



SUPPORTING SME COMPETITIVENESS IN
THE EASTERN PARTNER COUNTRIES

Recommendations for Georgia's SME Development Strategy 2016-2020

March 2016

Project Report

Working Group on SME Development Strategy



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SUPPORTING SME COMPETITIVENESS IN THE EASTERN PARTNER COUNTRIES

The OECD project aims at improving the operational environment and suggesting specific support policies for small and medium-sized enterprises in Georgia. It does so through targeted advice for the design of Georgia's SME Development Strategy 2016-2020. The project is carried out by the OECD, in partnership with GIZ and with the financial assistance of the European Union within the framework of the SME Panel of the EU Eastern Partnership. This document was developed in close collaboration with Georgian policy makers, international experts and relevant stakeholders. It was peer reviewed on 25 November 2015 at the OECD Eurasia Competitiveness Roundtable. The Roundtable is a policy network for sharing knowledge on the implementation of competitiveness reforms, and brings together high-level representatives and technical experts from Eurasia countries, OECD member countries and partner organisations.

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS.....	4
KEY INDICATORS: GEORGIA.....	5
THE SME SECTOR IN GEORGIA AND THE NEED FOR AN SME STRATEGY	6
Context: A better business environment, but SMEs need targeted support	6
Overall recommendation: an SME Strategy to improve competitiveness of Georgian SMEs	8
Challenges for the development of SMEs in Georgia pertain to five key areas	9
RECOMMENDATIONS FOR SME DEVELOPMENT IN GEORGIA	12
Improve the institutional framework and operational environment.....	12
Ease access to finance for Georgian SMEs.....	14
Promote skills development and entrepreneurial culture	16
Support SMEs’ internationalisation	18
Facilitate SMEs’ innovation and R&D	20
IMPLEMENTATION GUIDELINES.....	23
ANNEX A: SUPPORTING ANALYSIS	26
ANNEX B: METHODOLOGY AND PROJECT APPROACH.....	54
ANNEX C: BIBLIOGRAPHY.....	56
ANNEX D: ACKNOWLEDGMENTS	61

Figures

Figure 1.	Role of SMEs in Georgian economy.....	7
Figure 2.	Framework for SME development in Georgia	12
Figure 3.	Suggested implementation timeline	25

ACRONYMS AND ABBREVIATIONS

AA	EU-Georgia Association Agreement
CGS	Credit guarantee scheme
DCFTA	Deep and Comprehensive Free Trade Area
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GEL	Georgia Lari (currency)
Geostat	National Statistics Office of Georgia
GoG	Government of Georgia
GITA	Georgia Innovation and Technology Agency
GNIA	Georgian National Investment Agency
GVC	Global value chains
IP	Intellectual property
MoEDU	Ministry of Education and Science
MoESD	Ministry of Economy and Sustainable Development
MoF	Ministry of Finance
MoL	Ministry of Labour, Health and Social Affairs
MNE	Multinational enterprise
NBG	National Bank of Georgia
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
RIA	Regulatory impact assessment
SBA	Small Business Act
SME	Small and medium-sized enterprise
VET	Vocational education and training
WB	World Bank

KEY INDICATORS: GEORGIA

Country profile	
Population, 2014	4 490 500
GDP current prices, 2014	USD 16.5 billion
GDP per capita, current prices, 2014	USD 3 680
GDP real growth (% , y-o-y), 2014	4.8%
Exports of goods and services (% of GDP), 2014	42.6%
Imports of goods and services (% of GDP), 2014	60.0%
FDI, net inflows (% of GDP), 2014	6.5%
Unemployment (% of total labour force), 2014	12.4%
Self-employed (% of total employed), 2014	52.5%
SME statistics	
Share of SMEs (% of total active enterprises), 2013	94.1%
SME share of total employment (% of total number employed), 2013	42.7%
SME share of total value added (% of total value added), 2013	20.6%
SME share of total bank credit (% of total bank credit), 2013*	16%

Source: Geostat (2013a, 2013b, 2014a, 2014b, 2014c); *IMF (2013)

THE SME SECTOR IN GEORGIA AND THE NEED FOR AN SME STRATEGY

In recent years, Georgia has made significant progress in improving its business environment. This has helped attract foreign direct investment, expand export activities and achieve sustained economic growth. This progress, however, has not fully translated into benefits for the wider Georgian population, with unemployment remaining at high levels. The Association Agreement signed in June 2014 with the European Union, including a Deep and Comprehensive Free Trade Area, offers both opportunities and important challenges for Georgian SMEs.

Overcoming these challenges and seizing these opportunities will require reforms that create the conditions in which small and medium-sized enterprises can thrive and become more competitive on international markets. This peer review note provides recommendations for Georgia's SME Development Strategy 2016-2020 in five key areas: improving the institutional framework and operational environment, easing access to finance for Georgian SMEs, promoting skills and an entrepreneurial culture, supporting the internationalisation of SMEs, and increasing SME innovation, research and development.

Context: A better business environment, but SMEs need targeted support

Recent economic and policy developments in Georgia

1. Georgia's economy has proven to be resilient to internal and external shocks, regional geopolitical dynamics and the spill-over effects of the global financial crisis. Its average GDP growth rate was 6.6% between 2010 and 2012. While growth slowed down to 3.3% in 2013, affected by lower investment and political uncertainty in the post-election period, it picked up again to 4.8% in 2014 supported by improved trade relations with neighbouring markets and increased trade and investment opportunities with the European Union (World Bank, 2015).
2. Public and private investments have been key to Georgia's recent economic performance. In particular, tangible improvements in business conditions have helped to attract foreign direct investment (FDI), which accounted for nearly one-third of gross fixed capital formation in Georgia between 2009 and 2014, much higher than in many other transition economies (UNCTAD, 2015). However, foreign investment in Georgia is concentrated in capital-intensive sectors with limited contribution to job creation – such as energy, banking and real estate. Together these sectors receive 38% of total FDI inflows (Geostat, 2014a; Annex A, Figure 27).
3. Exports have expanded considerably – from 30% of GDP in 2009 to 43% in 2014 – but suffer from low product diversification and sophistication. Key areas of activity include base metals, re-export of used cars and agricultural processing (World Bank, 2015; UN Comtrade, 2014). Furthermore, Georgia's export flows are concentrated in only a few trade partners: the other South Caucasus countries, Ukraine and Russia account for nearly 50% of total exports (Annex A, Figure 22).
4. Despite the overall positive macroeconomic picture, sustained economic growth, investment flows and export dynamics have not translated into benefits for the wider population or for small and medium enterprises (SMEs) through improved productivity or net job creation. Unemployment has remained consistently above 12% since 2008 and more than half of the labour force is still self-employed, predominantly in agriculture, and mostly subsistence farming (Geostat, 2014b). Such labour market dynamics reveal the limited effectiveness of recent Georgian economic policies in tackling unemployment and creating an inclusive system in which Georgian workers and SMEs can find opportunities for employment and growth.

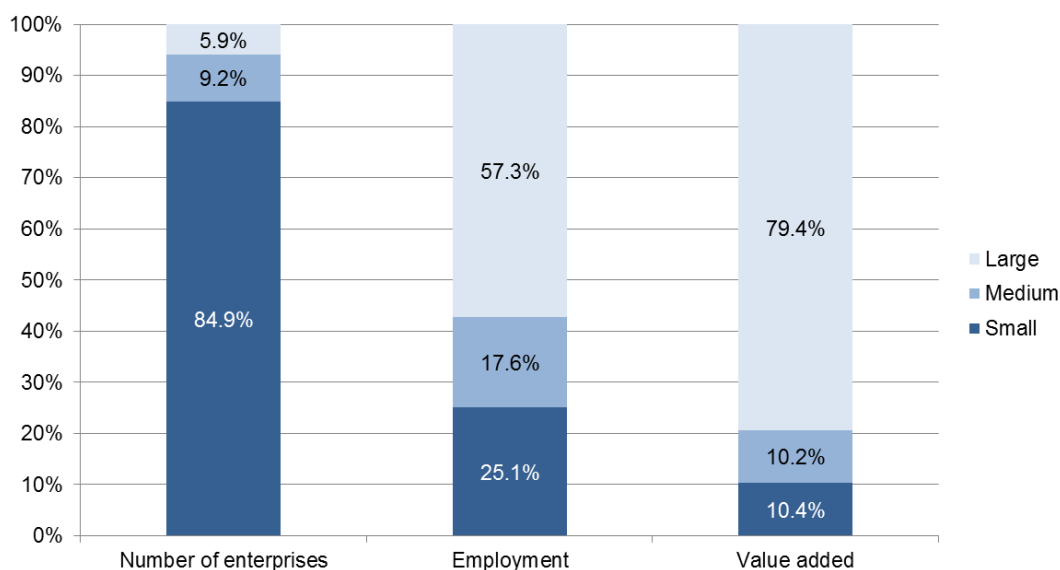
5. Important recent policy developments offer some potential for change. In particular, the Association Agreement (AA) signed with the EU in June 2014 includes provisions for creating a Deep and Comprehensive Free Trade Area (DCFTA). The AA and DCFTA offer the potential to increase export opportunities and FDI inflows, and boost technology and knowledge transfer from foreign companies as Georgian businesses integrate into global value chains (EU, 2014). The increase in Georgia's national income as a result of improved market access to the EU is estimated to reach about 4.3% of GDP in the long run¹ (EC, 2014a). The downside, however, is that Georgian businesses will be exposed to increased competition from products and services originating from the EU.

