GEL
GDP Per Capita (GEL)	13,239.4 GEL	13,292.7 GEL
GDP Real Growth (Annual %)	5.0%	- 6.2%
Unemployment Rate ¹⁰	17.6%	18.5%
Gini index ¹¹	0.37	0.36
Share of population below poverty rate, (%)	19.5%	21.3%
SME Statistics		
SME share in total operating enterprises (%)	99.7%	99.7%
SME share in total employment (%)	65.0%	59.3%
SME share in total output (%)	58.4%	58.0%
SME share in total turnover (%)	44.5%	40.8%
SME share in total value added (%)	59.3%	-

1.1. Economic Development Trends

The country's long-term economic development policy is based on free market principles, where the private sector is the main driving force of the economy, that creates jobs. Accordingly, the economic policy of the Government of Georgia is directed towards the development of an entrepreneurial and investment-favorable environment, the promotion of business sector, including small and medium-sized enterprises and the rapid development of the relevant infrastructure.

During recent years, an unified state policy has been established with the priorities and directions focused on long-term, inclusive economic growth and sustainable development. However, the 2020 global

⁹ Preliminary Data (Sum of quarters of 2020), GEOSTAT

¹⁰ In accordance to new standard: in 2019-2020 years, in the framework of project initiated by the EU and EuroStat, GEOSTAT with International Labour Organization introduced fundamental changes in the methodology of Labor Force Statistics. Implementation of new standard considers changes in defining self-employees. Namely based on the new standard persons who are not market-oriented and produce agricultural products mainly (more than 50%) for their own consumption, will no longer be considered as a self-employed.

¹¹ Gini index (inequality index) represents deviation of dispersion of some parameters from their normal (equal) distribution line. At normal (equal) distribution Gini coefficient equals to zero, at absolute inequality – 1.

pandemic, that turned out to be a significant threat and tough challenge to the global economy, brought some changes into the GoG's economic policy agenda.

As for the pre-pandemic condition, in 2019 Georgia's economic growth has peaked to its highest level 5.0% during the last seven years.

Diagram 1. GDP Structure, 2019*

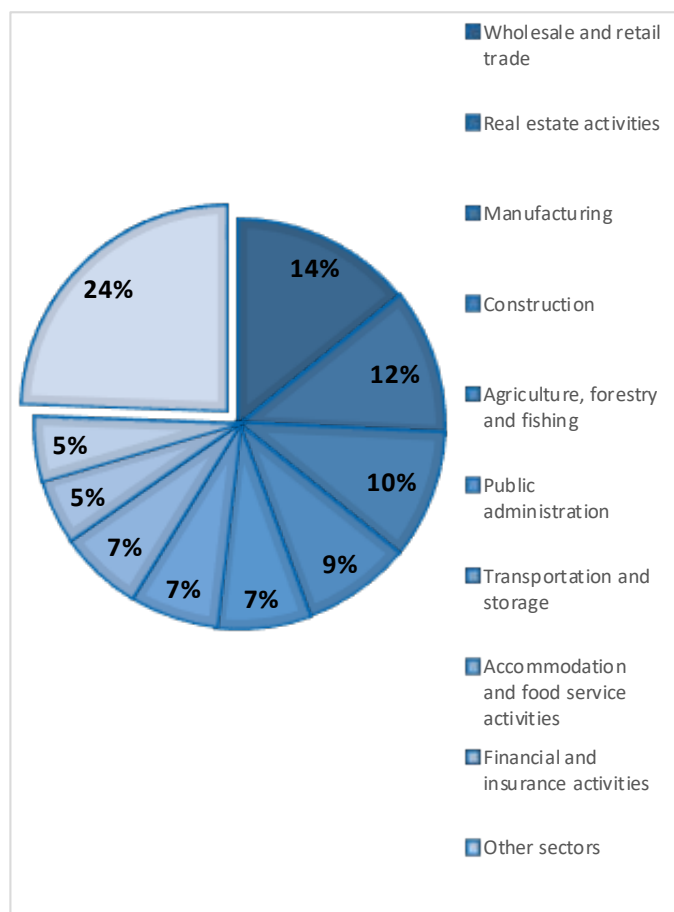
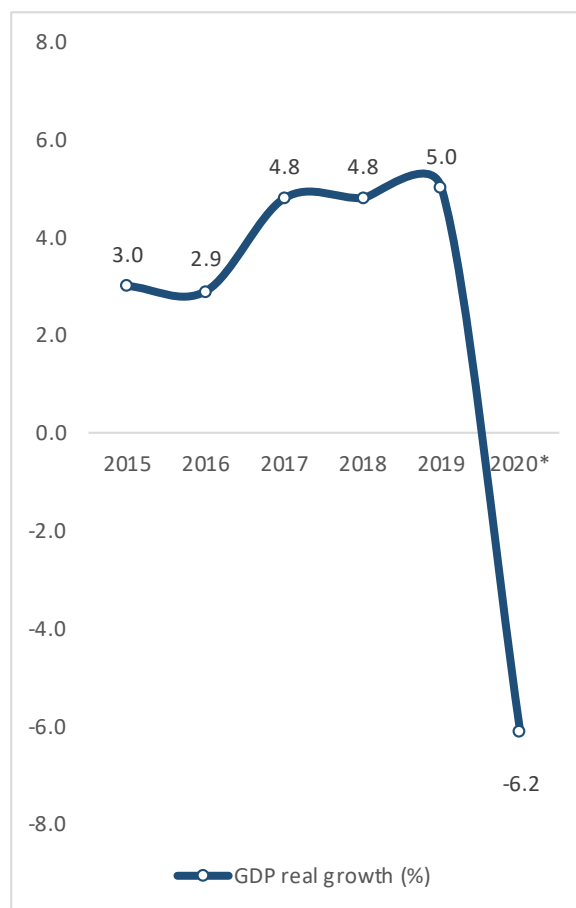


Diagram 2. GDP Real Growth (%)



Source: GeoStat

* 2020 Preliminary data

In 2019, the highest share of GDP falls on the trade sector and amounts to 14.3%. The second largest sector in the structure of GDP is real estate activities, that equals to 11.5%, while manufacturing ranks third with 10.1%.

Furthermore, in 2019, the highest GDP growth was recorded in the arts, entertainment and recreation sector, with growth of 22.1%. Water supply, sewerage, waste management and remediation activities

sector grew by 21.5%, while the information and communication sector grew by 21.4% compared to the previous year.

In 2019, the highest contribution to the formation of real GDP growth was made by the sectors of trade (1.0 percentage point (p.p)), hotels and restaurants (0.7 pp) and the arts, entertainment and recreation (0.6 pp).

The rate of Foreign Direct Investments (FDI) has been fluctuating in the years 2015 to 2019. Since the historically high rate of 2017, when the share of foreign direct investment in GDP was also high at 12.2%, the investments are characterized by a descending trend, mainly due to the completion of large investment projects (including the Baku-Tbilisi-Ceyhan oil pipeline project). In particular, in 2019, the rate of foreign direct investment has reached 1.3 billion USD, which is 24.2% less than in 2015.

In 2019, the largest share of FDIs (68.4%) falls on the following five sectors: the financial sector, energy, transport and communications, hotels and restaurants, and manufacturing industry. As for the countries, the five largest investor countries in 2019, were: the United Kingdom, Turkey, Ireland, the USA and the Netherlands (57.8% of total investments).

Regarding the unemployment, 17.6% unemployment rate was recorded in 2019. However, it should also be noted that since 2015, the overall number of unemployed as well as employed people has relatively decreased, respectively, the amount of labor force has decreased.

In 2019, the absolute poverty rate in Georgia, which represents the share of the population below the poverty line, decreased by 0.6 percentage points (in comparison with the same data of previous year) and amounted to 19.5%. At the same time, it is noteworthy that poverty reduction was observed in all age groups, as well as by gender. In particular, absolute poverty in women decreased by 0.8 percentage points, and in men - by 0.4 percentage points, amounting to 19.4% and 19.6%, respectively. A decrease was also observed in relation to the Gini coefficient and it was equal to 0.36.

Accordingly, during recent years, the economic growth has become increasingly inclusive, fueled by structural reforms implemented by the Georgian Government, state programs oriented towards improvement the competitiveness of small and medium-sized businesses, and the expansion of the social protection system, as well as equal access to economic opportunities and basic services.

Foreign Trade and Free Trade Agreements

Georgia has established a wide network of free trade agreements, among which the EU Association Agreement (*Association Agreement between the European Union and the European Atomic Energy Community and their Member State, of the one part, and Georgia, of the other part*), including a Deep and Comprehensive Free Trade Area (DCFTA), free trade agreement with the European Free Trade Association (EFTA), the free trade agreement with the Commonwealth of Independent States (CIS) and Turkey (since

2008), free trade agreement with China and Hong-Kong, MFN (Most Favored Nation) with WTO member countries, Generalized System of Preferences (GSP) with USA, Canada and Japan.

Association Agreement with the European Union stands out from the above-mentioned agreements, as in addition to the development of trade and economic ties, it envisages the legislative and institutional approximation of Georgia to the European Union. Accordingly, the mentioned agreement covers a wide range of commitments in various areas that should eventually make the Georgian market and institutions more compatible with the EU single market and relevant institutions.

As for the trends of foreign trade in 2015-2019, Georgia's foreign trade was characterized by a growing tendency. In particular, during this period, foreign trade turnover increased 1.4 times, exports - 1.7 times, and imports - 1.3 times. As a result, by 2019, foreign trade turnover reached 13.3 billion USD, of which exports comprised 3.8 billion USD (including domestic export¹² - 2.3 billion USD), and imports - 9.5 billion USD. By the year 2019, the 5 largest export products were: vehicles, copper ores and concentrates, ferroalloys, wine and medicines (54.8% of total exports), while the main export countries were: Azerbaijan, Russia, Armenia, Bulgaria and Ukraine, that accounted for more than half of exports (52%).

As for imports, the main imported products are: vehicles, oil and oil products, copper ores and concentrates, medicines and oil gases (33% of total imports), while the main import countries are Turkey, Russia, China, the USA and Azerbaijan (with 49.3% share of total imports).

In 2019, Georgia's exports to the EU countries amounted to 819.2 million USD (21.6% of total exports), which is an increase of 27% compared to 2015. As for imports, from the EU countries imports amounted to 2.4 billion USD (25.3% of total imports), which is an increase of 15.6% compared to 2015.

1.2. Global Pandemic and Economic Consequences

The Coronavirus (COVID-19) turned out to be a significant threat and a tough challenge to the global economy. The fast-growing number of infected people and the wide spread of the virus have had a significant negative impact on the world, both in terms of social and economic perspectives.

The outburst of global pandemic acted as a significant drawback for the noticeable positive trends of Georgia's economic development of the previous years. The shock caused by the pandemic was binary affecting both demand and supply chains. Most economic activities and both internal and external sources of income in the country, have been greatly affected. In particular, vast damage was done to such sources of foreign financing as tourism and exports. As for domestic economic activity, the pandemic has challenged aggregate demand that has led to a slowdown in economic activity. As a result, unemployment rates have risen.

¹² Domestic exports include export of goods produced in the country, as well as imported from abroad, the value of which has significantly changed as a result of domestic processing.

In 2021, according to the forecast of the International Monetary Fund (April, 2021), the Georgian economy will return to positive dynamics in 2021 and will have highest economic growth in the region as well as amongst European countries.

As for economic parameters of the 2020, as a result of the global pandemic and the introduced restrictions, according to preliminary data Georgia's GDP in 2020 decreased by 6.2%¹³.

Besides in 2020, exports fell by 12% (compared to the similar data of previous year) and imports fell by 15.6%. The decline in exports in 2020 was due to a decline in re-exports, however, domestic exports increased by 3.5 percent, and despite the challenges associated with the coronavirus, the volume of domestic exports in 2020 reached highest level - 2.406.9 million USD.

As for FDI, the decline here continued in 2020 and comprised 616.9 million USD according to 2020 data, which is 52.9% less than the same indicator for 2019. In 2020, the share of foreign direct investment in GDP also decreased and amounted to 3.9%.

Decreased economic activity and economic decline have negatively affected on employment rates. In 2020, the unemployment rate increased by 0.9 p.p compared to the same period of previous year and amounted to 18.5%¹⁴. Out of these, unemployment for men was 20.2% (up 1.3 percentage points) and female unemployment was 16.2% (up 0.2 percentage points). However, the labor force participation rate (economic activity rate) is higher in men than in women. In particular, in 2020, this figure was 40.4% for women (decreased by 2.7 percentage points) and 62% for men (increased by 0.3 percentage points).

2. Economic Policy and Government Priorities

The main priority of the economic policy of the Government of Georgia is macroeconomic stability, creation of a favorable entrepreneurial and investment environment, support of private sector development, provision of appropriate infrastructure and improvement of access to international markets. Furthermore, according to the main goals of Georgia's economic development policy, a top priority for GoG and at the same time, one of the main challenges of Georgia's economy is to increase the competitiveness of SME sector and ensure employment growth.

2.1. Strategic Documents

Government Program 2021-2024 "Towards Building an European State"

The main goal of the government program is to overcome the negative effects caused by the COVID-19 pandemic, the rapid recovery and development of the country's economy.

¹³ Preliminary data, Geostat

¹⁴ Data recalculated according to the newly approved standard of Geostat

The key objectives for economic development in the government program is to support the post-crisis rapid recovery and development of businesses, including small and medium-sized enterprises, that in turn would ensure job creation and overcoming extreme poverty.

In order further to promote the development of small and medium enterprises and to introduce international best practices, the program emphasizes the importance of the presented strategy.

The EU-Georgia Association Agreement

Chapter 5 of Title VI of the Association Agreement "Industrial and Enterprise Policy and Mining" emphasizes the implementation of SME policy in accordance with the principles of the European Small Business Act. The implementation process will be monitored within the framework of the EU-Georgia regular dialogue.

Furthermore, the Medium-Term (2021-2023) Action Plan for the Implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA) between Georgia and the European Union among its objectives outlines the following measures for SME support:

- support for small and medium enterprises in terms of access to finance and/or technical support;
- increasing the export opportunities of small and medium-sized businesses through the training of export managers;
- organizing meetings for small and medium-sized enterprises to train entrepreneurs in the process of approximation of Georgian legislation with EU legislation and etc.

Agriculture and Rural Development Strategy of Georgia 2021-2027

The vision of the strategy is, diversification/ development of rural economic opportunities, overall improvement of social conditions and living standards based on the sustainable development principles.

At the same time, with regards to the socio-economic situation in rural areas, in the strategy the growing productivity of small and medium enterprises is identified as one of the strong points, which mainly supported by the development of the non-agricultural sector.

Regional Development Program of Georgia 2018-2021

The program, that aims to promote the competitiveness of the country and its regions, balanced socio-economic development and improvement of living standards, among other important priorities pays special attention to support of small and medium enterprises, sectors with potential to grow and exports, as well as to promotion of human capital development.