6. The implementation of the AA will require institutional and regulatory reforms to align product and safety standards with those of the EU and to make it easier for Georgian firms to meet the technical and quality requirements for exporting to EU markets.

The SME Sector in Georgia

7. Small and medium-sized enterprises (SMEs) play a significant role in Georgia's economy, accounting for 94.1% of active enterprises, 42.7% of employment and 20.6% of value added in 2013 (Figure 1). This compares to the OECD averages of 99.8%, 70.7% and 66.7%, respectively. Since 2010, a slight decrease has been observed in SMEs' share in the total number of enterprises and employment, and their contribution to total value added has only slightly increased. Moreover, the relative weight of medium-sized enterprises within the SME sector has fallen, suggesting that small businesses are struggling to scale-up their operations (Geostat, 2013a; OECD 2014a).

Figure 1. The role of SMEs in the Georgian economy, 2013



Note: SMEs are defined for statistical purposes in the Law of Georgia on Georgian National Investment Agency. Small enterprises do not exceed 20 employees and an annual turnover of GEL 500 000 (approx. EUR 213 000); medium enterprises do not exceed 100 employees and GEL 1 500 000 (approx. EUR 640 000) annual turnover; large enterprises have more than 100 employees, or an annual turnover that exceeds GEL 1 500 000 (approx. EUR 640 000). (Exchange rates as of May 2015)

Source: Geostat (2013a), "Business statistics" (database), http://geostat.ge/index.php?action=page&p_id=212&lang=eng (accessed on 15 September 2015).

8. Georgian SMEs are concentrated in low value-added activities, which in turn explains their limited contribution to total value added: 40.8% of SMEs operate in the trade sector (including repair of vehicles), followed by 13% in real estate. In 2013, only 10.6% of SMEs were active in the manufacturing

sector, which represents a notable decrease from 14.7% in 2010. This is also reflected in the manufacturing sector's share of employment, down from 16.3% to 12.4% over the same period, while the weight of trade and real estate has increased (Geostat, 2013a). Geographically, half of all SMEs are located in the capital, Tbilisi, with the rest being concentrated in two major regions, Adjara (11%) and Imereti (11%) (Geostat, 2013b).

9. To fully benefit from the export and investment opportunities offered by the AA/DCFTA and to contribute to Georgia's economic growth, SMEs need to become competitive on international markets. Georgian policy makers will have to implement reforms to create the framework conditions in which small businesses can thrive, with easier access to inputs, skills and finance to fuel their start-up, growth and internationalisation.

The business environment for SMEs

10. Since the early 2000s, Georgia has implemented significant reforms, reducing government intervention in the market and simplifying business regulations. The country has become one of the region's best performers in developing a competitive business environment. For instance, Georgia ranked 15th out of 189 countries in the World Bank's *Doing Business* report in 2015, a major improvement on its 2005 ranking of 122nd (World Bank, 2014a). Georgia scores particularly well in registering property (1st in the world), dealing with construction permits (3rd), and starting a business (5th), although there remains ample room for improvement in resolving insolvency (122nd) (World Bank, 2014a). Significant progress has also been made in the fight against corruption, with corruption perceptions at the lowest levels of the 19 countries of Eastern Europe and Central Asia (Transparency International, 2014).

11. Two main strategic documents guide current government action: "Georgia 2020 – Socio-economic Development Strategy" and "Government Program – For Strong, Democratic and Unified Georgia". These emphasise the need for inclusive and sustainable economic growth and prioritise strengthening the private sector, developing human capital and deepening access to finance. Thus, after the wave of liberalisations and investment-friendly reforms of previous years, the government is now recognising the importance of more proactive reforms to develop entrepreneurship, start-ups and build a competitive SME sector to drive the future growth of the Georgian economy (GoG, 2014a; GoG, 2014b).

12. Georgian policy makers have recently embarked on second-generation reforms to improve the business-enabling environment for SMEs. For instance, a new tax reform in August 2014 streamlined tax administration for small businesses. They are now subject to low tax rates of 3-5% of their taxable income, while micro-businesses are exempt from income tax altogether. In 2014, two new institutions, Enterprise Georgia and Georgia's Innovation and Technology Agency (GITA), were created to provide SMEs with financial and technical assistance for entrepreneurship, export promotion and innovation (GoG/OECD, 2015).

Overall recommendation: an SME Strategy to improve competitiveness of Georgian SMEs

13. Building on recent institutional developments, Georgia needs to design and implement a comprehensive set of policies specifically targeted to SMEs. Reform efforts are required to go beyond horizontal improvements in the business environment and create appropriate support measures targeted specifically at the development and competitiveness of SMEs.

14. This will require a comprehensive and strategic approach. To this end, the Government of Georgia has committed to designing and implementing Georgia's "SME Development Strategy 2016-2020" as the main framework for catalysing public-private dialogue and directing government SME support policy. Priority areas need to be identified to address market failures specific to SME development

and improve the competitiveness of Georgian SMEs. An accompanying action plan needs to ensure that strategic priorities are translated into a set of well-defined policy actions with a clear indication of responsible institutions, implementation timeframes, budgetary allocations and mechanisms for monitoring and evaluation.

15. While the Ministry of Economy and Sustainable Development (MoESD) should co-ordinate the design and implementation of the SME Strategy, all relevant stakeholders should be involved. These include several line ministries, government agencies, business associations, NGOs and the international donor community. Regular consultations with the private sector will also be vital to ensure the relevance of the policy measures put in place for Georgian SMEs (see Annex B).

Challenges for the development of SMEs in Georgia pertain to five key areas

16. Georgian SMEs still face a number of institutional barriers and market failures that pose obstacles to business operations. These constraints need to be addressed by the government through improvements in the SME policy framework. Analysis conducted by the OECD, in co-operation with the public-private Working Group established to design the SME Development Strategy (Annex B), has identified five main challenges: (1) an incomplete institutional framework for SME policy; (2) limited access to finance for SMEs; (3) a skills mismatch in the labour market and low job creation; (4) limited export activity by Georgian SMEs; and (5) limited innovation activities and research and development (R&D) expenditure. These are detailed below.

17. First, *the institutional framework for SME policy is still incomplete*. Significant progress has been made in improving the operational environment for SMEs and the institutional framework for SME policy. Major achievements have been the creation of one-stop-shop Public Service Halls, the extension of e-government services for businesses and the establishment of dedicated agencies for SME support (Enterprise Georgia and GITA). However, obstacles remain to improve SME policy making, including:

- Ad hoc co-ordination of SME policy and public-private consultation. This limits effective policy implementation, and hinders the SME sector from regular participation in policy making.
- Lack of formal regulatory impact assessment (RIA) mechanisms for business-related legislation, which means policy makers cannot fully mitigate the consequences of new laws that may affect SMEs.
- Weak bankruptcy and insolvency procedures. Georgia ranks 122nd on this dimension in the World Bank's Ease of Doing Business Index, mainly due to a series of shortcomings in the overall framework, such as creditors' participation and low debt recovery rate (World Bank, 2015a).
- Limited data collection on SMEs. Data are limited to basic structural business statistics, which hinders the ability to monitor and evaluate the impact of SME support policies.
- Two different definitions of SMEs. The Law on the Georgian National Investment Agency (GNIA) and the Tax Code define SMEs differently, with micro enterprises not recognised in the former. In addition, different thresholds for turnover and employment undermine consistency across data collection and policy making (Annex A, Figure 8).

18. Second, *access to finance is a key barrier to SME growth*, particularly in Georgia, where SMEs are less likely to access external finance and typically face higher costs than large enterprises and similar companies in comparable countries (EBRD/WB, 2013). Commercial banks in Georgia introduce heavy

requirements to counter the higher risk of SME lending. As a result, SMEs face an estimated gap of USD 0.5-0.7 billion in their financing needs (Annex A, Figure 11). Specific obstacles identified include:

- High collateral requirements (up to 220% of the loan value) and interest rates (at around 16%) make it difficult for Georgian SMEs to borrow from banks. Land and real estate are the preferred forms of assets demanded by banks as collateral, but SMEs are typically undercapitalised and innovative start-ups often own mainly intangible assets (Annex A, Figure 11). Further, loan dollarisation continues to be high; this poses significant currency risks for SMEs, which tend to be non-exporters and thus are not naturally hedged against exchange rate fluctuations.
- Low levels of financial literacy among SME entrepreneurs increase the credit risk perceived by banks. Lack of accurate financial statements and sound business plans increases the opaqueness of SME performance, and thus the asymmetry of information vs. banks.
- Banks' limited capacity to assess SME risk outside the capital city. Loan officers in regional bank branches are often unable or unauthorised to assess small businesses' risks. This leads to a centralised decision-making process on lending activities being made in the banks' headquarters, and ultimately translates into a reduced likelihood of SMEs obtaining a loan (Annex A, Figure 15).
- Limited availability of alternative non-bank and equity financing mechanisms. Asset-based finance, such as leasing and factoring, is underused, and the venture capital environment is still at a nascent stage. Despite the introduction of a recent law on collective investment undertakings defining venture capital and private equity funds, venture capital activities and awareness of business angels remain low.
- The legal framework does not allow for the provision of public grants to commercial entities, which limits the scope for targeted financial assistance to SMEs and innovative start-ups.

19. Third, a *skills mismatch in the labour market and low job creation* translate into a high unemployment rate, especially among people with higher education (Annex A, Figure 17). An inadequately educated workforce is reportedly the most problematic factor for doing business in Georgia, particularly among small and innovative firms (Annex A, Figure 18). Georgians display low levels of entrepreneurial intentions despite the perceived market opportunities (Lezhava et al., 2014). Specific obstacles identified in this area include:

- Lack of analysis of the skills demanded by the labour market, which limits the government's ability to design educational policies to supply the right mix of skills.
- Shortcomings in the vocational education and training (VET) system, including limited business relevance of curricula, low attractiveness to students and weak capability of teachers.
- Low uptake of lifelong-learning, stemming from a lack of trust in and awareness of non-formal training providers, as well as limited relevance and high perceived cost of training options.
- Lack of an entrepreneurial culture, which limits the rate of people willing to engage in entrepreneurial ventures, start a business and create jobs (Annex A, Figure 21). Furthermore, entrepreneurial activities and intentions are unevenly distributed with respect to gender, with early-stage entrepreneurs more likely to be men than women (62.5% vs. 37.5%). Female entrepreneurship is more often driven by necessity (66.7% female vs. 45.8% male) rather than opportunity (11.1% vs. 37.5%, respectively) (Lezhava et al., 2014).

20. Fourth, only *a small share of SMEs engages in export activities*. Only 2.9% of small and 15.2% of medium-sized enterprises in Georgia export some of their output. The regional average for Eastern Europe and Central Asia is 15% and 25.6%, respectively (EBRD/WB, 2013). While Georgia performs well in customs and trade regulation, and Enterprise Georgia is already providing training and support to SMEs to participate in trade fairs and missions, the following challenges remain for Georgian SMEs to fully benefit from the opportunities offered by the AA/DCFTA:

- Limited information on foreign markets' requirements and business opportunities. This is ranked as the most important barrier for exporting (WEF, 2014b) (Annex A, Figure 23).
- Limited availability of financial and insurance products for exporting SMEs. A particular problem is the lack of export finance and insurance schemes required to counter the main risks of international trade, such as longer cash-flow cycles, physical distance from buyers, and currency risk (Annex A, Figure 26).
- Lack of structured support to help SMEs integrate into global value chains. Besides ad-hoc matchmaking events, no systematic effort is made to ensure that incoming FDI translates into business opportunities for SMEs.

21. Fifth, *innovation activities and R&D expenditure are low*. Georgian SMEs invest less in R&D and introduce fewer innovations than their regional peers (Annex A, Figure 29). Institutional progress has been made with the creation of GITA and innovation facilities (e.g. incubators and technology centres such as FabLabs, where companies can develop prototypes for their products), and the R&D and Innovation Council. A national innovation strategy is also being developed. However, important issues remain that limit innovation by SMEs:

- Obstacles in the legal framework for R&D and innovation activities, including the inability of public universities and research institutes to commercialise their inventions, and few innovation components in demand-side policies (e.g. public procurement).
- Limited collaboration between industry and academia, with no structured networks for involving universities and SMEs in joint research projects, and lack of technology transfer offices at universities to realise commercial possibilities of university-based R&D results.
- A lack of financial instruments to facilitate innovation in SMEs. While the Tax Code is already quite favourable to innovation and R&D (e.g. deductible research and education expenses) and even though GITA provides mini-grants to individuals, more targeted financial support for innovative SMEs is still possible.

Notes

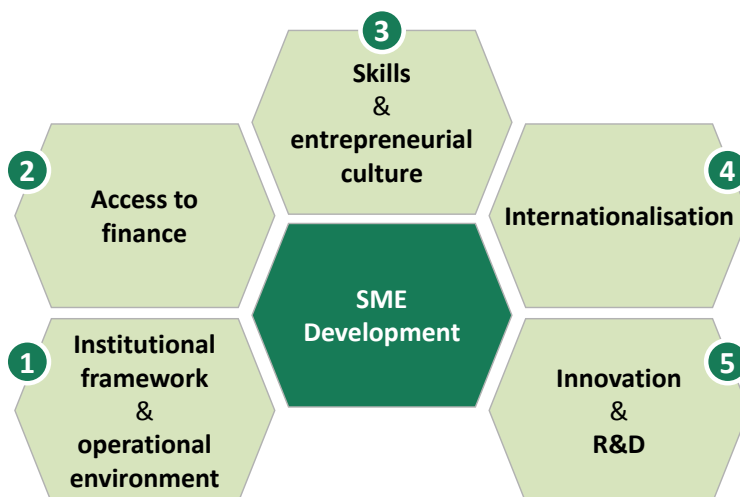
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1. i.e. 5-10 years after the DCFTA is implemented (the time it takes capital to reallocate to more productive investments).

RECOMMENDATIONS FOR SME DEVELOPMENT IN GEORGIA

This section provides recommendations in five policy areas to help the Government of Georgia resolve the challenges for the development of the SME sector and increase its contribution to the national economy: improve the institutional framework and operational environment; ease access to finance for Georgian SMEs; promote skills development and entrepreneurial culture; support SMEs' internationalisation; facilitate SMEs' innovation and R&D.

22. To address the challenges identified for the development of SMEs, Georgian policy makers could consider taking several actions in the following policy areas of the SME Development Strategy (Figure 2). The actions should be consistent with relevant government strategies and programmes, such as the “Regional Development Programme for Georgia 2015-17” and the “Georgia 2020 Innovation Strategy”. This will ensure a co-ordinated and efficient approach to the balanced and sustainable socio-economic development of the country, while adjusting SME support policies to regional contexts as appropriate. This section gives detailed recommendations in each of the five areas, while the next section provides implementation guidelines and suggests a timetable for implementing each of the areas (Figure 3). OECD good practice examples are presented in Annex A as inspiration for the reform process.

Figure 2. Framework for SME development in Georgia



Source: Public-Private Working Group for the SME Development Strategy 2016-2020

Improve the institutional framework and operational environment

23. Georgia has proven itself to be a fast and effective reformer. Building on the progress made in the general business environment and the recent institutional developments to support small and medium-sized enterprises, further reforms should be considered to ensure the policy-making process is specific to SMEs and that the operational environment evolves in an SME-friendly way. The recommendations for the SME

development strategy include five priority actions: (i) create formal co-ordination mechanisms for SME policy amongst policy stakeholders; (ii) conduct regular SME-specific regulatory impact assessment; (iii) improve business closure and insolvency procedures; (iv) improve SME statistics collection and dissemination; and (v) streamline the SME definition across statistics and policy making.