Strategy on the Development of the High Mountainous Settlements of Georgia 2019-2023

The strategy aims to improve significantly the living standards of population inhabiting in mountainous settlements and to mitigate the demographic situation there by 2023, taking into account the specific needs of mountainous regions.

The strategy identifies 13 objectives, including support to entrepreneurship, increase access to public services, support tourism development, environmental and natural resource management, access to quality education and the introduction of innovative management/service systems.

National Waste Management Strategy 2016-2030

One of the main pillars of the green economy is waste management. Therefore, it is noteworthy that the National Waste Management Strategy 2016 - 2030, aims to harmonize the process of waste management development in Georgia with the European waste management policy.

According to the strategy: "Georgia aspires to become a country focused on waste prevention and recycling", which along with other important activities can be achieved through activities such as waste prevention, reuse, recycling and recovery measures, introduction of separation at the source of waste generation, introduction of an extended producer responsibility (EPR). At the same time, given that most waste-generating private companies do not have a clear idea on waste recycling and waste management in general, combined with the low public awareness of the issue, the strategy considers raising awareness as most important direction.

The Unified Strategy of Education and Science of Georgia 2017-2021

In "The Unified Strategy of Education and Science of Georgia 2017-2021" among other priority directions, it is emphasized importance of ensuring the compliance of education programs with current and future labour market demands, vocational training linked to employment opportunities, connection of higher education, science, technology and innovation with sustainable development of the country's economy and ensuring the development of entrepreneurial skills at every stage of academic ladder.

2.2. Economic and Institutional Reforms

During recent years, Georgia has implemented significant economic reforms with the main purpose to promote the further development of the business and investment environment. Due to the liberal legislation, reduced administrative barriers and tax burdens, improved public services and reduced corruption, Georgia has become a regional leader in terms of one of the most favorable business environment, which is enhancing year by year.

2.2.1 Starting Business and Business Services

The reforms undertaken by Georgia led to the establishment of an effective business registration and service system and turned Georgia into one of the leading countries in the world in terms of the ease of starting business. This is also confirmed by international studies. In particular, according to the World Bank 2019 study ("Doing Business 2020"), Georgia ranks 2nd among 190 countries in the world in terms of ease of starting business. The "one-stop shop" principle established by the LEPL "Public Services Development Agency" is operational and available to everyone. Any interested party in registration services can apply to the LEPL "Public Services Development Agency" and its territorial offices in the regions of Georgia, houses of justice, community centers and other authorized users of the "Public Registry". Additionally, in order further to support business sector, an unified e-portal of electronic services was established in 2018 my.gov.ge, where all services necessary for business registration became easily accessible, entrepreneurs can register a business without leaving home or office, make changes to registered data, become value added tax payer etc. without visiting the Revenue Service, based on a one-stop-shop principle.

Business-related procedures have been further simplified through introduction of an innovative e-meeting service. The owners/partners of an Limited liability companies (LTD) were given the opportunity to save time and organise e-meetings of governing bodies from anywhere in the world, to invite, conduct, make decisions and submit electronically signed documents for registration.

Since 2020, 184 services of public registry have been remotely available on the e-portal "my.gov.ge". The interested persons can make use of the following services without leaving their desk: real estate registration (purchase, gift, mortgage, rent, etc.), economic activity (registration, prolongation and termination of activity), public restrictions and all services of address registrations, request information and copies of various documentation etc. Additionally, standard electronic forms/templates of the documentation to be submitted for registration are made available via the e-portal, that has simplified the procedure for filling out the document and minimized the risk of errors when compiling the document. Some of the remote services are also provided via e-mail.

Despite all the significant measures taken over the recent years to develop online services, including the unified e-portal my.gov.ge, this direction still needs further refinement in order to make it more user-friendly and widely accessible.

2.2.2 Obtaining Business License/Permit

As a result of the implemented reforms, the number of fields regulated by licenses and permits in the country has been reduced by almost 85%. Only those activities or actions are subject to the licensing policy that are related to an indefinite variety of people, are characterized by higher risk to human life or health, are presenting particularly important state or public interests or are related to the consumption of state resources. One law defines an exhaustive list of types of license and permits, furthermore, it is

prohibited to introduce licenses and permits by another legislative or sub-legislative act for activities and actions not defined in this law.

At the same time, the system of licenses and permits has been procedurally simplified as a result of the reforms implemented in the country and is subject to the "one-stop shop" principle, which implies an administrative procedure where the licensor or permit issuer provides additional licensing approval from another administrative body. The system of licenses and permits in addition is based also on the principle of "Silence implies consent", which means that the license/permit is considered to be issued if the decision to issue or refuse to issue a license has not been made within the established period.

Despite the above-mentioned reform of license/permit policy, it is important further to refine it, as well as to increase and improve its electronic accessibility.

2.2.3 Taxation System

Over the recent years, Georgia has implemented significant reforms in the taxation system, as a result the tax administration system has significantly modified and become more efficient. In particular, the realization of tax obligation has been simplified by introducing of an electronic system and developing user friendly online services.

According to a new model of the profit tax, non distributed profit have been released from taxation. Also, in accordance with the Association Agreement, the VAT legislation have been fully approximated with the EU legislation. A fully automatic VAT refund system has been introduced. Implemented reforms resulted in significantly reduced time for tax accounting as well as the total tax burden, with a share of 9.9% in total profits, that makes Georgia one of the global leaders.

Notwithstanding of the mentioned above, it is important to continue the reforms, including the process of further digitization of the tax administration, as well as to continue reforms aiming at implementation of an effective system for tax disputes resolution.

2.2.4 Fighting Corruption

As a result of reforms toward liberalization, democratic governance of state institutions and electronic access to public services, the corruption indicators in the country have significantly decreased. According to the Transparency International's Corruption Perceptions Index, Georgia ranks 45th in the world, ahead of some EU countries and is a leader in the region.

Despite of the achieved results, it is important to maintain the fight against corruption as a priority direction and to continue reforms in this area, including increasing electronic access to public services and further simplification of administrative procedures.

2.3. Assessment of Entrepreneurial Environment in International Rankings

During the last 8 years the GoG implemented important and comprehensive reforms for the improvement of business environment and entrepreneurship promotion in the country. The reforms ongoing in Georgia are positively evaluated by the international research organizations and are of high interest of international community. Exactly the successful and effective implementation of the systemic reforms give rise to the significant improvement of Georgia's position in leading international rankings, that is also positively reflected on the image of Georgia as a reformatory country.

In this respect it worth to mention the World Bank „**Doing Business**“ ranking, where in 2020 Georgia positions in top 10 most successful countries in improving the business environment, which consistently have improved this indicator over several cycles in World Bank's ranking.

Georgia ranks 7th among 190 countries worldwide, where starting a business and registering a property is possible with only one single procedure in exactly one day; the tax burden is minimal and the ease of administering the tax system and providing favorable environment for taxpayers, are the results of numerous systemic reforms.

In the „**Index of Economic Freedom**“ of the Heritage Foundation, Georgia ranks 12th in 2020 with the status of „Mostly Free“ country. The index rates countries by the rule of law, the size of government, the effectiveness of regulations, and the open market. It should be noted that according to the survey, the Georgian economy continues its impressive 7-year growth in various areas of freedom, such as the elimination of corruption, reduction of regulations and tax simplification. Numerous reforms implemented by the GoG in recent years have contributed to the improvement of the country's economic freedom in all aspects.

Georgia ranked 8th out of 162 countries in the world in the Fraser institute's 2020 "**World Economic Freedom**" rating. The improvement of country's position in the rating was resulted by the number of factors, such as: the positive growth rate of the country's GDP in recent years, correct and target oriented state policy of transfers and subsidies, decrease of government's share in total consumption, effective tax reform carried out in the country, creation of favorable business environment for investors and legal systemic reforms, implemented by the government.

The World Bank's „**World Governance Indicators**“ evaluate 214 countries around the world in six areas of governance, including: governance effectiveness, quality of regulations and other. It is worth to mentioned , that in 2020, Georgia's score for the indicator of "governance efficiency" reached the historical maximum and ranked 49th with 76.92 score. In the indicator of "Regulation Quality", Georgia earned 82.69% of the 100% rating scale and ranked 37th in the world.

The „**Global Competitiveness Index**“ (GCI) of the World Economic Forum assesses the competitiveness of the country and analyzes the factors that play important role in shaping the business environment and

are contributing to the growth of productivity and competitiveness of the country. According to the report of GCI 2019, Georgia improved its scores in 6 indicators out of 12. Amongst the improved indicators are financial system, business dynamism and innovative opportunities.

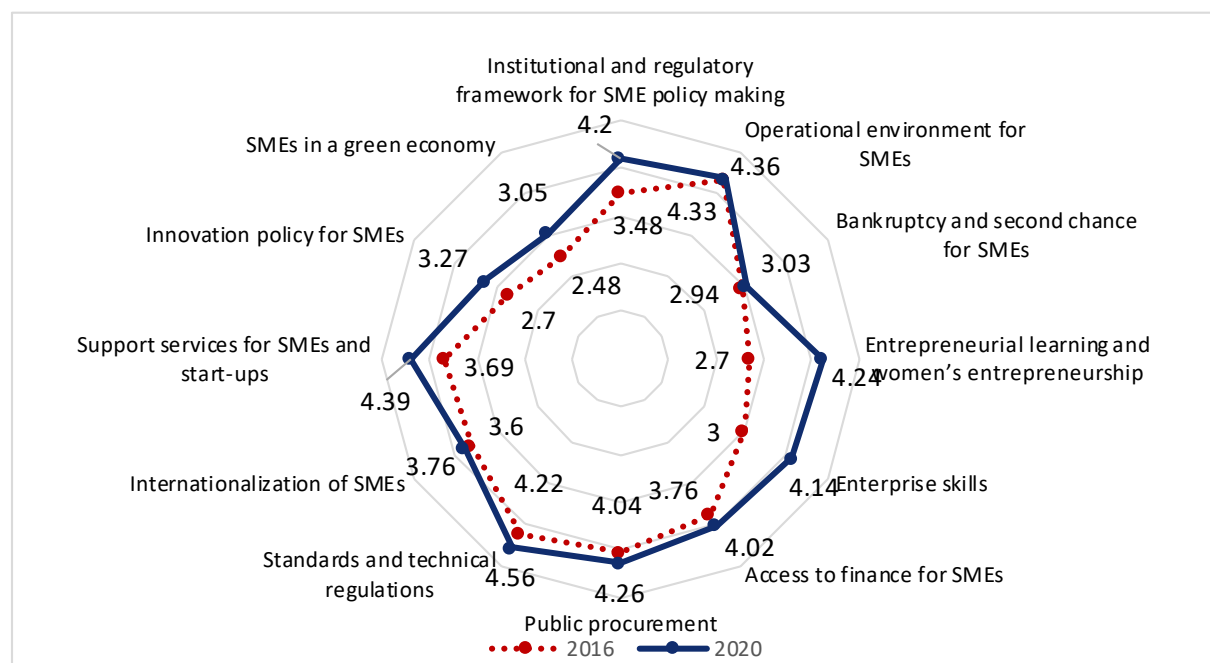
It should be mentioned also the „SME Policy Index 2020“ - the research of Organisation for Economic Co-operation and Development (OECD), which evaluates the countries in light of compliance of SME support policy with the European Small Business Act.

The OECD „SME Policy Index“ evaluates Georgia in line with the other Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Moldova, Ukraine) in terms of SME policy.

The ranking evaluates the Eastern Partnership countries according to 12 components, which then are divided into 34 subcomponents. Countries are evaluated from 1 to 5 points in terms of SME policy.

In the ranking of 2020 Georgia has achieved unprecedented success. According to the report, Georgia's rating and its score (compared to the previous 2016 rating) improved in 12 out of the all 12 components, while in 9 out of 12 components, the country was rated with the highest scores among the Eastern Partnership countries.

Diagram 3. SME Policy Index (OECD)



According to the OECD report, Georgia has made further progress and achieved significant success due to better strategic approach to the development of small and medium-sized enterprises and the implementation of relevant targeted initiatives. At the same time, the research underlines that Georgia has taken particularly impressive steps in the areas of entrepreneurial learning, as well as for improvement of the operating environment of SMEs. However, according to the report, there is room for further improvement with regard to the areas like bankruptcy and second chance; SMEs in a green economy; innovation and internationalisation of SMEs.

In addition to the above mentioned, according to the OECD research - “Investment Policy Review of Georgia” in the FDI Regulatory Restrictiveness Index, Georgia ranks 8th among more than 80 countries as one of the most open economies in the world in terms of attracting foreign investment.

As regards gender equality, according to the World Economic Forum “Gender Gap” report Georgia has achieved great progress and in 2021 ranked 49 out of 156 countries (compared to 2017, where Georgia was ranked 95 out of 144 countries). On “Economic Participation and Opportunity” component, Georgia was ranked 74 in 2017 and in 2021 been promoted by 10 positions ranked 64.

3. Small and Medium Entrepreneurship

In Georgia, as well as worldwide, the development of small and medium size entrepreneurship is one of the main priorities in terms of economic development of the country and represents a great challenge for the government.

In General, for the development of entrepreneurship and particularly for SMEs, the most important issue is macroeconomic stability in terms of formation of an attractive investment environment, that in its turn, represents the basis for creation of competitive environment and productivity growth.

Today the SME sector share is equals to 99% of all existing active enterprises in Georgia, that clearly shows its importance, both in terms of economic and social point of view.

In a market economy, in terms of social impact, the greatest role for handling employment problems lies on the development of SMEs, as they employ a major part of the population and ensures the growth of their income.

Noteworthy is the fiscal effect of SME development, that has a positive impact on the state budget, both on revenue as well as expenditure parts. SME development on the one hand, provides budget revenues in the form of taxes, and on the other hand, helps to reduce budget expenditures, as the SMEs increase incomes of employees, as a result reduce the need for social transfers from the budget.

3.1 SME Definition and Criteria

Within the framework of the 2016-2020 SME Development Strategy of Georgia, the definition of small and medium enterprises has been updated. The initial definition of SMEs was developed in 2002 and according to the EU definition, was based on the turnover of enterprises and the average annual number of employees. However, the established limits of the criteria did not comply with modern EU criteria.