Action 1: Create formal co-ordination mechanisms for SME policy among policy stakeholders

24. A formal framework for interaction on SME policy making is needed to improve co-ordination among relevant ministries (e.g. MoESD, MoF, MoEDU) and government agencies (e.g. Enterprise Georgia, GITA and GNIA). The Working Group and Steering Group established to design the draft SME Development Strategy (see Annex B) could be maintained and formalised so as to continue playing a co-ordinating role during the strategy's implementation phase. They could hold quarterly meetings to monitor progress made, as well as to suggest amendments to the Action Plan.

25. In addition, public-private consultations (PPC) on SME-related policies could also be strengthened to strike the right balance among the needs of all relevant stakeholders. Building on the positive experience of the Working Group for the SME Strategy, representatives of the private sector (e.g. Georgian Chamber of Commerce and Industry and the Georgian Small and Medium Enterprises Association) should be involved on a regular basis in the SME policy-making process. This would ensure that private sector perspectives are taken into account when developing business-related regulations, thus improving stability and predictability of regulations over time.

26. Public-private consultation mechanisms could be formalised, giving the private sector the opportunity to comment on business-related legislation, provide their own suggestions for draft laws and measures, and call for meetings with the government when appropriate. Mechanisms for public-private consultations could include meetings with business organisation representatives, expert group meetings, or the establishment of representative SME business panels with clearly defined principles of participation (see Annex A, Figure 9 for an example from Poland).

Action 2: Conduct regular SME-specific regulatory impact assessment

27. Georgian policy makers could introduce a formal regulatory impact assessment (RIA) mechanism for business-related legislation affecting SMEs. In particular, the RIA system could formally recognise the importance of the SME sector by developing a simple "SME test" to assess the likely costs and benefits of new primary legislation for SMEs. A focus on secondary legislation could evolve over time.

28. Building on the pilot experience of conducting RIAs of several technical regulations, the MoESD could lead the process by conducting RIAs of its own legislation. Next, an SME test could become mandatory for all primary legislation, mainstreaming the EU's "Think Small First" principle² into all business-related legislation. In addition, a guillotine process may be considered to remove obsolete and/or redundant elements of existing regulations, since the impact on SMEs was not explicitly considered in previous legislative reviews. This would also help to formalise business activities in Georgia, by gradually removing the regulatory hurdles that are discouraging SMEs from formalising.

Action 3: Improve business closure and insolvency procedures

29. The current regulatory framework for insolvency procedures in Georgia could be improved, especially to remove bottlenecks and obstacles in the procedures for liquidating and restructuring companies. Improvements to the current regulatory framework may include provisions for a general suspension of all court proceedings against debtors, and measures to strengthen creditor protection and creditor participation, including making it easier to initiate insolvency proceedings.

Action 4: Improve SME statistics collection and dissemination

30. Georgia could broaden and deepen the production of SME statistics to build a more accurate picture of the sector's performance and further base policy making on quantitative evidence. This would entail expanding the current basic structural business statistics by sector and size class (i.e. number, employment and value-added) to include more refined data on business demographics (e.g. birth rate, death rate, survival rate, high-growth enterprises), export performance (e.g. SMEs' share of export) and innovation (e.g. expenditure on R&D, technology absorption). Since the collection of data demands time on the part of entrepreneurs, requests to SMEs should be streamlined in order to minimise the effort involved to provide the relevant information.

31. Moreover, the national statistics office (Geostat) may also consider carrying out periodic analyses to highlight major trends in the SME sector. The analysis could be published online and shared with policy makers and business associations to better inform the dialogue on SME policy with quantitative evidence.

Action 5: Streamline SME definition across statistics and policymaking

32. Georgia needs to streamline its current definitions of small and medium-sized enterprises to ensure consistency between policy making and statistics collection. This would enable the government to better assess the effectiveness of its SME policies. A new definition of SMEs should recognise micro-enterprises as a specific sub-section of the economy. This is important to ensure that the same target groups identified by SME support measures are also reflected in the collection of business statistics. The definition could also be better aligned with the EU definition to allow for benchmarking Georgian SME performance with OECD and EU countries. This will mean including a balance-sheet criterion, in addition to employment and turnover thresholds.

Ease access to finance for Georgian SMEs

33. Georgian SMEs require easier and more diversified access to finance. To benefit from new export opportunities offered by the DCFTA, Georgian SMEs will need to invest in and modernise their businesses to improve their competitiveness. Bank lending is the main source of finance, beyond personal and family savings, to fund investments and working capital. Risk capital could also be mobilised to channel investment to, for example, innovative start-ups, which typically cannot rely on retained earnings or hard collateral to access bank loans. The recommendations for the SME development strategy include five priority actions: (i) amend the legal framework on public grants; (ii) improve supply-side financial skills to leverage the regional presence of banks; (iii) promote demand-side financial education programmes targeting SME entrepreneurs; (iv) consider establishing a credit guarantee scheme as a risk-sharing mechanism; and (v) improve alternative non-bank and equity financing for SMEs.

Action 6: Amend the legal framework on public grants

34. Georgia needs to amend the laws regulating the provision of public grants. Commercial entities should be allowed to apply for and receive grants from public institutions, so that targeted financial assistance can be provided to SMEs and innovative start-ups. Amending the Law on Grants is a prerequisite for the design of effective SME support policies implemented by Enterprise Georgia, GITA and other institutions that aim at providing financial assistance to companies struggling to access bank lending in Georgia.

Action 7: Improve supply-side financial skills to leverage the regional presence of banks

35. It is recommended that Georgia improves the capacity of its banking sector to serve SMEs better. In particular, by improving loan officers' abilities in assessing SMEs' credit risk, lending functions could

be decentralised to the banks' regional branches, thus making the most of their local presence across the country.

36. The government could partner with key stakeholders such as the National Bank of Georgia and the Association of Banks of Georgia to develop country-wide capacity-building programmes for SME banking. This could be done through SME banking certification programmes (e.g. including topics such as products and delivery channels for SMEs) as well as risk management courses to understand the fundamental causes of SME risk and the tools required to manage them (e.g. credit scoring). Further, forums for the managers of banks' SME departments could be organised to share international best practice in the field.

Action 8: Promote demand-side financial education programmes targeting SME entrepreneurs

37. Georgia could put in place financial education initiatives to improve entrepreneurs' financial skills. This would help to reduce the asymmetry of information between SMEs and potential lenders, and thus the risk perceived by the latter. SMEs need greater knowledge of the financial products available in the market, as well as how to produce credible business plans and sound financial statements for banks to use to assess loan applications.

38. Enterprise Georgia has taken some positive steps already, including creating a library of financial training materials, an SME toolkit, and "mini-MBA" courses for beneficiaries of the support programme "Produce in Georgia". The Government of Georgia could expand this by putting in place financial education initiatives targeting SME entrepreneurs on a wider scale (e.g. through courses at regional Chambers of Commerce and possibly with the participation of the National Bank of Georgia and the Association of Banks). Priority topics for inclusion in the training could be information on financial products (e.g. to optimise SMEs' external finance portfolios), accounting standards (to improve SMEs' approach to potential lenders), taxpayer education programmes (to encourage tax-compliant behaviour and thus reduce informal business activities), how to draft a business plan (to give start-ups better access to seed funds) and how to assess financial export risks (cf. Action 17).

39. In the long run, financial literacy could be regularly measured and monitored across the country, and a country-wide financial education strategy could be implemented to teach basic financial knowledge from secondary school onwards. In this respect, strong co-ordination with the National Bank of Georgia is suggested, and the *OECD High-level Principles on National Strategies for Financial Education* could be a useful point of reference (OECD, 2012c). Annex A, Figure 16 has an example of a Canadian financial literacy scheme for SMEs.

Action 9: Consider establishing a credit guarantee scheme as a risk-sharing mechanism

40. The Georgian government could consider introducing a credit guarantee scheme (CGS) to promote SMEs' financial inclusion. A CGS works as a risk-sharing mechanism between lenders (banks), borrowers (SMEs) and a guarantor (the state or a private entity). In exchange for a small fee paid by the borrower, the guarantor provides banks with the guarantee that it would reimburse a share of the outstanding loan in case of default by the borrower (OECD, 2013a; Hanedar et al., 2014).

41. A CGS effectively creates market-based incentives for banks to lend more to SMEs. By reducing the perceived risk, banks are expected to request lower collateral and interest rates from borrowing SMEs. As a result, more credit is extended to borrowers than otherwise would be the case in the absence of a CGS (see Annex A, Figure 13 for an example from Estonia).

42. In Georgia, a CGS appears to be a viable tool to facilitate access to bank finance for SMEs facing high collateral and interest rates requirements, and it could also be designed to encourage lending in the national currency. Four key elements should be considered when designing a CGS in Georgia (Annex A, Figure 12):

- Objectives and eligibility: define the aims of the CGS and the target groups (i.e. SMEs with proven difficulties to access bank loans) to ensure financial and economic additionality, as well as the sustainability of the scheme.
- Coverage rate: define the amount of risk shared with the bank (i.e. percentage of loan reimbursed in case of default) to encourage lending while limiting moral hazard.
- Fees: define the fee charged to borrowers (e.g. a percentage of loan amount), which should both cover costs and ensure borrowers' participation in the scheme.
- Type of CGS: set the organisational structure and governance of the scheme (i.e. public, private, or public-private with international support).

Action 10: Improve alternative non-bank and equity financing for SMEs

43. The venture capital environment in Georgia could be further strengthened to foster private equity investment as a complement to debt finance. Innovative start-ups, for example, need to invest to develop technology and products, but typically have little or no revenue streams. When they can access bank finance, loan repayments bear a high opportunity cost because of the growth opportunities that could be seized by a fast-growing company. Venture capital funds and angel investors could provide equity as well as industry-specific advice and business expertise to help SMEs grow. Alternative forms of asset-based financing, such as leasing and factoring, could also be promoted.

44. The government could devise schemes to promote venture capital and business angel investment in Georgian SMEs. A fund could be established to act as a catalyst for private capital and to match early investment in SMEs with high-growth potential (see Annex A, Figure 14 for an Estonian example). Such schemes would ensure economic additionality in the early stages of the funds, and public sector involvement could phase out as private markets mature. In addition, the government could promote awareness of investment opportunities, and support the establishment of a network of business angels through dedicated events.

Promote skills development and entrepreneurial culture

45. The Georgian education and training system needs to improve the match between skills supplied and market demand. SMEs could play an active role in the process by increasing their involvement in the design of educational programmes. A stronger culture of entrepreneurship, especially among women, should also be encouraged to transform perceived business opportunities into actual entrepreneurial intentions. The recommendations for the SME Development Strategy include six priority actions: (i) develop country-wide labour market and training needs analysis; (ii) strengthen stakeholders' participation in developing and implementing VET policies; (iii) improve the quality and attractiveness of VET institutions; (iv) facilitate SME access to non-formal training; (v) promote entrepreneurship through formal educational institutions; and (vi) support women's entrepreneurship.

Action 11: Develop country-wide labour market and training needs analysis

46. Georgia could perform regular country-wide labour market analyses to better understand businesses' demand for skills, identify skills shortages in the domestic economy and anticipate future developments at both the regional and country level. The labour market information division within the Ministry of Health, Labour and Social Affairs could be tasked with this analysis.

47. In parallel, a framework for training needs analysis could also be set up to assess SMEs' current training needs in various sectors. Close co-ordination is needed among the relevant stakeholders, as training needs analysis should combine the central government's national overview with the micro-perspective of local administration and business service centres.

Action 12: Strengthen stakeholder participation in developing and implementing VET policies

48. The Georgian vocational education and training (VET) system needs to be strengthened through greater participation by stakeholders. This would improve the relevance of VET programmes for the labour market. This could be achieved through stronger involvement of employers in the design of curricula (e.g. via regional Chambers of Commerce and Industry) and the definition of minimal standards for the technical infrastructure of VET schools, as well as through strengthened participation of SMEs in sectoral committees to be consulted for regional and country-wide VET policies.

49. Moreover, VET programmes should be based on occupational standards to ensure coherence with labour market requirements. Such standards should be linked to the broader national qualifications framework and updated regularly in co-operation with the business sector, involving the network of Chambers of Commerce and Industry for inputs on local industry needs and occupational characteristics.

50. Practical co-operation between the education system and the SME sector could also be strengthened, for example by designing internship schemes between schools and SMEs to provide VET students with practical business experience and to promote workplace learning.

Action 13: Improve the quality and attractiveness of VET institutions

51. The quality of VET needs to be enhanced to improve its attractiveness as an educational option for prospective students. A priority in this area is to build the capacity of teachers at VET institutions. This will involve dedicated training for existing teachers, a pedagogic module for university students to enable them to teach after completing their studies, and involving professionals and SME entrepreneurs in the teaching body of VET schools. Annex A, Figure 19 presents good practice examples from Austria and Germany.

52. In addition, more flexible educational pathways between VET and general education would mean that students entering a specific VET stream are not excluded from future academic options. Career guidance and counselling in secondary school could also help students improve their understanding of employment opportunities while still at school. Finally, the career path of VET graduates could be tracked over time to assess labour market outcomes, evaluate the effectiveness of the VET system and help to update VET programmes (Annex A, Figure 20).

Action 14: Facilitate SME access to non-formal training

53. The non-formal training system in Georgia could be developed to promote the employability and life-long competitiveness of the workforce. In particular, stronger co-operation between stakeholders would improve the recognition and trust of non-formal education and training options. A committee involving representatives of the business sector, training providers, line ministries (e.g. MoESD, MoEDU

and MoL), Enterprise Georgia and local municipalities could be set up to collect information on SMEs' training needs, map the current supply of non-formal training, ensure the quality of training providers (e.g. through officially recognised certification) and increase awareness of non-formal learning options through networking events for adult education providers. Non-formal training topics could include technical skills as well as more business-related topics, such as management, sales, logistics and information technology.

54. The government could also consider providing financial support to improve SMEs' access to lifelong learning options and non-formal training, such as vouchers or matching grants for SMEs taking part in accredited training.

Action 15: Promote entrepreneurship through formal educational institutions

55. Building a culture of entrepreneurship would help foster business creation in Georgia. Formal educational institutions could play a key role in building awareness about the benefits of entrepreneurship among young people, thus addressing the pool of potential future entrepreneurs.

56. Self-employment as a career option could be promoted through the formal education system. Building on the recent experience of mandatory entrepreneurship modules for all VET programmes, Georgia could expand its educational offer to include similar modules in the curricula of secondary and higher education institutions across the country.

57. To complement this, the government could consider matching entrepreneurial education with financial support for student-led ventures. One possibility would be to scale-up to the national level the pilot business competitions currently led by Enterprise Georgia and MoEDU in co-operation with selected VET schools.

Action 16: Support women's entrepreneurship

58. Particular attention should be given to gender equality issues and the promotion of women in business. Considering the relatively scarce presence of women among early-stage entrepreneurs, more targeted policies are necessary to develop the potential of women as entrepreneurs across the country. These policies should be based on solid gender-disaggregated business data and analysis.

59. Currently only 26.7% of women think they have the sufficient capabilities and skills for starting a business, compared to 43.3% of men (Lezhava et al., 2014). The government could consider putting in place gender-sensitive entrepreneurship training through formal as well as non-formal education channels.

60. Aim 14 of the "Action Plan of the Government of Georgia on the Protection of Human Rights 2014-2016" is the promotion of gender equality (GoG, 2014d). The government could consider establishing a national commission on women's entrepreneurship. This commission could report to the Gender Equality Council of the Parliament of Georgia, as well as implement gender-specific policies to encourage a more strategic approach to engaging women in the economy.

Support SMEs' internationalisation

61. The AA/DCFTA with the EU has the potential to boost economic growth, for instance via increased Georgian exports and incoming FDI (EC, 2014a). Georgia is improving its overall national quality infrastructure, ensuring that EU standards and technical regulations requirements are met, which in turn will help businesses benefit from the opportunities offered by the free trade area. Other specific activities will support the internationalisation of Georgian SMEs. The recommendations for the SME development strategy include four priority actions: (i) improve export promotion activities and export-related skills among SMEs; (ii) provide services to SMEs to adapt to DCFTA requirements; (iii) provide

targeted financial support to exporting SMEs; and (iv) facilitate SME integration into global value chains through FDI-SME linkage programmes.

Action 17: Improve export promotion activities and export-related skills among SMEs

62. Current export promotion activities should be broadened to provide information on priority sectors and target markets for Georgian SMEs. In view of the opportunities offered by the DCFTA, SMEs would benefit from increased government support to access foreign markets, especially in the EU.