Respectively, as a result of the analysis of the existing definition of small and medium enterprises, the study of international practice and the discussions with stakeholders, new criteria for SMEs both in terms of number of employees and turnover of enterprises were developed:

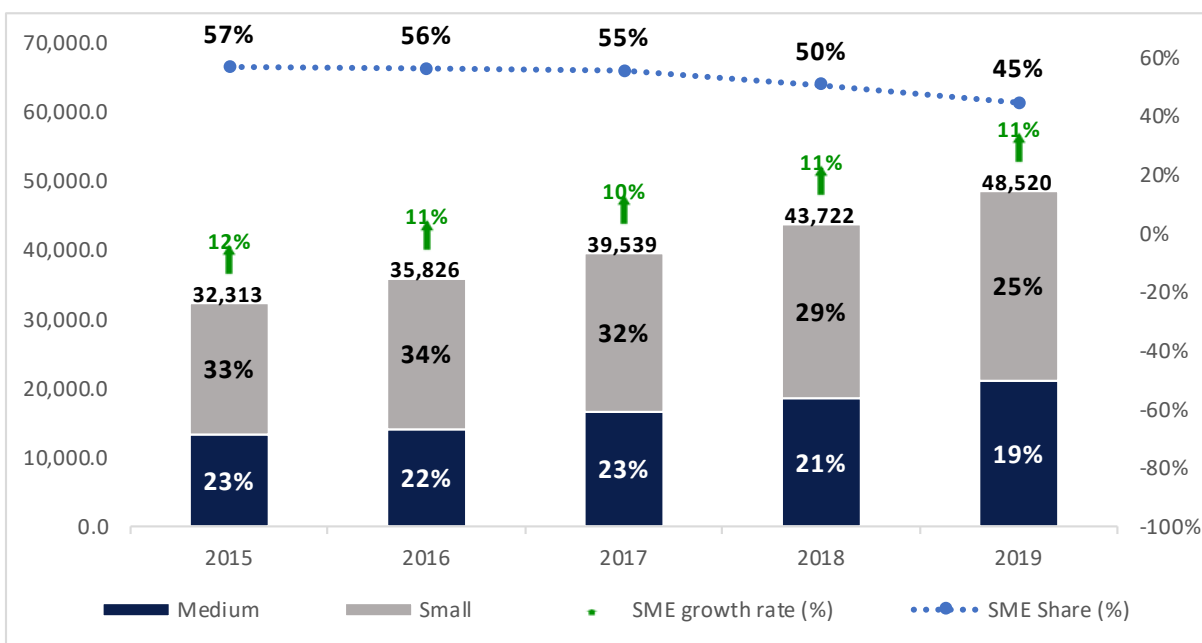
Enterprise type	Annual Employment	Annual Turnover
Small	Up to 50 employees	Up to GEL 12 million
Medium	From 50 up to 250 employees	From GEL 12 million up to GEL 60 million

3.2 SME Statistics¹⁵

During the years 2015-2019, significant progress was recorded in all parameters of entrepreneurial activity in Georgia. In particular, the turnover of the business sector increased 1.9 times, the output - by 1.6 times, and the number of employees increased by 1.2 times.

In 2019 the **turnover** of the business sector in Georgia amounted GEL 109 billion, 90% of which is generated from 5 sectors - industry, construction, trade, transport and logistics, art and recreational industry. The SME turnover is also increasing, which amounted to GEL 48.5 billion in 2019, representing 44.5% of the total turnover.

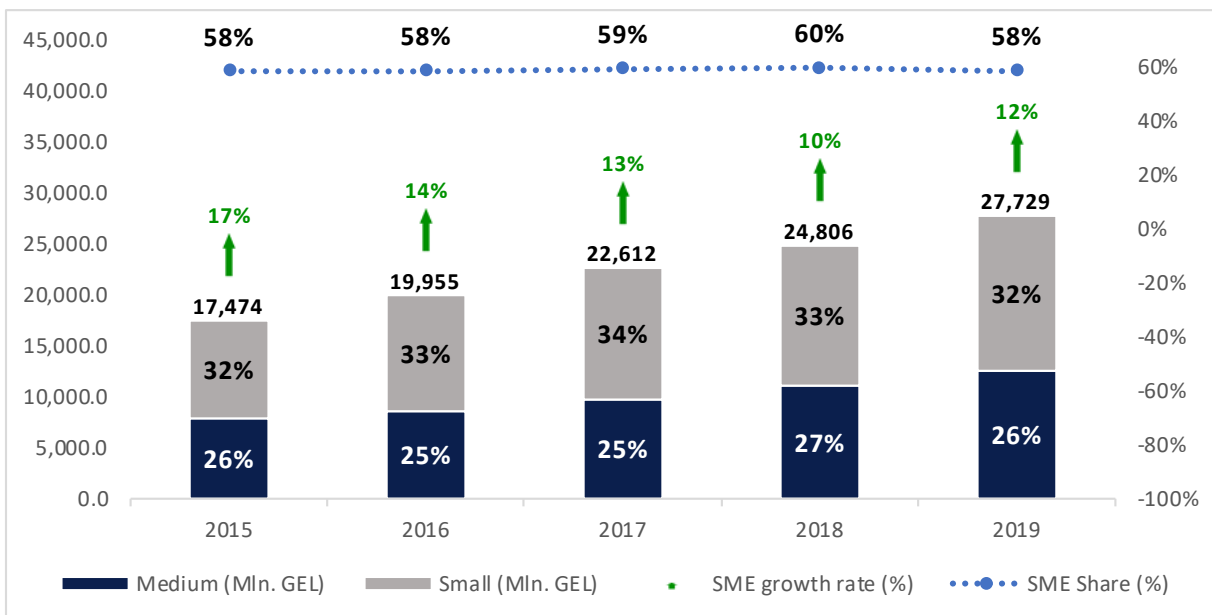
Diagram 4. SMEs turnover



The share of SMEs in total output is different, particularly, in 2019 the **output** of Small and Medium sized Enterprises was GEL 27.7 billion and accounted 58% of total output. Output of Medium-sized enterprises represented 26%, whereas of small enterprises accounted 32% of the whole business sector.

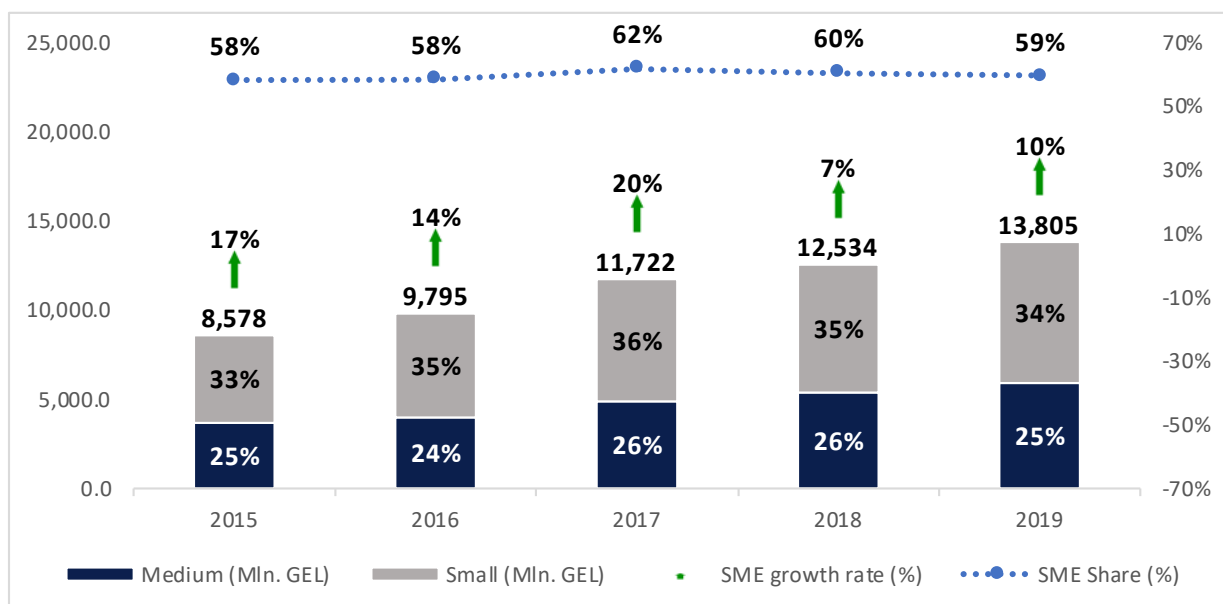
¹⁵ Source: Geostat

Diagram 5. SMEs Output



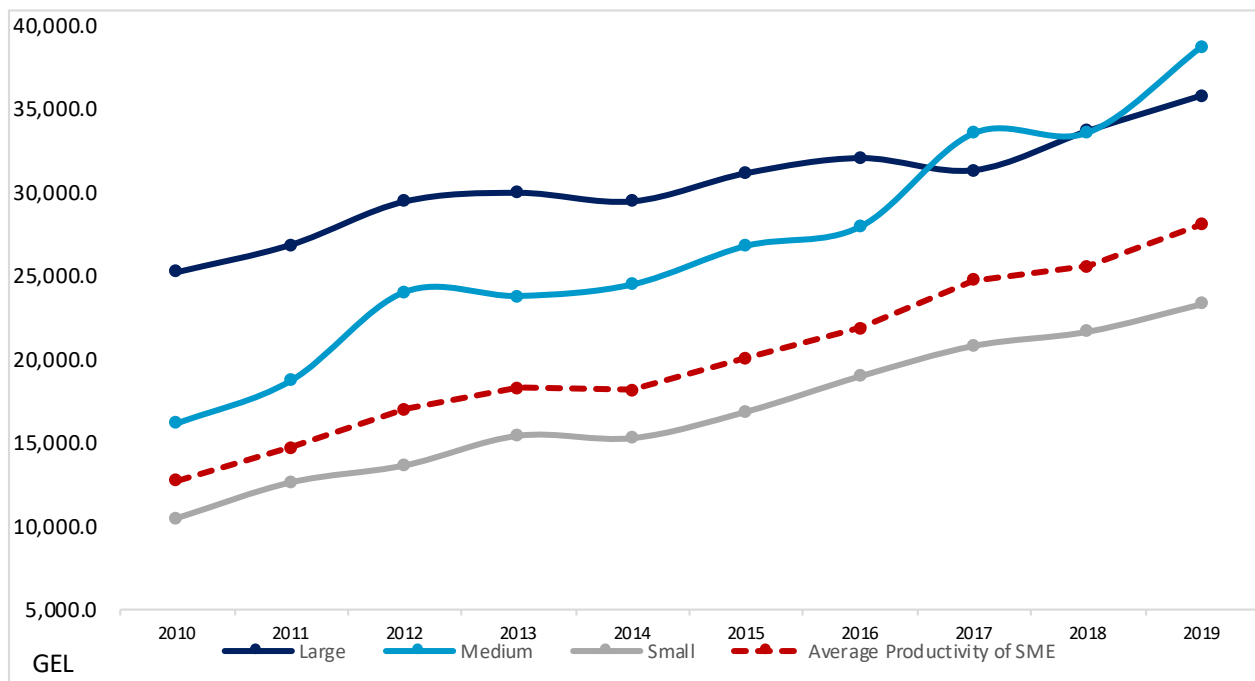
The **value added** generated in the business sector in 2019 amounted to GEL 23.3 billion. The share of SMEs in the total value added was equal to 59%, in nominal terms - GEL 13.8 billion.

Diagram 6. SMEs value added



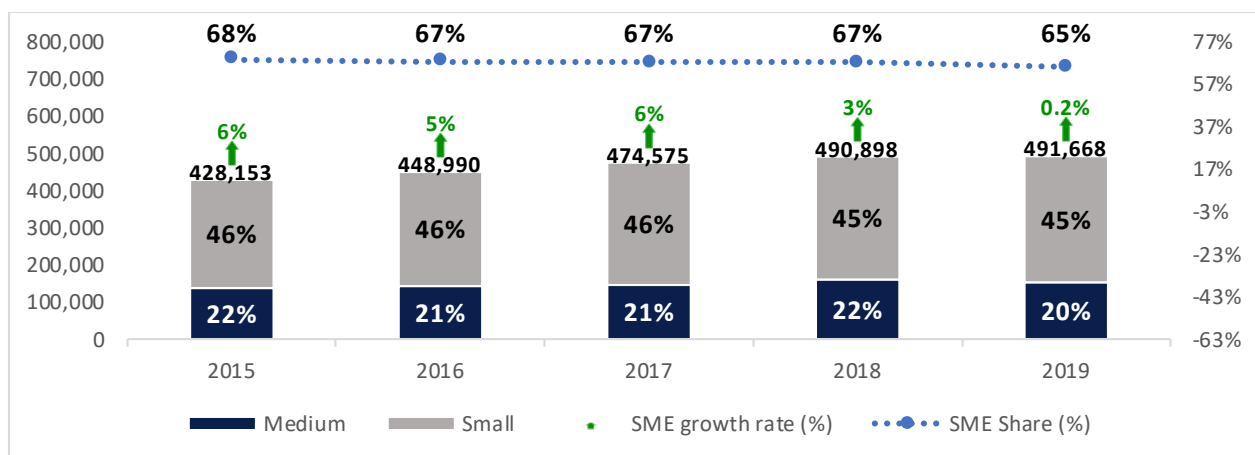
The **productivity** of SMEs amounted to GEL 28,077 in 2019. The productivity of medium-sized enterprises amounted to GEL 38,728 while the productivity of small enterprises amounted to GEL 23,287.

Diagram 7. SMEs Productivity (GEL)¹⁶



In terms of **employment** in the business sector, one of the largest is small enterprises, where 339.2 thousand people were employed in 2019, which accounts for 44.8% of the total employment. The share of employment in SMEs is equal to 65% in total.

Diagram 8. Number of Employed in SMEs

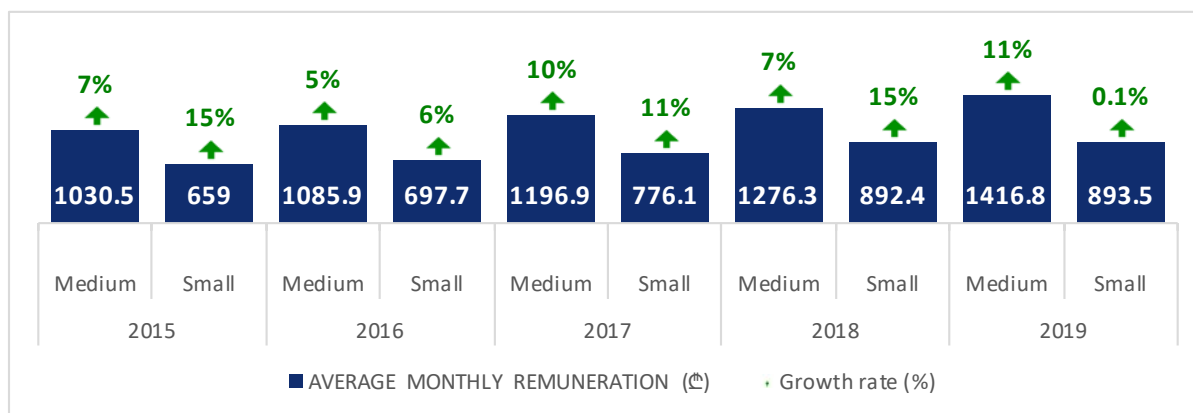


In 2019, the labor average monthly **remuneration** in the business sector amounted to GEL 1,161.7. The labor average monthly remuneration in medium enterprises amounted to GEL 1,416.8, which exceeds the

¹⁶ Productivity=value added / persons employed

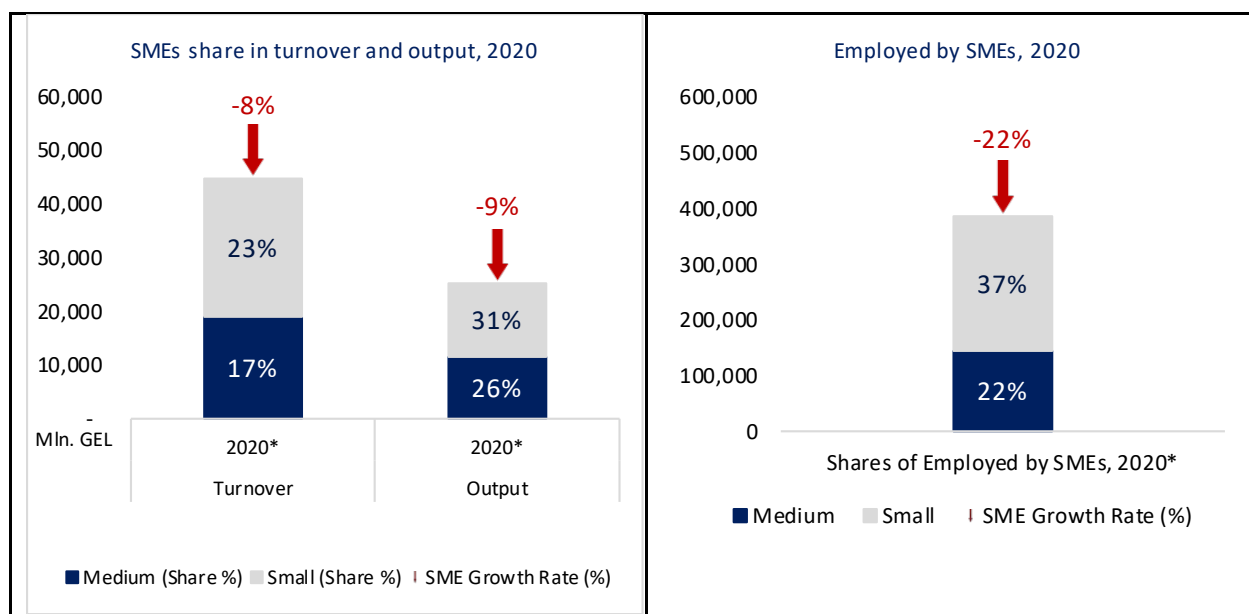
average rate of the business sector, as well as the labor remuneration of employees in large enterprises. Remuneration in small enterprises amounted to GEL 893.5.

Diagram 9. Average Monthly Remuneration of Employees in SMEs, Gel

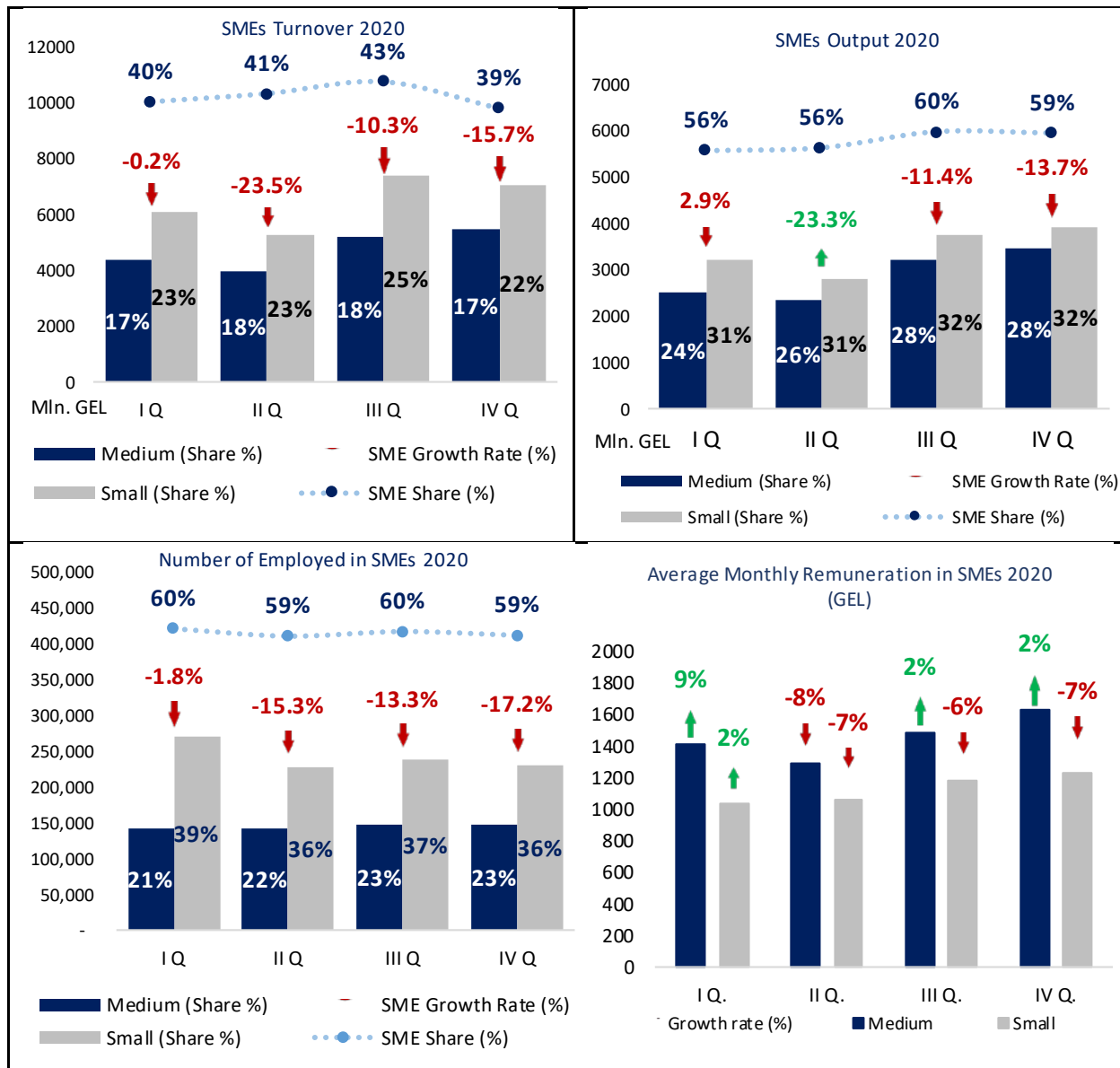


As for the 2020 data, global pandemic and the resulting constraints had significant impact on business development. As a result in 2020¹⁷, a significant decrease in terms of turnover, output and employment of SMEs was recorded. In particular, in 2020, the turnover of small and medium enterprises decreased by 8%, output - by 9%, and employment - by 22% compared to the same data of SMEs of the previous year. In addition, according to the quarterly data of 2020, the growth amongst mentioned indicators, compared to the same period of the previous year, was observed only in terms of output (2.9%) and only in the first quarter of 2020.

Diagram 10. Annual and Quarterly statistics of SMEs, 2020



¹⁷ 2020 preliminary data (summary of quarters), GeoStat



According to a PwC survey „Follow-up Survey of Georgian Business in the Face of the Covid-19 Pandemic“ (October 2020), the majority of businesses surveyed believe that decreased aggregate demand is the most significant negative impact of the pandemic on all sectors.¹⁸ As a result of the negative impact of the pandemic, 68% of companies surveyed, mention that their revenues have at least reduced by half since May 2020. In sectoral terms, the biggest loss had the hotel and restaurant sector (84% of companies mention halved revenues), followed by agriculture (halved revenues in 59% of companies), construction

¹⁸ http://ics.ge/_InvestorsCouncil/files/COVID-19%20OCTOBER%20SURVEY%20ENG.pdf

(36% of companies) and trade (34% of companies). Noteworthy is that 75% of the companies surveyed renewed their operations after the restrictions were removed.

This research is very important, as the small and medium-sized businesses are more vulnerable to crisis.

At the same time, according to the World Bank's Enterprise Survey "Covid-19 Response" (Georgia 2020 - 2nd round), on average, 46% of companies in Georgia had to delay and reschedule payments for all types of lenders (e.g., government, private suppliers, etc.) as a result of the Covid-19 crisis in Georgia. This figure has increased after the "first wave" of spring (32%). This indicator of the companies with problems, reflects the severity of liquidity problems resulted by the pandemic in the private sector.

3.3 SME Support Institutions and Programs

3.3.1 State institutions

1. Enterprise Georgia

The Agency "Enterprise Georgia" (LEPL) was established in 2014 and represents the main state institution for supporting entrepreneurship, in particular SME, in the country. The aim of the Agency is to increase competitiveness of private sector, using the entrepreneurship support tools, as well as to support export growth and to encourage foreign direct investments attraction. Following these aims, the agency has 3 key directions: 1) Business Development; 2) Export Support; 3) Attraction of investments.

Business development direction includes various mechanisms necessary for the development of entrepreneurship in Georgia, among them programm - „Produce in Georgia“ which considers the following: Industrial component that includes co-financing of an interest rate on a loan approved by a commercial bank or a leasing company; The direction of the hotel industry and tourism services, which enables entrepreneurs to develop the hotel businesses and create new jobs; Technical assistance, within the framework of which the beneficiaries are being reimbursed for the expenses occurred by information consulting services within the established limits; The micro and small grants program, aiming the development of micro and small businesses, establishment of modern entrepreneurial culture and creation of new jobs, provision of necessary financial support and technical assistance for starting a business and / or re-equipping an existing one.

The credit guarantee scheme of the State Program "Produce in Georgia" is another important component, which aims to improve access to finance for SMEs that do not have the ability to meet their loan requirements, to promote lending to the economy and to ensure inclusive economic growth. Additionally, the agency has developed new programs with the purpose of supporting particularly affected industries by the pandemic.

In addition to abovementioned, for stimulation of export, for increase the country's export potential and for popularization of Georgian products, the export direction of the agency permanently works on identification of sectors with high export potential and further supports them.

With the organization and co-financing of the “Enterprise Georgia”, Georgian exporters participate in international exhibitions and other export-promoting events every year. In addition, for the purpose of business education, the Agency, together with the leading Georgian universities, has been conducting the Export Managers Certification Course since 2015, which includes all important modules on export-related operations.

The goal of the direction “Invest in Georgia” is the attraction, promotion and development of foreign direct investments in Georgia. In the framework of this direction the agency pro-actively communicates with the potential investor companies, in order to inform and interest them in investment opportunities of the Country. Furthermore on the international level, it ensures awareness raising about Georgia's investment potential. This direction plays a role of a mediator between foreign investors and the GoG in terms of providing services based on "one stop shop" principle.

2. Georgia’s Innovation and Technology Agency (GITA)

Georgia’s Innovation and Technology Agency was established in 2014 and is the main state institution supporting the development of knowledge and innovative technologies based economy. Among the Agency’s goals are coordination of the process of creation and development of an innovative ecosystem in the country, stimulation of innovation, modern technologies, research and development (R&D), promotion of commercialization and application thereof, creation of innovative start-up companies and increase of their competitiveness, etc.

To achieve the mentioned objectives, the agency has both components financial assistance and the acquisition and delivery of relevant services for start-up innovative companies.

3.3.2 SME supporting Business Associations

1. Georgian Chamber of Commerce and Industry (GCCI)

The Chamber is established as a public law corporation and enjoys a high degree of independence. Its main functions are the provision of informational and consulting services for businesses, promotion of professional education and qualification raising of business entities, promotion of export and investment activities, support of dispute resolution between business entities, through creation of alternative dispute resolution tools etc. Chamber membership is voluntary. Today, GCCI has 1536 members, 97% out of which are SMEs. GCCI has eight regional offices.

2. Georgian Small and Medium Enterprises Association (GSMEA)

Georgian Small and Medium Enterprises Association is an independent organization with an objective to protect the interests of SMEs and provide consulting, to establish active communication between small and medium-sized businesses with state institutions, financial institutions and international organizations. The association has 4,500 members currently.

3. Georgian Employers Association (GEA)

Employers association represents an independent organization with about 2000 members, 65% of which are small and medium businesses. The association provides consulting services to entrepreneurs and implements various programs for the development of entrepreneurial knowledge, entrepreneurial skills, etc.

4. The Vision, Goal, Development Methodology and Main Priority Directions of the Strategy

Vision of the Strategy

Ensuring inclusive and sustainable economic growth by promoting the SME development.

Goal of the Strategy

The main goal of the 2021-2025 SME Development Strategy of Georgia is to support further development of SME sector and to restore the pre-pandemic positive trends.

Development Methodology of the Strategy

The active working process on elaboration of 2021-2025 SME Development Strategy has been commenced with the issuance of the Order of the Minister of Economy and Sustainable Development of Georgia on the “Establishment of Steering Committee and respective Working Group for the elaboration of Georgia’s SME development Strategy (2021-2025) and its Action Plan (2021-2022) (№1-1/38, 21.09.2020)”.

Once the working group¹⁹ was established in accordance with the order, all members were provided a training course on public policy analysis, planning, monitoring and evaluation, focusing on the newly adopted regulations, which since 1st of January 2020 determined the unified procedures, standards and methodology²⁰ of developing state policy and strategic documents of GoG. The full cycle of strategy development (policy planning) was carried out in accordance with the recommendations of above-mentioned regulations and the relevant guidelines.

The Economic Policy Department of the Ministry of Economy and Sustainable Development of Georgia was identified as a coordinative mechanism for the Strategy development. The timeline of the entire process was also developed.

The working process was agreed to be inclusive, with equal participation and sharing responsibilities from all the parties involved in the Working Group.

¹⁹ SME Strategy Working Group consists of the representatives of state institutions, civil society and business associations.

²⁰ One of the main directions of Public Policy Reform in Georgia that is based on the European model.

Each member institution of the Working Group has worked on the situation analysis individually, according to their respective sectoral perspectives. To facilitate the process, the members of the working group were provided with international assessments and reports evaluating Georgia's SME policy. According to the decision of the working group, the members of the working group, from the civil society and business associations, were asked to be involved in situation (problems) analysis and present their view. Their feedback was duly incorporated in the situation analysis. The existing strategies, concepts and obligations under international treaties were also taken into consideration in the Strategy development process, together with the national legislative and institutional framework. In addition, the OECD Recommendations and a Roadmap presented in the "SME Policy Index 2020" served as a solid basis for implementing best international practice.

In order to discuss the findings identified during the situation analysis stage and to draw up a logical framework for the strategy, active working process was carried out remotely. According to the main priorities identified during the situation analysis, the Economic Policy Department of the MeESD prepared the template of the logical framework and disseminated among the working group member institutions, that have individually filled out the logical framework.