63. Enterprise Georgia's mandate covers both the development of entrepreneurship and export promotion. Its current activities to support business participation in trade fairs and trade missions abroad makes it the best-positioned government agency to provide greater support for internationalisation of Georgian SMEs. It could offer a wide range of services, including (Annex A, Figure 24):

- Market research and development: analysis of demand trends for export products, dissemination of target market intelligence and help in designing market-entry strategies.
- Trade information provision: on importers, prices, export procedures, standards, quality and documentation requirements in target markets.

64. Enterprise Georgia could also scale-up its efforts to develop SMEs' export skills and increase their readiness to access foreign markets. A recent survey conducted in Georgia reveals that export managers need technical advice in three priority areas: international marketing, product/market requirements, as well as trade finance and insurance products (GIZ, 2014).

65. In addition to these activities, Enterprise Georgia could also support SMEs to develop a cluster-type approach with regional and industrial business partners to help them meet the quality and quantity demands of international markets. Co-ordination at certain steps of the value chain may help SMEs strike better deals with suppliers, share promotion costs, engage in joint marketing activities, and exchange exporting knowledge.

66. In doing so, Enterprise Georgia could build on activities aimed at developing the Georgian internal market for SMEs. These may include market-making initiatives such as electronic platforms where SMEs can interact to find buyers for their products or input suppliers, and industry-specific matchmaking events where entrepreneurs can identify potential business partners and develop cluster-type relationships along their value chain.

Action 18: Provide services to SMEs to adapt to DCFTA requirements

67. Action is needed to raise awareness of DCFTA requirements among Georgian SMEs to ensure that companies can successfully export to EU markets. Information provided could include new technical regulations and ways to comply with them, as well as the voluntary standards and certified accreditation bodies available in the country. Training programmes and online resources specific to DCFTA could also be made available to SMEs.

68. DCFTA-related capacity is also needed in the government agencies supporting Georgian SMEs (i.e. Enterprise Georgia, GITA). Staff working in these agencies need good knowledge of the DCFTA requirements so they can guide SMEs through the technical steps needed to successfully export to EU markets.

Action 19: Provide targeted financial support to exporting SMEs

69. The government could consider providing specific financial support to help exporting SMEs overcome the financing barriers and risks typically encountered when engaging in international trade. A wide portfolio of financial and insurance products could be made available, depending on the specific needs identified among Georgian SMEs. These could include export loans to finance additional working capital, export credit insurance to cover market and political risk, as well as export factoring to convert an exporter's trade receivables into discounted liquidity (Annex A, Figure 26).

70. A blended approach could also be adopted, combining financial support and technical assistance for exporting SMEs. This would, for example, not only supply SMEs with liquidity to finance their export activities, but also equip them with the technical skills required to adequately assess the risks and challenges of trading with foreign partners, and increase the likelihood of a successful outcome and their ability to repay the loan. While trade-related financial and technical support to SMEs should be linked, they should be provided by separate entities with the relevant expertise.

Action 20: Facilitate linkages between FDI and SMEs

71. FDI-SME linkage programmes could be set up to ensure that foreign investments in Georgia translate into business opportunities for SMEs. On the one hand, linkage programmes provide valuable information to multinational enterprises about local SMEs, lowering the costs of searching for local suppliers and potential business partners. On the other hand, SMEs participating in the linkage programme can benefit from increased and structured interactions with multinational companies investing in Georgia, helping them to integrate into global value chains. Such programmes may be particularly useful to boost the development of SMEs in the manufacturing sector, where local firms could benefit from technology transfers and positive spill-overs from multinational enterprises.

72. The government could play a facilitating role, matching foreign investors with local SMEs through a wide range of activities. These could include the creation of company databases with information on location, business indicators and activities; an audit of the skills and technology available among local suppliers to identify gaps in the inputs required by foreign investors; and the development of training and service agreements to facilitate business interaction between the above companies (OECD, 2015). Financial support could be considered to promote supplier development programmes for technology transfer and quality standard upgrading, as well as specific training to facilitate business opportunities for SMEs (see Annex A, Figure 28 for an example from the Czech Republic). Not only will these activities facilitate linkages with foreign investors, they will also help develop the internal market for Georgian SMEs by improving their knowledge of potential local business partners in their value chain and by providing opportunities for market-making initiatives (e.g. industry-specific trade fairs).

Facilitate SMEs' innovation and R&D

73. To improve the competitiveness of its SME sector and build a more advanced, knowledge-based economy, Georgia needs a co-ordinated effort to increase its R&D and innovation activities. A "triple-helix" type of partnership is suggested, involving academia, the private sector and the public sector in building a dynamic innovation ecosystem (Etzkowitz and Leydesdorff, 1995; OECD, 2013b). While universities typically expand the knowledge base and provide research capacity, businesses can convert this knowledge into commercially viable products, and the government should create a supportive environment for innovation. Annex A, Figure 30 contains an example from France.

74. At the same time, it is suggested to develop the overall country research agenda and related projects in Georgia in line with the EU approach of smart specialisation. This would help identify

Georgia's competitive advantages as well as making full use of its knowledge-based development potential (World Bank, 2014b; EC, 2015). "Georgia 2020 Innovation Strategy", which is currently being drafted under the oversight of the R&D and Innovation Council, will include several measures to promote innovation. It will be important to ensure full coherence between this document and the measures adopted in the SME development strategy.

75. A national innovation ecosystem should not only focus on "triple-helix" partnerships for facilitating SME investments in R&D, but also on enhancing their capacity to absorb existing technologies. Georgian policy makers should also promote a notion of innovation that goes beyond high-tech/start-ups to include the broader concept of technology or process upgrades. In this respect, the recommendations for the SME development strategy include three priority actions: (i) amend the legal framework for innovation; (ii) foster collaboration between industry and academia; and (iii) consider providing financial support to SMEs for innovative activities.

Action 21: Amend the legal framework for innovation

76. Georgia's legal framework for innovation could be amended to facilitate the commercialisation of university-based research and innovation among SMEs. In particular, public universities and research centres should be allowed to own shares in spin-off companies and to commercialise their inventions and intellectual property (IP) rights generated through publicly-funded R&D. Improvements to the regulatory environment could also be made to encourage SMEs to invest in R&D, for example by fostering local competition (i.e. raising SMEs' need for innovation activities) and designing policies to enforce IP rights for SMEs (EC, 2014b).

77. Moreover, the government could assess opportunities to stimulate R&D and innovation among SMEs through dedicated features in its demand-side policies. One example could be the introduction of functional requirements rather than detailed specifications in public procurement tenders, which would encourage suppliers to deliver their contracts in a more efficient and innovative way.

Action 22: Foster collaboration between industry and academia

78. Linkages between businesses and universities in Georgia could be encouraged to enhance applied research and SMEs' engagement in innovation activities. Building on the technical audit of Georgian research institutes currently being conducted in co-operation with the Massachusetts Institute of Technology (MIT), awareness among SMEs of the research capacities identified should be increased.

79. The next step would be to establish joint research initiatives between SMEs and public research institutes, with the former contributing financial resources and a market-oriented perspective and the latter providing experienced technical staff and research equipment. A cluster-type approach could be promoted, whereby SMEs co-ordinate their needs for innovation and engage with public research facilities with a shared objective. In this respect, regional Chambers of Commerce and Industry, in co-operation with GITA, could help SMEs to find other innovation partners.

80. At the same time, the realisation of the commercial possibilities of public institutes' R&D efforts should be promoted. This could be achieved by building a culture of entrepreneurship at universities to promote university-based spin-offs (e.g. by including entrepreneurial features in curricula, or by fostering linkages with local start-up networks, incubators, or science parks), as well as by establishing dedicated technology transfer offices at universities to facilitate the transfer of R&D results to innovative SMEs.

Action 23: Consider providing financial support to SMEs for innovative activities

81. Targeted financial instruments could be designed to support innovation by Georgian SMEs and start-ups, in a way that meets their specific business needs. Ideas include voucher schemes to give them access to the public research and education infrastructure (e.g. advice and expertise from university-based experts and participation in certified training programmes), grant schemes to co-operate with university-based staff in joint research projects, as well as seed funds for innovative start-ups.