In addition, the OECD, based on research and monitoring, conducted in accordance with a basic principles of the European Small Business Act, identified the main priorities of the strategy and initiated them at a meeting in the format of public-private dialogue (23.09.2020). The meeting was attended by the members of the Steering Committee as well as of the working group set up by the abovementioned order of the Minister of Economy and Sustainable Development of Georgia.

The main priorities of the strategy identified by the working group and ones initiated by the OECD, were in full compliance with each other.

In order to discuss and reconcile the vision, goals, objectives and relevant indicators of the strategy, a significant number of remote meetings were organised with the representatives of respective institutions using multiple online platforms.

After the completion of the work on the logical framework (Annex N1 of the strategy), the text of the strategic part of the policy document was drafted by the Working Group member institutions, also other parts of the strategy as defined by the abovementioned regulations on the development of policy documents.

The draft SME Development Strategy was presented to the Delegation of European Union in Georgia, OECD and GIZ. After a number of discussion rounds and exchange of feedback with international partners, drafts of the Strategy and logical framework were evaluated positively by international partners.

As a next step, the draft Strategy was presented to an extended meeting of the Private Sector Development Advisory Council (7.05.2021), after that the draft was disseminated for comments and recommendations. The draft Strategy was also submitted to the GoG Administration. The received recommendations have been reviewed in detail by the line ministries and some part of them have been reflected in the Strategy and logical framework.

Detailed information regarding the considering of the opinions and recommendations received as a result of public consultations is presented in the summary report of the respective public consultation meeting (Annex № 2 of the strategy).

The Main Priority Directions of Georgia's SME Development Policy

The main Priority Directions of SME Development Strategy 2021-2025 are as follows:

1. Refining Legislation, institutional strengthening and improvement of the operational environment for SMEs;
2. Promoting the development of entrepreneurial skills and raising the entrepreneurial culture of SMEs;
3. Improving access to finance for SMEs;
4. Promoting the export growth, access to market and internationalization of SMEs;
5. Promoting electronic communications, information technologies, innovation and R&D for SMEs;
6. Promoting the development of women entrepreneurship;
7. Promoting the development of Green Economy for SMEs.

Target Indicators

The target indicators to be achieved by 2025 as a result of the effective implementation of the SME Development Strategy are (baseline – 2019):

1. SMEs value added grows by **20%** in nominal terms.
2. The number of employees in SMEs increases by **10%**.
3. SMEs productivity grows by **20%**.

5. Main Priority Directions

Priority 1: Refining Legislation, institutional strengthening and improvement of the operational environment for SMEs

Situation Analysis

Despite of the favorable business and investment environment in Georgia, along with the creation of a favorable environment in recent years, particularly for small and medium enterprises, there is a number of directions where further enhancement is needed for setting up a free and competitive operational space for SMEs for their further growth and development.

In terms of refining legislation, attention should be paid to the Georgia-EU Association Agreement, which considers the gradual approximation of Georgian legislation with the EU one, which is an ongoing dynamic process and covers a variety of areas that have an impact on SMEs, including company law, customs legislation, etc. In the process of development and implementation of mentioned legislation, it is crucial to consider the principle - "Think Small First" of the European Small Business Act, so that the regulations introduced by the new legislation do not put a disproportional heavy burden on SMEs and do not hinder their development.

In relation to the abovementioned, the effective functioning of the Regulatory Impact Assessment (RIA) system is particularly important. Even though the RIA system has developed in recent years, its scope is still limited, as it does not include so-called "RIA SME Test" and covers only the government-initiated changes in identified legislation.

As mentioned above, several state institutions supporting SMEs have been established in Georgia since 2014. In addition, different associations supporting SMEs have been operating in the country for years. However, in the face of existing challenges, especially the challenges caused by Covid-19 pandemic, existing supporting tools may not be sufficient to address the problems that entrepreneurs are facing, and more assistance might be needed through maintaining/strengthening existing tools and developing new ones.

Besides, a comprehensive statistical record of the activities of SMEs is of crucial importance for the development and implementation of effective public policy. Despite the significant steps taken towards this direction during recent years, which primarily considers the change of the definition of SMEs and its approximation to the international standards, as well as the segregation of SMEs in the production of statistical data, there are still areas where producing of statistics is not carried out with consideration of enterprise sizes. This significantly hinders the assessment of SMEs development dynamic and is particularly relevant in assessment of the damage caused by Covid pandemic.

In order to create a more competitive environment in Georgia, the legislative framework regulating competition has been significantly enhanced in recent years and the mandate of the respective authority has been expanded. It should be underlined that in 2020, as a result of changes in the competition framework legislation, the mandate of the Competition Agency and the relevant regulations for ensuring more competitive environment in the country were significantly strengthened. In particular, in September 2020, the Law of Georgia “On Competition” and related sub-legal acts were substantially amended (entered into force on 4 November, 2020). As a result of the amendments, national competition legislation was approximated to the fullest extent to the standards used in the EU. Amended legislation foresees provisions on unforeseen on-site inspection, on the issuing of recommendations by Competition Agency, etc., therefore, in order to ensure competitive environment for SMEs it is important how those new rules and Agency’s powers will be enforced in practice. Respectively, the enforcement of the enhanced legislation is very important. In this regard, the challenge is also the low awareness of SMEs regarding competition law and practices.

Notwithstanding the favorable business environment, an effective resolution of commercial disputes remains a significant challenge. In spite of the progress made in recent years, which is reflected in various international assessments (e.g., Doing Business report, ranks Georgia 12th in the world in terms of contract enforcement), there are still number of problems (including protracted litigation, court qualifications for commercial disputes and other.), which needs further improvement.

In such situation, the effective use of alternative dispute resolution mechanisms (Mediation; Arbitration) becomes particularly important. These mechanisms are available in Georgia, however, the application rates are still quite low as well as the awareness of entrepreneurs in this regard.

It is also important to solve disputes effectively and timely between the private and public sectors. In this regard, the important mechanism of mediation is Business Ombudsman institution, acting as “Business Representative” between private companies and state institutions, when it concerns to disputes with state or problematic issues existing in legislation/practice.

Georgia is one of the leading countries in the world in terms of accessibility of electronic services, as for property-related procedures, as well as for fulfilment of tax obligations, etc. During recent years significant steps have been taken for providing access to even more public services online. The unified web portal my.gov.ge is being developed further, however, the access to services for SMEs, especially in the regions of Georgia, remains a problem.

Even though the services of the Public Registry and Revenue Service of Georgia are more or less known and available to entrepreneurs, the awareness and access to state financial support programs is lower and requires appropriate action. In this regard, an important initiative is the program "The State is Your Partner", which considers both the creation of a unified portal of state programs, as well the development of so-called "front offices" in the regions, at the regional Public Service Halls and community centers. It is highly important to continue this process and become more comprehensive.

The Insolvency and rehabilitation system have been a bottleneck of Georgia's business environment for years. According to World Bank's report "Ease of Doing Business", Georgia has its weakest position in this component and the country ranks 64th in the world. In this direction, the challenge is the effective reimbursement of time and costs occurred, as well as the lack of an effective rehabilitation system for viable enterprises, which hinders the so-called "second chance". In this regard, a significant step forward is the new law on rehabilitation and collective satisfaction of creditors, adopted in September 2020. One of the objectives of this law is the creation of stimulus for rehabilitation for the viable companies. Therefore, effective enforcement of the new legislation would be very important.

An important challenge is availability of an effective mechanism of Public Private Dialogue (PPD), in terms of involvement of businesses in the policy development process at an earlier stage. At present, PPDs are conducted by Business-Ombudsman's Office, also by various public institutions (regarding legislative changes, as well as for provision information on DCFTA requirements). In particular, Private Sector Development Advisory Council (PSDAC), Trade Advisory Council and DCFTA Advisory Group have been created. However, it is important to further strengthen/develop these platforms, as far as their effective functioning is important in terms of sharing their views on regulations, as well as for creating a stable and predictable business environment and also for effective policy implementation.

Goal

Creation/Expansion of opportunities for establishing and functioning of SMEs oriented on sustainable development.

Objectives

1.1 Refinement of legislative base towards SMEs in compliance with European and international best practices

Within the framework of the obligations undertaken under the Georgia-EU Association Agreement, the legislation of Georgia will be dynamically approximated with the legislation of the EU. In this process the needs of SMEs will be taken into the consideration. Accordingly, the RIA SME Test will be implemented, and the scope of RIA application will be expanded.

1.2 Ensuring sustainability and institutional strengthening of the SMEs' supporting system

The strengthening and development of state institutions supporting SMEs will continue in order to respond the growing challenges of SMEs in a better manner. Special attention will be paid to development of capacity and skills of the staff of relevant state institutions as well as ensuring the sustainability of the funding of the institutions itself. Furthermore, Impact assessment will be performed for selected state support programs.

1.3 Improving the statistics of SMEs

Despite the progress achieved, it is important to continue the changes in this area, including the production of short-term business statistics, improvement of the statistical business register, in terms of

business statistics for SMEs by gender, ICT statistics for SMEs by size, production of statistics on export traders, including the producing statistics on number of start-up exporters according to the size of enterprises, etc.

1.4 Ensuring competitive environment for SMEs

Following the enhancement and development of competition law, it will be important to ensure its effective enforcement in order to create a competitive environment in the country. The indicator of effective enforcement of the legislation is the investigations conducted and the recommendations issued by the National Competition Agency of Georgia, which serve to improve the competitive environment in the country's commodity and service markets. The awareness raising among SMEs is also necessary, in order that they have complete information on amended legal framework and the rules of the procedures.

1.5. Swift and effective business disputes' resolution

Intensive works will continue on the development of alternative mechanisms for business disputes and promotion thereof among SMEs. In this respect, special attention will be paid to popularization of the system and awareness raising on the one hand and, to the extension of the business ombudsman's role in resolving disputes between the state and the private sector, on the other. Attention also will be paid to the reform of the tax dispute system.

1.6 Increase access to electronic public services

Access to public services will continue to increase, including via the unified portal my.gov.ge. Additionally, the program "The state is your partner" will be strengthened, which will increase the availability of state programs, especially in the regions. Attention will also be paid to further digitalization and development of tax services.

1.7. Development of Insolvency and rehabilitation system

The state will facilitate the development of a relevant system of new legislation, including the development of a system of private executives and a system of rehabilitation, as well as raising the awareness of companies about the capabilities of the new system.

1.8. Awareness raising of SMEs on changes of regulations and development of Public-Private Dialogue

In light of the changing regulatory environment, in particular due to AA derived requirements, additional activities will be conducted to increase the awareness of SMEs about both already adopted as well as upcoming regulations. In addition, public-private dialogue platforms will be further strengthened /developed.

Priority 2: Promoting the development of entrepreneurial skills and raising the entrepreneurial culture of SMEs

Situation Analysis

The development of human capital is one of the main priorities of the state, which is announced in the government program for 2021-2024 „Towards Building an European State“. Access to qualified human capital is especially important for the development of SMEs, as far as it saves entrepreneurs the costs related to staff training, in terms of time and financial resources.

It should be mentioned that according to the 2019 World Bank's Survey on enterprises, unskilled labor force was identified by SMEs among the top-3 most problematic issues in terms of doing business.

In this regard, it is particularly important to provide a relatively rapid and short-term solution of this problem, such as availability of relevant trainings, as well as more complex solution through the development of vocational education. The development of vocational education based on dual education is one of the announced governmental priorities. Vocational education can prepare qualified workforce and give professional qualification or develop specific skills and competencies related to the profession within the short-term training. In addition, it provides possibility of training and return to the labor market of those persons whose skills are outdated and no longer meet modern labor market requirements.

In recent years, a number of activities have been carried out to improve the quality of vocational education and to increase its compliance with the requirements of the labor market. The reforms of educational programs have started actively with involvement of employers in the process; Both external and internal quality assurance mechanisms have been enhanced; Human and material-technical resources were developed; Practical training, including opportunities for Work Based Learning (WBL) was strengthened; Training on entrepreneurship has become a mandatory component of educational programs. It is noteworthy that the implemented reform had a positive impact on the employment and self-employment rate of vocational program graduates. According to a study conducted in 2019²¹, the employment rate of vocational program graduates has increased by 20 percentage point compared to the same rate in 2014 (2014 - 42%; 2019 - 62%).

Nevertheless, there are still challenges in the vocational education system related to its geographical availability and popularization of vocational education as well as in terms of the rapid response to labor market demands.

It is worth to mention that the COVID-19 pandemic put in the agenda the issue of providing students with distance education services at all levels of education system, including vocational education. Due to the specifics of vocational education, difficulties have been created in the component of practical training, especially in case of those types of programs where the involvement of private sector was necessary. In response to this, the analysis of professional programs, as well as of short-term training programs have

²¹ Tracer Study of 2018 VET Program Graduates, December 2019),
<http://www.mes.gov.ge/content.php?id=5962&lang=geo>

been started and the components that can be taught in distance format have been identified. It should be emphasized that the role of vocational education is extremely important in terms of overcoming the economic difficulties created by the COVID-19 pandemic, in particular in terms of timely preparation of the labor force to meet the new labor market requirements for the business sector.

Promoting the development of modern entrepreneurial culture and improving entrepreneurial skills is also important for the SMEs growth and raising competitiveness thereof, which is still a problematic issue, particularly for SMEs. The level of knowledge of business planning and development, marketing and other skills necessary for successful entrepreneurship – is still low. Among other issues, one of the reasons for the refusal of providing credits by commercial banks is the low quality of business plans submitted by SMEs.

The imbalance in supply and demand and the training/retraining of the labor force in accordance with the requirements of the labor market has been a problem of the Georgian labor market over the years. In this regard, it is important to regular surveys of labor market needs, that will help to reveal the changing character and demands of the labor market.

In addition to the abovementioned, the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia has developed the National Strategy for Labor and Employment Policy for 2019-2023, which defines 2 sectoral priorities - promoting employment and ensuring efficient functioning of labor market. In addition to the priority areas, the strategy sets goals, such as: reducing the mismatch between supply and demand in the labor market, strengthening active labor market policies, by strengthening the labor market management information system, etc. Mentioned priorities are important for the goals of the SME development strategy.

Moreover, a relatively new challenge is the issues of occupational safety, especially in the light of amended labor legislation and, consequently created LEPL “Labor Inspection Service”. The knowledge and qualifications of SMEs in this direction needs further development.

In addition, for the internationalization of SMEs, the introduction of Responsible Business Conduct (RBC) principles in companies are important. This means responsible attitude towards the environment, implementation of corporate social responsibility principles, development of modern business relationships etc., that stimulates the private sector, to make more contribution to the sustainable and inclusive development of the economy.

The Articles 231 and 352 of the Georgia-EU Association Agreement particularly emphasize the need of encouragement of corporate social responsibility and responsible business conduct in accordance with the standards of OECD and other guidelines.

As of today, knowledge about RBC in general as well as on its benefits is limited, therefore, it is important to increase the knowledge of the private sector in this respect.

Goal

Increase SMEs competitiveness through supporting development of their entrepreneurial skills and culture.

Objectives

2.1 Facilitation of evidence-based decision-making in the field of Labour Market

Constant monitoring of the situation in the labor market, including labor demand, skills required and challenges, and the analysis of relevant information is important for the supporting evidence-based decision-making. For this reason, periodic surveys will be carried out and labor market analysis will be conducted.

2.2 Awareness raising of SMEs on needs for occupational safety

In order to adapt to the stricter requirements of legislation, entrepreneurs will be offered relevant trainings on the Mandate of Labor Inspection Service and the requirements of the legislation. It will be important to further strengthen the qualifications of entrepreneurs to adapt to the additional requirements caused by the Covid-19 pandemic.

2.3 Strengthening entrepreneurial skills

Different types of trainings for entrepreneurs will be further offered by the relevant state institutions. It is also possible to provide technical support to entrepreneurs for training of their staff. In response to the challenges caused by the Covid-19 Pandemic and to increase access to training for different groups, more trainings will be offered online.

2.4 Development of Vocational Education System oriented at entrepreneurship

The state will continue to develop an entrepreneurship-oriented vocational education system, including through expanding and popularizing the vocational education network, offering multidisciplinary programs and courses, introducing an entrepreneurial culture and raising awareness, introducing mechanisms to support entrepreneurial ideas of professional students and graduates as well as through supporting the strengthening of cooperation between VET schools and SMEs, inter alia, through work-based learning.

2.5 Development of labour market information system (LMIS), labour market management information system (Worknet) and relevant services

In order to raise public awareness on labor market trends, it is necessary further to develop the labor market information system, which will envisage the addition of new functionalities and the perception of digital information for the wider audience. Despite the research and analysis carried out regarding labor market issues, it remains as a challenge for the public to have an in-depth understanding of research results and to apply them in practice. Effective visualization of digital information will help to solve the existing difficulties. Accordingly, in order to reduce the existing disbalance in the labor market, the labor

market information system will be developed, including the refinement of the relevant website, as well as the development of the labor market management information system, professional orientation, career planning and other relevant services.

2.6 Promotion of Responsible Business Conduct

In order to promote responsible business conduct, it is important to raise awareness about RBCs among SMEs as well as among business associations and state institutions. This will be implemented through relevant trainings. Additionally, a handbook (on ESG - environment, social and corporate governance) for SMEs will be developed and companies will be supported in the implementation of these standards.

2.7 Promoting the use of broadband-enabled digital services

In the framework of “Log-in Georgia” project, for the realization of the “National Broadband Development Strategy (NBDS) and its implementation action plan for 2020-2025”, will be promoted digital use-cases of broadband and will focus on elimination of barriers to the participation of individuals in the digital economy. Project will help to boost the use of digitally enabled services through training and capacity building programs across the country. It will also promote development of digital financial services and e-commerce, including popularisation of online e-government services. The Project will also help the development of remote e-learning and telemedicine. At the same time, special activities will be carried out in order to boost the use of the internet and digital services by women, ethnic and social minorities, and persons with disabilities in targeted settlements.

Priority 3: Improving access to finance for SMEs

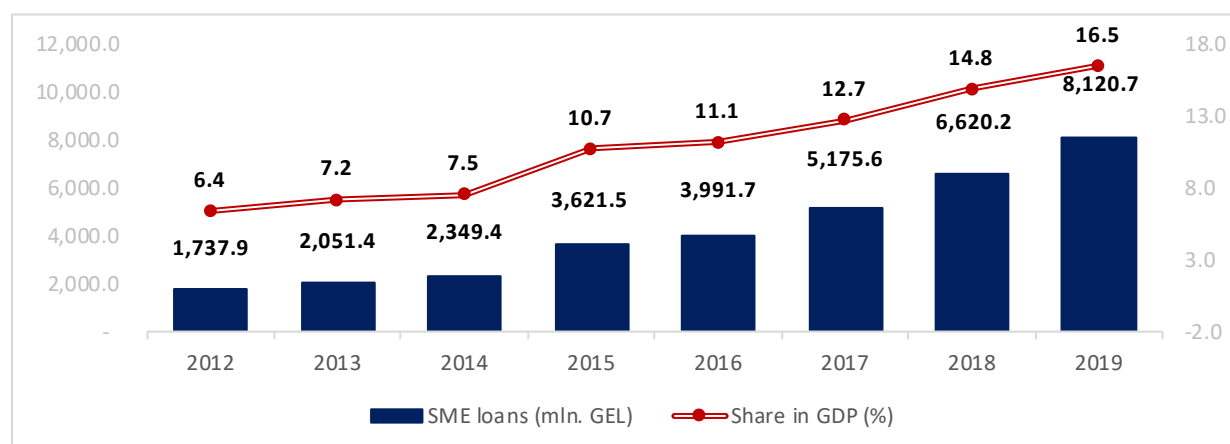
Situation Analysis

Access to finance is one of the major obstacles for the development of SMEs over the years.

The Georgian financial system is being dominated by the commercial banking system (more than 90% of the whole financial system). Other directions of the financial market are less developed. In fact, well-developed financial markets are vital for the development of enterprises, especially SMEs, which have problems in accessing traditional banking capital due to high collateral requirements and other factors.

It should be noted that despite the growth of SME share in Georgia’s banking portfolio, the access to finance is still identified among the main problems hindering business development. In particular, according to the results of World Bank’s Enterprise Survey in 2019, access to finance, is indicated as the second largest obstacle, after political instability.

Diagram 11. Loans for SMEs



Source: National Bank of Georgia

According to the World Bank's Enterprise Survey 2019, enterprises mostly use internal resources to cover investment costs (70% of investment costs), which is followed by bank credit. It should be emphasized that this figure have not changed significantly since 2013, when the rate of application of own funds ranged from 73% to 75%. According to the same survey, 38% of small enterprises and 48% of medium enterprises have bank loans. Worth to note that the same figure in large enterprises, equals to 58%. In addition collateral requirements are still high. According to the 2019 survey, this figure on average is 191% of the loan amount for small enterprises and 195% for medium enterprises (on average, collateral requirement for all types of enterprises is 194%).

The rate of bank credit denial is still high in relation to small enterprises. In particular, while in large enterprises this figure is only 2.6%, in small enterprises it reaches 20.6%. According to the European Investment Bank (EIB) "Bank Lending Survey" (2018), rejection to approve a loan is preconditioned by 4 main factors: 1) Insufficient collateral; 2) adverse credit history; 3) difficulty in predicting risks; and 4) low quality business plan. However, the most common reason for credit denial to SMEs is high risk. In addition, mortgage problems are related to the lack of mortgage items registered by small and medium-sized businesses. This issue is especially problematic in relation to land, to increase agricultural lending. A large part of the land in Georgia is still not officially registered, that hinders it being used as land mortgages.

As a result of all the abovementioned, 22.4% of small enterprises and 21% of medium enterprises still indicate access to finance as the main obstacle²² (WB enterprise survey 2019). It is Important, that access to alternative financing is also obstructed by the low level of financial education and skills of SMEs.

For the improvement of the access to finance, for attracting investments and internationalization of SMEs, well-ordered financial accounting and reporting system is crucial. This issue was a serious problem during several years. Georgia has taken important steps in this direction. Georgia has undertaken the obligation to regulate the accounting, reporting and auditing supervisory system under the Association Agreement and has started fulfilling this obligation since 2016, once the law of Georgia on Accounting, Reporting and

²² World Bank "Enterprise Survey", 2019

Auditing has been adopted and the subordinated entity under the Ministry of Finance - Service for Accounting, Reporting and Auditing Supervision (SARAS) - was established.

SARAS along with other functions defined by law is obliged to introduce International Financial Reporting and Auditing Standards. SARAS is also responsible for reviewing reports submitted by the entities on a risk-based approach and further publication thereof.

It is defined that the financial reporting for small and medium-sized enterprises (according to the law, the third and second category enterprises) must be prepared in accordance with the IFRS for SMEs. The medium-sized enterprises (the second category enterprises) are additionally required to submit audited financial and management reports.

Respectively, since 2016 financial reporting and auditing reform has been implemented in Georgia. The second category enterprises (medium-sized) started submitting financial reporting from 2018 and the third category enterprises (small-sized) - from 2019. The submission rate of annual reporting in 2018 and 2019²³ was quite high, amounted to 96% on average.

Despite the high submission rate, improving the quality of financial reporting of this category of enterprises remains a challenge. Independent audit increases the credibility of financial statements (except PIEs and the first category (large) enterprises, it is also mandatory for the second category enterprises). In its turn, the quality control system monitoring plays an important role concerning the quality assurance of the audit conducting.

As for VC and business angels ecosystem, acknowledging the current advancements in the development of regulatory framework for venture funds, there is still scope for further approximation with the EU of the legislation on venture investment types. Furthermore, higher involvement of VC actors in the enhancement of legislative framework is needed, to foster the growth of SMEs operating in these fields.

Besides the mentioned above, the Covid-19 pandemic created significant challenges to financial condition of business. In this situation particularly SMEs were significantly damaged. As it was mentioned above, the Covid-19 pandemic and respective economic crisis has created a serious problem of liquidity in business sector. Accordingly, the state assistance towards the private sector was directed to mitigate liquidity problem, both through canceling or postponing of tax obligation, as well as through providing direct financial assistance. To this end, the state financial assistance programs were modified, namely deadlines and limits of co-financing changed and the list of fields eligible for co-financing was expanded. Also new instruments were added to existing ones. Among them, it's noteworthy the credit-guarantee scheme, for which 330 mln. GEL was allocated. In total, since the outbreak of pandemic several phases of the state anti-crisis plan have been implemented, in its framework whole support to business amounted to 2,273.0 billion GEL. Out of it, 1.04 billion GEL was allocated to the VAT refund program, 600 mln. GEL - issuance of obligations with the aim to increase liquidity in commercial banks and 633 mln. GEL - tax preferences and targeted support of various sectors.

²³ The financial statements shall be submitted no later than 9 months after the end of the reporting period.

Goal

Increased application of financial market instruments by SMEs.

Objectives

3.1 Development of state financing programs

It is important to update periodically the existing state programs and constantly develop them in accordance with the market demand. State support programs should directly respond to those challenges existing in the market, that limit the access of SMEs to financial resources, their internationalization, development etc. State support programs should be developed based on these goals and problems. The challenges, that require special attention are the reducing cost of financing and collateral requirements for SMEs, as well as expanding financing sources for innovative start-ups.

3.2 Development of alternative mechanisms of financing

The development of local capital markets and creation of alternative sources of financing, also ones with higher risk is very important, as the readiness of commercial banks for financing such projects is relatively low. Such instruments as leasing and factoring either are not developed properly or not considered by entrepreneurs as a good, or in certain circumstances as preferred alternative to bank credits. Accordingly, on the one hand it is important to develop alternative financing instruments, including through refining the legislative framework, and on the other hand to raise the awareness of entrepreneurs regarding the advantages of the alternative financing instruments.

3.3 Further improvement of financial literacy

Lack of financial knowledge and experience of SMEs is identified as one of the factors causing insufficient access to finance. Along with the high risk and collateral problems, SMEs have challenges in terms of development of business plan and insufficient knowledge of financial processes. Therefore, it is important to take steps for strengthening the financial education of entrepreneurs.

3.4 Expansion subject of pledging

The use of land as a subject of collateral has been a problem in Georgia for many years, particularly for SMEs based in the regions of the country. The reason behind this problem is that the entrepreneurs do not own formally their lands and have not registered their property. To conduct an effective land system registration reform is very important for addressing this issue.

3.5 Increasing the transparency and quality of SMEs' Financial Information

For the growth and development of SMEs, it is important to have a well-functioning financial reporting system, as well as to ensure the quality of the audit carried out in order to increase the reliability of reporting, through monitoring of the quality control system. Trainings and awareness raising activities will be carried out for SMEs.

3.6 Further develop Venture Capital (VC)²⁴ and business angels²⁵ ecosystem

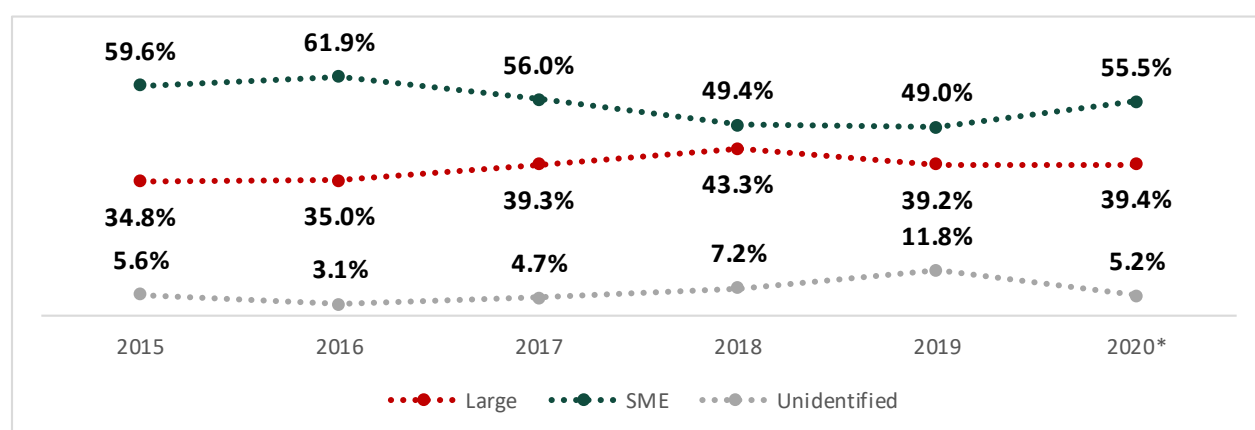
Development of national venture investors is a long-term task that includes encouragement of the wealthy citizens (including increasing trust to national regulations) to make higher risk investments inside the country as well as training very well educated and internationally practiced venture funds managers. The medium-term task is to attract in Georgia the venture investments from abroad. This is needed to equip the Georgian start-ups with an opportunity to get bigger funding for their development at earlier stage while staying the residents of the country. To attract the foreign investors it is important to create the clear and understandable rules, that would be the same or better than those in their home country or in the other locations with comparable profit rate and supply of innovations. While making the decision about the model regulations should take into account the best international practices, the terms and definitions should be understandable to those countries, from which the investors are expected to be attracted. Respectively, it is important further to approximate legislation on types of VC to the EU.

Priority 4: Promoting the export growth, access to market and internationalization of SMEs Situation Analysis

An important stage in the development of SMEs is the export and internationalization, which is preceded by an increase of competitiveness of enterprises.