82. Financial support could help start-ups to cover expenditures on equipment and staff when developing new technologies (i.e. when conducting research and transferring the results into a potential product) and in the proof-of-concept phase (i.e. when testing the commercial viability and potential of the new technology).

83. When providing these types of financial support, synergies with other instruments should be sought to maximise their effectiveness in terms of innovation and entrepreneurial outcomes. For instance, seed funds for start-ups could be combined with vouchers for training in managerial skills, while matched grants for innovation activities could be linked to credit-guarantee schemes on loans obtained from banks by SMEs.

Notes

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2. See the European Commission webpage at http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test/index_en.htm.

IMPLEMENTATION GUIDELINES

This section outlines some guiding principles for implementing the policy recommendations discussed in the previous chapter. Figure 3 presents a roadmap for implementation.

- **Develop policies in consultation with relevant stakeholders.** Since the SME development strategy is a mix of structural reforms and industrial policy, all key government stakeholders ought to be involved in the process. These include the Ministry of Economy and Sustainable Development; Ministry of Education and Science, Ministry of Finance; Ministry of Regional Development; and Ministry of Labour, Health and Social Affairs, as well as the National Bank of Georgia, the Statistical Office and the newly established governmental agencies. From the private sector, the main stakeholders to be involved include the Georgian Association of Small and Medium-sized Enterprises, the Georgian Chamber of Commerce and Industry, the Association of Banks as well as relevant sectoral associations. Clear and accessible information about the intended policy reforms would contribute to greater engagement, as would taking into account stakeholders' feedback. This will be key for securing commitment in the implementation phase and accountability for the strategy results.
























The Working Group established for the design of the SME development strategy could be regularly consulted for updates to the action plan, and maintaining the Steering Group could help gather high-level representatives to ensure intra-governmental co-ordination and provide leadership for the successful implementation of the project.

- **Ensure that policies are coherent across government strategies.** Policy coherence needs to be ensured between the overall objectives set in the main government strategic documents (i.e. horizontal documents such as “Georgia 2020 – Socio-economic Development Strategy” and “Government Program – For Strong, Democratic and Unified Georgia”) and more specific reform plans such as the SME development strategy, the innovation strategy and VET strategy.
- **Provide targeted services to SMEs.** The implementation of the SME development strategy should aim at improving the business and operational environment for SMEs. Therefore, preliminary analysis of the most pressing needs of SMEs should be carried out in the policy areas where government agencies intend to provide support. This will ensure that the services provided are relevant and meet the demand and needs of small entrepreneurs. When it comes to financial support, it is suggested that SMEs indicate the results to be achieved, for instance by including in their applications indicators such as increase in value added, turnover, export, R&D investment and employment. Some of these indicators could also be put in place as entry conditions for applying for financial support.
- **Set long-term and intermediate targets.** The objective of the SME development strategy should be to improve the competitiveness of Georgian SMEs so they can thrive in both domestic and international markets. To assess the overall success and impact of the SME development strategy, intermediate and long-term targets are needed. These need to be specific to the SME sector, and could include the number of SMEs, people employed, exporting activities, and innovation indicators, etc. It is also important to create feedback mechanisms for SMEs to regularly evaluate whether the support services implemented work well or whether adjustments are required.
- **Embed monitoring mechanisms.** Policies should be regularly monitored and evaluated to ensure implementation is efficient and effective. In particular, policy makers need to ensure that

budgetary resources are available, that they are spent with care and that targets are being met. In this regard, a scheme to assess the level of implementation of the various actions should be updated regularly, identifying milestones, responsibilities, budget needs, deadlines, next steps and expected results for each practical action.

Georgia's Department of Economic Analysis and Policy within the MoESD is responsible for co-ordinating the implementation of the SME development strategy and the related action plan, including their monitoring and evaluation. Taking into account the various stakeholders involved, an inter-ministerial committee for SMEs should be set up to oversee developments. This could submit quarterly and annual progress reports to the government. An independent mid-term evaluation of the strategy and of the action plan six months before completion would be required to develop the next three-year action plan.

Figure 3. Suggested implementation timeline

Recommendations	Short term < 1 year	Medium term 1-3 years	Long term >3 years
1 Institutional framework and operational environment for SMEs <ul style="list-style-type: none"> Create formal co-ordination mechanisms for SME policy stakeholders Conduct SME-specific Regulatory Impact Assessments (RIA) Improve business closure and insolvency procedures Improve SME statistics collection and dissemination Streamline SME definition across statistics and policymaking 	    		
2 Access to finance <ul style="list-style-type: none"> Amend legal framework on public grants Improve supply-side financial skills Promote demand-side financial education programmes Consider establishing a Credit Guarantee Scheme (CGS) Improve alternative non-bank and equity financing for SMEs 	    		
3 Skills and entrepreneurial culture <ul style="list-style-type: none"> Develop country-wide labour market and training needs analysis frameworks Strengthen stakeholders participation to develop and implement VET policies Improve quality and attractiveness of VET institutions Facilitate SME access to non-formal training Promote entrepreneurship through formal educational institutions Support women's entrepreneurship 	     		
4 Internationalisation <ul style="list-style-type: none"> Improve export promotion activities and export-related skills among SMEs Provide services to SMEs to adapt to DCFTA requirements Provide targeted financial support to exporting SMEs Facilitate linkages between FDI and SMEs 	   		
5 Innovation and R&D <ul style="list-style-type: none"> Amend the legal framework for innovation Foster collaboration between industry and academia Consider providing financial support to SMEs for innovative activities 	  		

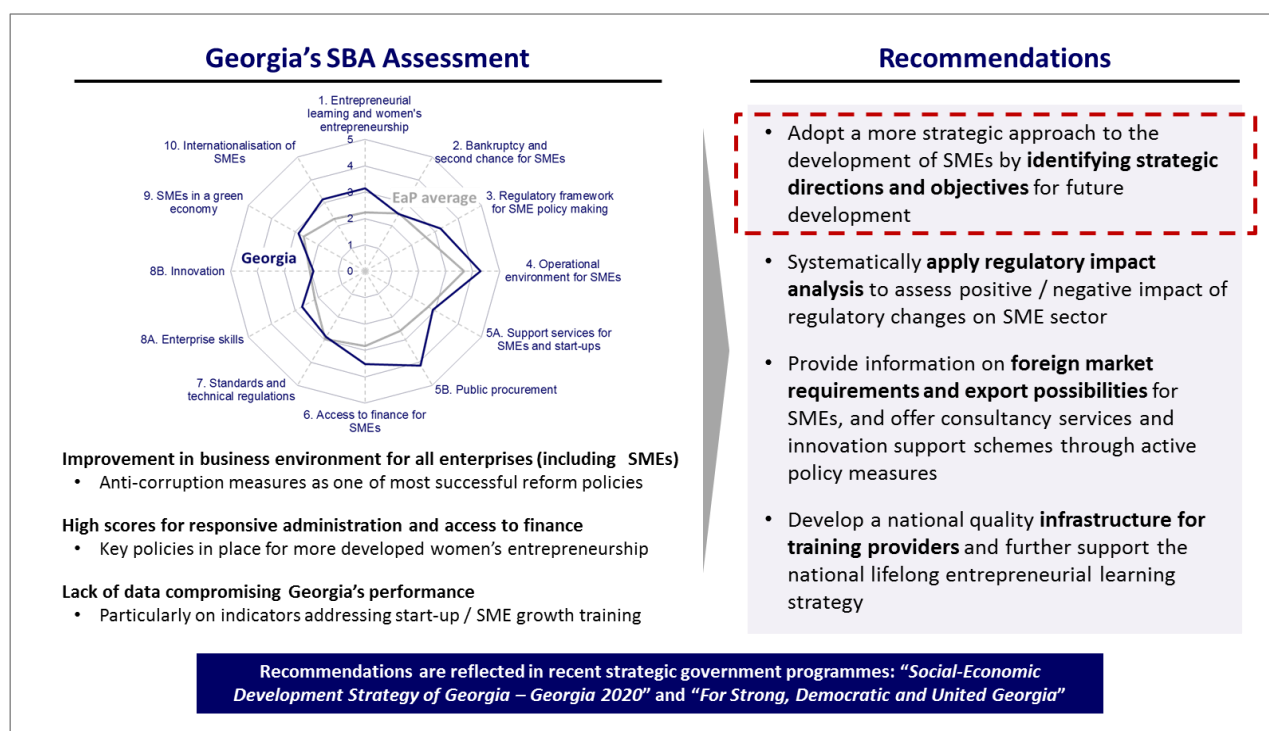
ANNEX A: SUPPORTING ANALYSIS

This annex contains a series of figures presenting project analysis and recommendations in greater detail. They provide additional information on the policy context, overall recommendations and good practice examples.