According to 2019 data, SMEs account for 49% of total exports. However, it should be noted that this figure has decreased from almost 60% of 2015. This is against the background that SMEs constitute 99.7% of the enterprises registered in Georgia. Consequently, there is a significant potential for the development of SMEs in export directions.

Diagram 12. Share of Enterprises in Exports by Enterprise Size (%)



Source: Geostat (*Preliminary)

²⁴ Venture Capital - capital invested in a high risk business project for new venture or to expand an enterprise, typically in exchange for the transfer of a significant share to an investor.

²⁵ A business angel - a wealthy individual who invests personal capital in start-up companies, in development of higher risk business, in return for an equity stake.

As mentioned above, Georgia has a wide network of free trade agreements, which gives businesses operating in Georgia access to 1/3 of the global market. The Deep and Comprehensive Free Trade Area (DCFTA) with the European Union is of particular importance among existing free trade agreements. Unlike the markets of neighboring countries, the EU market is still less utilized and offers a wide range of opportunities for Georgian businesses.

It should be noted that in order to raise awareness on the DCFTA requirements in various areas, meetings of state officials are held regularly with representatives of both, the private sector and stakeholders. A medium-term (2021-2023) action plan for the DCFTA implementation has been developed, with one of the goals of awareness raising of entrepreneurs. Also, more detailed annual plans are being developed. A special website DCFTA.gov.ge has been developed, containing all the information related to the implementation of this agreement, including a separate platform for entrepreneurs, where they can find information about exports to the EU. It is also worth noting that all drafts of DCFTA-related legislation are uploaded on the website to allow stakeholders, including entrepreneurs, to provide comment, ensuring transparency and predictability of the process.

Despite the efforts, awareness among the entrepreneurs about the opportunities and potential of DCFTA is still low. Existing companies are more focused on neighboring countries, which are more familiar and accessible markets to them.

Besides the low public awareness, there are objective reasons of the abovementioned problems. The EU market has a number of challenges along with the opportunities. Meeting the high standards and requirements is quite difficult and expensive, requires appropriate commercial connections, qualifications and financial resources.

Accordingly, adapting to DCFTA requirements is even more challenging for small and medium enterprises.

Access to information on export markets' requirements remains a challenge for Entrepreneurs, although this information is available and consultations can be provided in number of state institutions, including LEPL "Enterprise Georgia" and the National Wine Agency. Furthermore, a significant challenge for SMEs is the implementation of international standards and the acquisition of relevant, quality certificates. Just as problematic is the re-equipment of machinery, the effective marketing and the development of sales channels. High costs of transportation and storage of goods were also identified as a barrier to exports by the private sector. In many cases, SMEs do not have the necessary financial resources to ensure independently their own participation in various targeted international exhibitions and events. In this regard, the existence of co-financing mechanisms by state institutions, that contributes to the further expansion and development of business, plays an important role.

Internationalization of SMEs remains a challenge. Establishing links between SMEs and enterprises created by foreign direct investments (FDI-SME linkages), in its turn, will support to involve SMEs in the global value chain.

In this regard, it is possible to consider creating a structured database of entrepreneurs and suppliers, that will help connect local small and medium-sized companies with large international companies operating in Georgia.

“Enterprise Georgia” and GITA are partners of Enterprise Europe Network (EEN), that consolidate about 600 European and international organizations, including chambers of commerce & industry, technology centres, development organizations. Participation in EEN will support establishing contact between local and European companies. Despite the fact that Enterprise Georgia and GITA are involved in EEN since 2015, this opportunity not utilized fully so far and it is important to continue working in this direction by supporting local SMEs to register on the platform.

Furthermore, the level of development of quality infrastructure within the country is of great importance for adapting to the requirements of the export markets, especially the EU market, and for overcoming technical barriers to trade. Georgia is successfully implementing national quality infrastructure reform in accordance with the requirements of the DCFTA. This process is dynamic and should be continued, as well as the the knowledge of private sector should be strengthen regarding the importance of quality infrastructure and the benefits, that a well-developed quality infrastructure can create in terms of international trade.

In addition to abovementioned, the Ministry of Economy and Sustainable Development and Enterprise Georgia, in cooperation with the GIZ Clusters4Development Project, funded by the European Union and the German Government, is currently elaborating a Cluster Development Framework of Georgia, which will provide guidance for the scope of national cluster development programme, provide an outline for an environment to engage and coordinate private and public stakeholders, propose cluster related policies and supporting initiatives to increase the competitiveness of Georgian SMEs.

Goal

Improve the competitiveness of SMEs by promoting the exports, foreign market access and internationalization.

Objectives

4.1 Promoting the use of export opportunities

It is important to engage SMEs in international trade by supporting their export opportunities. To this end, it is important to support in adapting to existing requirements as well as to provide information on requirements of export markets. It is also important to increase the export knowledge and qualifications of entrepreneurs and increase their export potential by establishing links with companies operating in export markets, as well as to improve entrepreneurs knowledge about market trends and potential competitors, through market studies and other instruments.

4.2 Awareness raising on DCFTA requirements and opportunities

Relevant state institutions will continue to inform SMEs on the requirements and opportunities of the DCFTA through training and informative meetings. Additionally, the state information campaign on DCFTA will be continued.

4.3 Development of National Quality Infrastructure, including relevant institutions (Accreditation, Metrology, Standardization etc.) to further align with International and/or European practices

Reform of the national quality infrastructure system will be carried out in order further to align it to International and European standards, through improved level of participation in relevant International and regional QI Institutions; Increased availability of International and/or European standards for interested parties and increased range and/or field of metrological services, including internationally recognized ones, offered to customers. It is of utmost importance also to expand the area of recognition of conformity certificates or other relevant documents issued by CABs (Conformity Assessment Bodies), through support of wider application of international/Euroepan standards by CABs.

4.4 Strengthening investment and SME links

In order to strengthen the links between SMEs and large international companies, information about entrepreneurs and their products will be consolidated and based thereupon a database of small and medium-sized entrepreneurs will be developed.

Priority 5: Promoting Electronic Communications, Information Technologies, Innovations and Research and Development for SMEs

Situation Analysis

The development of an economy based on knowledge and innovation is one of the priorities of the GoG. This is very important for increasing the competitiveness and productivity of companies. The low rate of implementation of innovation and modern technologies in the business is one of the main factors resulting inefficiency of companies' production and in low added value.

Despite various international rankings, acknowledging Georgia progressing in the field of innovation and technology compnent, this issue remains a challenge and needs further development. In particular, according to the 2019 Global Competitiveness Report, Georgia ranks 91st in terms of innovation opportunity. Also, according to the INSEAD 2020 Global Innovation Index (GII), Georgia ranks 63rd out of 131 countries with 31.78 points and ranks 79th in the business technology level component.

The main challenge is the financing of innovative businesses. In this regard, funding provided by the state programs is mainly available, while private funding or its attracting mechanisms are virtually non-existent. This problem is exacerbated by the underdeveloped capital market and mainly access only to bank financing, which is limited for innovative start-up companies because of their high risk.

In addition, it is very important to provide businesses with broad access to electronic communications means and information technology. In this regard, reforms already implemented in recent years as well as the ongoing ones have contributed to the development of electronic communication networks and facilities with modern technologies, introduction of modern services and increase application thereof by state, general population and businesses.

As of 2019, the revenue of authorized persons in the electronic communications sector was 1.2 billion. GEL, which is 16.2% more than in 2012. Furthermore, at the end of 2019, the number of fixed broadband Internet subscribers reached 941,000, which is 94.7% more than in 2012. While in 2019, the density of Internet subscribers per household was 80.8%. At the same time, the number of mobile Internet users reaches 3.2 million, and its density is 93% of the population. The number of mobile operator subscribers at the end of 2019 was 5.38 million and the density per 100 inhabitants was 156%.

Despite the abovemention, there are still challenges in accessing broadband networks in the country. For example, vulnerable groups, communities in rural or mountainous regions may not be connected to high-bandwidth, high-quality Internet, just as they may not be connected to existing digital networks. It is the responsibility of small and medium telecom operators to make a special contribution in overcoming these challenges.

Furthermore, in the context of the Covid-19 pandemic, broadband Internet networks and their proper functioning have acquired an even greater importance in terms of ensuring provision of critically necessary services in the country. Also, the pandemic has identified the strong need to develop e-commerce and increase the knowledge and capabilities of entrepreneurs in this regard, especially SMEs.

Goal

Increasing the competitiveness and productivity of SMEs by Promoting Electronic Communications, Information Technologies, Innovations and Research and Development for SMEs

Objectives

5.1 Development of Innovative financing

To increase the productivity of SMEs, as well as to increase the level of innovation in the country, it is important to have access to appropriate financing instruments. Respectively, the support programs offered by the state will continue and develop, at the same time it is necessary the development of private financing instruments, including through the development of the capital market.

5.2 Supporting the development of e-commerce

In order to support the development of e-commerce in SMEs, relevant consultation services as well as educational trainings will be conducted.

5.3 Accessibility of information technologies

In the modern world, access to high-speed Internet is of particular importance for the development of SMEs. Towards Industry 4.0 the digital transformation of SMEs is essential to help them use digital technologies and build stronger digital capabilities to seize growth opportunities in the digital economy. To this end, on the one hand, it is necessary further to develop the relevant physical infrastructure and to improve the legal framework of the policy to promote the development of broadband networks and services. On the other hand, it is crucial to offer relevant trainings targeted at the development of digital skills of entrepreneurs.

5.4 Development of broadband infrastructure

In order to develop broadband infrastructure, a state program will be implemented and open access will be given to services in those populated areas where the construction of broadband infrastructure by private operators is not envisaged for the next 3 years. The fiber-optic Internet network created within the program will meet the challenges of technological development and of the new generation of broadband Internet services.

Furthermore, it is important to ensure access to Internet in those mountainous regions of the country where the population is less than 200 and they are not part of the state program (also unprofitable for the private sector).

5.5 Development of small and medium telecom operators

In order to determine the needs of small and medium telecom operators, it is important to hold working meetings, followed by the planning of the activities to be implemented based on the identified needs assessment.

5.6 Deepen research / industry linkages

Business-science linkages in Georgia are weak, and commercialization of technological/scientific knowledge virtually non-exists. Given the strong concentration of R&D spending and employment in the public science sector, it is particularly important that the resulting new knowledge and technology be transferred to the business sector, so that it could be used to create new or improved products, services and production processes. Under the “Increasing Institutional Capacity for Innovation Project”(EUR2.7mln) Technology Transfer Pilot Program was a good start to support commercialization of Georgian scientific results that respond to market needs. Technology Transfer Pilot is implemented by Georgia’s Innovation and Technology Agency (GITA) with technical support of the World Bank Group. after the piloting program, there is a need to scale up the results to increase the effectiveness of the innovation actors and narrowing the gap between the industry and science.

Priority 6: Promoting the Development of Women Entrepreneurship

Situation Analysis

The GoG acknowledges the rights, knowledge and potential of women in SMEs, as well as the challenge of unequal access of women and men to business opportunities, including finances. Accordingly, with the objectives and activities of the given strategy, the Government will develop and implement special measures to strengthen and make use of the entrepreneurial potential of women.

According to Geostat 2020 data, the participation rate (activity) of women in the labor force was only 40.4%, compared to 62% of men (the same indicators of 2015 are 46.2% for women and 66.3% for men). The share of women in the total number of employed persons in Georgia is 44% (45.8% in 2015). At the same time, as of 2020, 23.9% of employed women are self-employed (38.2% of men). This data in case of women has decreased significantly since 2015 (31.4% in 2015), while it has increased in case of men (2015 - 36.3%). As for the percentage data of hired employees, notable, that in 2020, the gap between hired

women and men was quite low in favor of men, in particular, share of hired women was 49%, while for men the data was 51%. Though, in 2019, the data was in favor of women. In particular share of hired women amounted to 50.3% (451 400 hired women), while the share of hired man comprised 49.7% (446 200 hired man).

With regard to the Poverty rate (Population under the Absolute Poverty Rate), the data for women and men as of 2020 equals to 20.9% and 21.7%, respectively.

Noteworthy the data, which refers to the gap reflected in the distribution of Economically Inactive Population (population outside labour force) in terms of gender. This data for women is 64%, while for men - 36%, in 2020. This indicator reveals the challenges regarding unutilized potential of women and confirms a high importance of strengthening and further developing the opportunities for active involvement of women in country's economic life.

With regard to wages, according to 2019 data, the average nominal monthly salary of women is 869.1 GEL, and that of men - 1361.8 GEL. The same data for 2015 was 692.5 GEL for women and 1074.3 GEL for men. As for gender pay gap, it is the following: 2015–35.5%; 2016-34.5%; 2017-35.7%; 2018-35.8%; 2019-36.2%.

Gender gap is indicated not in general terms, but in the field of business activity also. In particular, with respect to the data for business sector as of 2019, share of women employed in business sector was 41%, while the same data for men comprised 59%. With regard to the average nominal monthly salary, it was 864.7 GEL for women, while the data was 1380.5 GEL for men in 2019. Salary for women amounted to 63% of salary of men. Gender pay gap was 37%. It is important to note, that the pay gap is higher for small enterprises being 43%, while for large enterprises it is 34%.

It is noteworthy the statistics of business activity, in terms of gender. The owners of newly registered enterprises are mostly men²⁶ (almost as twice) and this trend has remained unchanged over the years. Also, entrepreneurship is the main activity for 6.5% of men and 2.6% of women²⁷.

At the same time, the participation of women in state-funded projects is as follows: the share of female beneficiaries in the "Produce in Georgia"²⁸ micro and small business support program in 2018 was 45.1%. As for agricultural programs, here the proportion of female and male beneficiaries is highly unequal in favor of men. In particular, in 2014-2019, the share of female beneficiaries among the beneficiaries of the preferential agro-credit program was only 7.6%.

Based on the available data, it is evident that women have significant unutilized entrepreneurial potential, making use thereof is hampered by various cultural, social and economic factors.

Moreover, the crisis caused by the Covid-19 pandemic had a particular impact on female employees and entrepreneurs, as far as female entrepreneurs dominate in industries, most affected by the crisis (tourism, trade).

²⁶ GeoStat, data of 2019

²⁷ GEOSTAT, ADB, 2018 Pilot Study on Gender-Differentiated Data Collection, Asset Ownership and Entrepreneurship

²⁸ The aim is to support financial and technical capacities of SMEs in regions of Georgia

It is noteworthy, that the GoG implemented several phases of anti-crises plan, which among others involved direct money transfers as well as subsidized loans to affected entrepreneurs, self-employed and even informal workers (e.g. babysitters). COVID Pandemic-driven negative consequences has particularly reflected on women and in response to that, Government ensured significant and targeted supportive measures in various mechanisms for women in order to mitigate as much as possible the damaging impact of pandemic crises on them. In particular, in total almost 175 000 women beneficiaries, who were hired employees losing their job or having unpaid leave, among other supportive measures, received in total about 128 million GEL targeted assistance. The number of female beneficiaries is 21% higher than the number of male beneficiaries, which is 145 000, and the amount of financial assistance provided to women is 23% higher than the one of male beneficiaries, which is 104 million. Furthermore, Government provided the targeted assistance to the self-employed women also. Totally, about 198 000 women beneficiaries (46% of total number) were supported with 60 million GEL.

In addition, the pandemic and the resulting constraints have affected the learning process, led to the closure of kindergartens and schools, and raised the need for home care for children, which, given the current situation, is disproportionately distributed between women and men.

In general, women's entrepreneurial activity is hindered by various cultural stereotypes, although affected by the practical aspects as well. In particular, it is known that the indicator of real estate ownership by women, including land, is significantly lower than the same indicator for men. More specifically, only 16% of the documented owners of agricultural land are women.²⁹ Consequently, when it comes to access to finance, where commercial banks dominate, and in the case of bank loans, the issue of collateral is important, this significantly limits the access of women to financial resources. Therefore, female entrepreneurs are forced to rely heavily on personal finances. This problem is especially acute in the regions.

Accordingly, in the process of developing state support programs, it is important to identify specific problems and peculiarities related to women entrepreneurship and to develop tailored methodology and tools.

However, access to state support programs for women remains problematic, due to both the above factors and the lack of certain skills, including digital skills. This is especially problematic for women living in the regions.

It is also important that the results of state programs are not analysed in a gender context, which would allow the state to define an objective picture and on the basis of which appropriate policies and tools would be developed.

Overcoming different types of stereotypes is still a problem. It is necessary to conduct an ongoing awareness raising campaign and special trainings in this direction.

²⁹ GEOSTAT, ADB, 2018 Pilot Study

To overcome the above challenges, it is also important to strengthen the capacity to develop gender-based approaches within the relevant state institutions, which will ensure that the state puts more emphasis on the development of gender-sensitive programs and tools.

Goal

To harness the economic potential of women by further promoting the development of women entrepreneurship.

Objectives

6.1 Popularisation of “Women Empowerment Principles” (WEPs)

To overcome different types of barriers and stereotypes, it is important for all relevant actors to understand their role and take appropriate action. The state can promote "Women Empowerment Principles" by raising awareness among its beneficiary entrepreneurs, especially in the regions. Digital economy relies on workers with STEM skills. Without special interventions, women's limited participation in STEM will disadvantage them in the growing number of technical fields. It is crucial that barriers to women entering STEM fields of research and employment in 'non-traditional' jobs be eliminated/reduced, by changing mindsets, improving teacher training and providing girls with internships, role models and mentors. It is also important to involve the non-governmental sector and international donors in the process.

6.2 Improving gender-based statistics in state programs

In order to draw an objective picture of the status-quo, it is important to produce statistics on the results of state programs considering the gender context. This will allow the GoG to make appropriate adjustments in the planning and implementation of its policies in the future.

6.3 Encouraging women participation in state programs

There are several aspects to consider for encouraging women to participate in state programs. Among them, it is important to take into account the specifics of women's participation while selection of beneficiaries. As of today, this aspect is better envisaged in the “Produce in Georgia” grants component. In other programs, the consideration of this is limited or virtually non-existent. In addition, it is important to consider all the practical barriers that female entrepreneurs face and to offer appropriate supporting tools. Also noteworthy is the limited access of women entrepreneurs to information about state programs, especially in the regions. The role of local self-government needs to be strengthened in this process.

6.4 Strengthening digital skills of women entrepreneurs

Strengthening digital skills is important to increase female entrepreneurs' access to various governmental programs and other information. It is important to provide appropriate support in this area, which will allow women entrepreneurs to understand better the market demands and trends, to run their own business and introduce e-commerce without leaving home in a pandemic.

6.5 Support capacity building of state institutions for the development of gender-based approaches

In order effectively to develop and implement gender-sensitive approaches and policies, it is important to develop and strengthen relevant qualifications in the state institutions. To this end, trainings for civil servants on Gender Impact Assessment (GIA) issues will be planned and implemented in cooperation with international organizations.

Priority 7: Promoting the Development of the Green Economy for SMEs

Situation Analysis

In recent years, the introduction of environmentally friendly measures in entrepreneurial activities in Georgia gradually has begun, that should contribute to the strengthening of green development in the economy and the widespread introduction of environmental standards.

According to the 301 Article of the EU-Georgia Association Agreement: "the Parties shall develop and strengthen cooperation on environmental issues in order to promote sustainable development and the long-term goal of a green economy."

This issue is an integral part of the national policy agenda. In 2016 the MoESD developed first outline of the Green Growth Policy Document with the support and in cooperation with GIZ. The document identified the possible directions for the development of the green economy. It is planned to develop a green growth concept, strategy and action plan for 2021-2025.

Georgia has a significant green growth potential in many areas. Furthermore, in terms of the development of SMEs, the potential of ecotourism can be highlighted particularly; Introduction of eco-production in agriculture; Increase the productivity of agricultural lands and at the same time reduce the negative impact on the environment.

It should be noted that the draft document of Georgia's ecotourism strategy for 2021-2031 is being developed.³⁰ The vision of the strategy is for Georgia to become the leading four seasons ecotourism destination in the Caucasus region, taking into account its natural resources and high quality services. The strategy combines 5 goals and relevant measures: 1. Development of authentic, high quality, four season tourism products and services; 2. Involvement of the local population in the development of ecotourism

³⁰ National Tourism Administration, National Forest Agency and Protected Areas Agency in cooperation with GIZ are working on the document.

and respectively increase their income; 3. Raising environmental awareness; 4. Preservation of the country's diverse nature and rich living culture in the long run; 5. Ecotourism management at all levels.

The area of energy efficiency should also be highlighted. In this regard, work has begun with the Energy Community on the adoption of an updated Energy Efficiency Directive, based on which the National Energy and Climate Plan (NECP) will be developed, which in turn will include measures for the Energy Efficiency and Renewable Energy Action Plan.

Despite the above, Georgia does not yet have a high-level strategic vision for green growth. In spite of the progress made in recent years both in terms of legislative framework and practical implementation, the introduction of modern environmental standards in entrepreneurship remains an issue and Georgia still has to take important steps in this direction, especially with regards to awareness-raising activities.

In general, SMEs can play an important role in the development of the green economy and in the effective implementation of modern environmental standards in Georgia. However, this process is slowed down by a number of factors.

First of all, access to finance remains a challenge. Scarce availability of the long-term financial resources prevents entrepreneurs from investing in resource-efficient technologies and developing a "green" business.

Access to "green" finances in Georgia is quite limited. The commercial banks mainly use "green finances" provided by various international financial institutions. Despite that international financial institutions have allocated \$ 400 million over the last decade for 8 commercial banks, this did not tackle effectively the issue of access to resources for SMEs.

It should be noted that the main part of the abovementioned resources is directed to the financing of renewable energy projects (hydropower plants, wind farms) and mainly goes to large companies and projects. At the same time, the amount of loan offered is usually too large for SMEs.

SMEs mostly operate in lower value-added sectors such as trade. In such conditions, the entrepreneurs have limited opportunities to contribute to the development of the green economy.

In addition to the abovementioned, awareness on the opportunities and benefits of the "green" economy is still low among SMEs. Moreover, their knowledge of environmental legislation and practices already implemented in Georgia is scarce. Therefore, it is necessary for the state to take appropriate measures in this direction.

Goal

Promoting the Involvement of SMEs in Green Economy.

Objectives

7.1 Development of green growth strategy

An appropriate concept and strategy will be developed to define the government's vision for growth and to identify relevant development measures. In the draft Green Growth concept, which is a leading phase

of Green growth strategy, will be determined possible directions (industry, tourism, transport, construction, energy, agriculture, solid waste management, forest and biodiversity) of green economy interference.

7.2 Popularisation of eco-innovative³¹ approach

It is important to promote eco-innovation among SMEs, to inform and raise their awareness, as well as to promote the introduction of such approaches. At the same time, it is important to focus not only on the commitments, but also to understand in detail the long-term benefits that accompany the implementation of these directions in practice.

7.3 Development of green-funding mechanism

The state should support the increase access to "green" funding. To this end, it is possible to integrate the relevant components into state programs, as well as with the support of international financial institutions, direct financial products in the private sector to finance SMEs.

Also, to improve access to finance, it is important to develop a certain framework that defines which specific economic activity can be considered to be aimed at promoting a sustainable and green economy development. This will support financial institutions, as well as entrepreneurs, foreign and local investors to clearly define the key directions of their activities.

7.4 Development of legislative framework

It is important to continue establishing and developing an effective legislative framework, including in the field of energy efficiency. In 2019-2020 years several laws have been adopted including the Law on Energy Labelling, the law on Energy Efficiency and the law on Energy Efficiency of Buildings. Enforcement of above mentioned laws requires elaboration and adoption of relevant secondary legislation.

7.5 Development of eco-tourism

It is important to formulate a unified vision and state strategy in the area of ecotourism, as well as to put it into practice through the development of ecotourism infrastructure as well as increasing protected territories.

7.6 Awareness raising of SMEs on Environmental Protection Issues

One of important challenge is to raise the awareness of SMEs on environmental issues through various meetings and trainings.

³¹ Eco-innovation is a new business approach that promotes sustainability throughout the whole product life-cycle as well as increases company's performance and competitiveness. It can help SMEs access new and expanded markets, increase productivity, attract new investment, it will also increase profitability across the value chain and will support SMEs to fall behind regulations and standards, especially environmental regulations and standards.

6. Implementation, Monitoring and Evaluation of the Strategy

6.1 Implementation

The implementation of the SME Development Strategy and Action Plan of Georgia for 2021-2025 will be coordinated by the Steering Committee and the Working Group³² established for this particular purpose by the Order of the Minister of Economy and Sustainable Development of Georgia. Steering Committee meets usually twice a year, and additionally, as needed.

The role of coordinating secretariat of the Steering Committee and of the Working Group will be ensured by the Economic Policy Department of the Ministry³³. The latter department successfully coordinated the implementation of the country's SME Development Strategy and Action Plan for 2016-2020.

The Ministry ensures the involvement of all relevant responsible state institutions in this process. Government cooperation with the private sector and civil society is essential for the effective implementation of the strategy and action plan, this will guarantee transparency and accountability. Correspondingly, the involvement of all stakeholders in this process will be ensured. To this end meetings with Private Sector Development Advisory Council (PSDAC) that is established under MOESD, will be used as well.

The draft of the strategy is to be approved by the Steering Committee, which is recorded as protocol decision and then submitted to the GoG for further approval. An integral part of the strategy is its logical framework, which is N1 Annex to the strategy document.

The strategy will be implemented in accordance with the resolution N629 of GoG from December 20, 2019 on „Rules for Development, Monitoring and Evaluation of Policy Documents“ and on the principles of its annexes.

The strategy will be implemented with state budget funding, as well as with the financial support of international donor organizations and partner countries.

The main tools for implementation of the strategy are action plans. The strategy covers the years 2021-2025, however the first action plan has been prepared for the years 2021-2022. The estimated budget for the implementation of this action plan is GEL 593,476,724.00. Furthermore, some activities are planned within the administrative costs, and in some cases with donor support. The action plan for following years will be developed within framework of the above-mentioned steering committee and working group, where a representative of the Government Administration Policy Planning Service will also participate. Besides to working group member institutions, partner international and non-governmental

³² The relevant order of the Minister of Economy and Sustainable Development of Georgia will be issued, after the adoption of the Strategy and Action Plan by GoG.

³³ the frequency of the meetings of the Steering Committee/Working Group, as well as the functions thereof will be determined by the same order of the Minister of Economy and Sustainable Development of Georgia.

organizations, as well as other public institutions in case of necessity, will be involved in the development and implementation of the action plan. In relation to some activities, the involvement of these organizations in the implementation of the strategy will be reflected in the annual action plans, where, together with the institution responsible for the implementation of the activity, a particular partner organization will be indicated on the basis of prior consultations.

Amendments in the strategy and action plan can be made in accordance with legislation in force.

In case of reorganization, liquidation and/or merging of the implementing institution with another institution, the fulfilment of the relevant tasks of the strategy will be ensured by its successor.

In order to inform the stakeholders and the wider public, the strategy and relevant action plans will be published on the website of the Ministry of Economy and Sustainable Development of Georgia after approval: www.economy.gov.ge

6.2 Monitoring

In order to achieve the results of the tasks presented in the SME Development Strategy of Georgia for 2021-2025 and to determine the progress of the activities defined by the action plan, regular monitoring of the Action Plan will be carried out by the Economic Policy Department of the Ministry of Economy and Sustainable Development of Georgia.

It is to be noted that after launching of the Unified Governmental Electronic System for Policy Planning and Coordination by the GoG Administration, the strategy monitoring process will be fully implemented within the mentioned system.

The Economic Policy Department monitors the implementation of the action plan on semi-annual and annual base. Economic Policy department requests semi-annual information regarding the progress of the implementation of the activities to be implemented from the institutions responsible for the implementation of the action plan activities and prepares so-called semi-annual progress report. The levels of the implementation status of activities are defined according to the Annex 7 (Monitoring Instruction) of the Policy Planning, Monitoring and Evaluation Guide. In addition, each strategy implementing institution is required to identify a contact person(s) who will be fully informed about the activities of the institution and will be responsible for providing information to the Economic Policy Department on the implementation of the activities in timely manner.

Following the Semi-Annual Report, the Economic Policy Department requests annual information from the responsible institutions about the fulfilment of planned activities and prepares an annual monitoring report. The report will mainly include and present information on the results of activities of action plan and progress of fulfilment of objectives. The annual action plan monitoring report is prepared within 60 calendar days after the end of the year from the start of implementation of the plan. The annual monitoring report will be presented to the Steering Committee for discussion, after the approval of the report by the Committee, the report will be sent to the GoG Administration. The annual report on the

implementation of the Strategy Action Plan will be published on the website of the Ministry of Economy and Sustainable Development of Georgia: www.economy.gov.ge in order to ensure the transparency of the implementation of the strategy.

6.3 Evaluation

In order to observe and study the achievements of goals and objectives, as well as to identify the impact on the development of the priority directions of the strategy and to identify gaps in the implementation process, the SME Development Strategy of Georgia 2021-2025 will be evaluated.

The evaluation of the strategy will take place at the last stage of the policy cycle, but no later than the first half of 2026.

The evaluation of the strategy can be carried out with internal resources, which will be implemented by the Economic Policy Department of the MoESD, or performed with in combined method, when Economic Policy Department might be supported by independent local or international experts as well as by organizations of relevant profile.

As a result of strategy evaluation, a report will be prepared, that, after conclusion with the implementing institutions, will be presented to the Steering Committee. After the approval of the Steering Committee, the report will be submitted to the GoG.

Strategy evaluation report will be published on the website of the Ministry of Economy and Sustainable Development of Georgia: www.economy.gov.ge