Figures

Figure 4.	SME Policy Index 2012 results	28
Figure 5.	SMEs as important part of Georgian economy.....	29
Figure 6.	Economic and policy developments in Georgia	30
Figure 7.	Five Strategic Directions for SME development in Georgia.....	31
Figure 8.	Definition of SMEs in Georgia.....	32
Figure 9.	Poland's Agency for Enterprise Development.....	33
Figure 10.	Access to finance is a major obstacle to SME development in Georgia	34
Figure 11.	SME finance gap in Georgia	35
Figure 12.	Key elements to design a Credit-Guarantee Schemes	36
Figure 13.	KredEx's government-backed guarantees support SMEs in Estonia	37
Figure 14.	SmartCap supports venture capital in Estonia	38
Figure 15.	Improving financial literacy for a better match between SMEs and banks	39
Figure 16.	StartUp Canada Financial Literacy Committee	40
Figure 17.	Skills mismatch and unemployment in Georgia.....	41
Figure 18.	Skills mismatch as important obstacle to do business in Georgia	42
Figure 19.	Stakeholders engagement and capacity building for VET	43
Figure 20.	Korea's databases and TNA framework	44
Figure 21.	Perceived business opportunities and capabilities in Georgia	45
Figure 22.	Georgian exports by country	46
Figure 23.	Most problematic factors for exporting in Georgia	47
Figure 24.	Germany's Trade and Invest offers export promotion activities to businesses	48
Figure 25.	KredEx links financing institutions, exporting SMEs and buyers.....	49
Figure 26.	Overview of trade-related financial support products	50
Figure 27.	FDI plays an important role in Georgian economy	51
Figure 28.	The Czech Republic's industrial zones facilitate FDI-SME linkages	52
Figure 29.	Innovation activities in Georgia	53
Figure 30.	Carnot institutes facilitate research-industry linkages in France	54

Figure 4. Georgia's SME Policy Index 2012 highlighted the need for an SME strategy



Source: OECD (2012a), *SME Policy Index: Eastern Partner Countries*.

The need for an SME strategy in Georgia was highlighted by the SME Policy Index 2012, a tool based on the 10 principles of the Small Business Act for Europe.

Figure 5. SMEs are an important part of the Georgian economy

	Definition		Contribution to Georgian economy					
	Employment	Turnover	Number		Value Added		Employment	
		(GEL thousand)	(thousands)	(% of tot)	(GEL million)	(% of tot)	(thousands)	(% of tot)
Small	≤ 20	≤ 500	50.1	84.9%	1 262	10.4%	138.3	25.1%
Medium	21-100	500 -1 500	5.4	9.2%	1 243	10.2%	97.1	17.6%
Large	> 100	> 1 500	3.5	5.9%	9 633	79.4%	315.4	57.3%
Total			59.0	100%	12 138	100%	550.8	100%
Total SMEs			55.5	94.1%	2 505	20.6%	235.4	42.7%

Source: Geostat (2013a), *Business Statistics*, (database), http://geostat.ge/index.php?action=page&p_id=212&lang=eng (accessed on 15 September 2015).

Statistical figures show that SMEs are an important part of the Georgian economy. They accounted for 94.1% of all active enterprises in 2013. However, their share of value added remains low, at 20.6%.

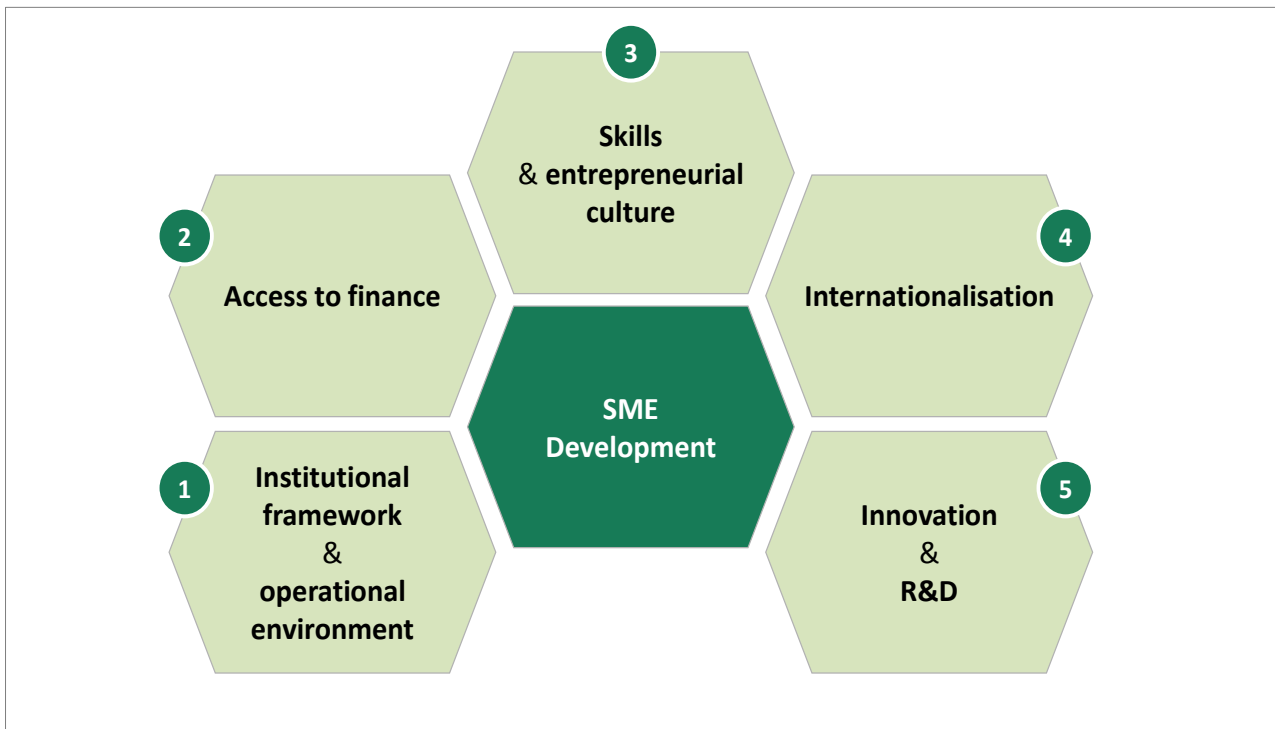
Figure 6. Recent economic and policy developments in Georgia call for more competitive SMEs

Recent economic trends	Positive recent trends in the economy		2010	2011	2012	2013	2014
	• Resilient GDP	GDP growth	+6.2%	+7.2%	+6.4%	+3.3%	+4.8%
	• Increasing export	Export as % of GDP	34.7%	36.3%	38.0%	44.5%	42.6%
Business environment	Business environment has improved substantially						
	<ul style="list-style-type: none"> Georgia ranks n. 15 in the 2015 WB 'Doing Business' report, recognised as top improver Best performer among neighbouring countries 						
Government priorities	Georgia 2020: Government priorities point to a number of key issues for an SME strategy						
	<ul style="list-style-type: none"> Increase private sector development (including SMEs) Develop competitive human capital Increase access to finance 						
Association Agreement with EU	New opportunities and challenges for SMEs will materialise						
	<ul style="list-style-type: none"> New opportunities to export to highly competitive markets Changes in operating conditions, even in the domestic market (i.e. approximation of EU regulation) DCFTA Action Plan includes preparation and adoption of multi-annual SME Strategy and Action Plan 						

Source: Geostat (2014c), *GDP and Other Indicators of National Accounts*, (database), www.geostat.ge/index.php?action=page&p_id=119&lang=eng (accessed on 15 September 2015); GoG (2014a), *Social-economic Development Strategy of Georgia – Georgia 2020*, www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-sd-01.pdf


Positive economic and policy developments in Georgia, such as the improvement in the business environment as well as the new opportunities and challenges stemming from the Association Agreement with the EU, further underline the need to strengthen SME competitiveness.

Figure 7. Framework for SME Development in Georgia – 5 Strategic Directions



The policy recommendations for SME development follow 5 strategic directions: institutional framework and operational environment; access to finance; skills and entrepreneurial culture; internationalisation; innovation and R&D.

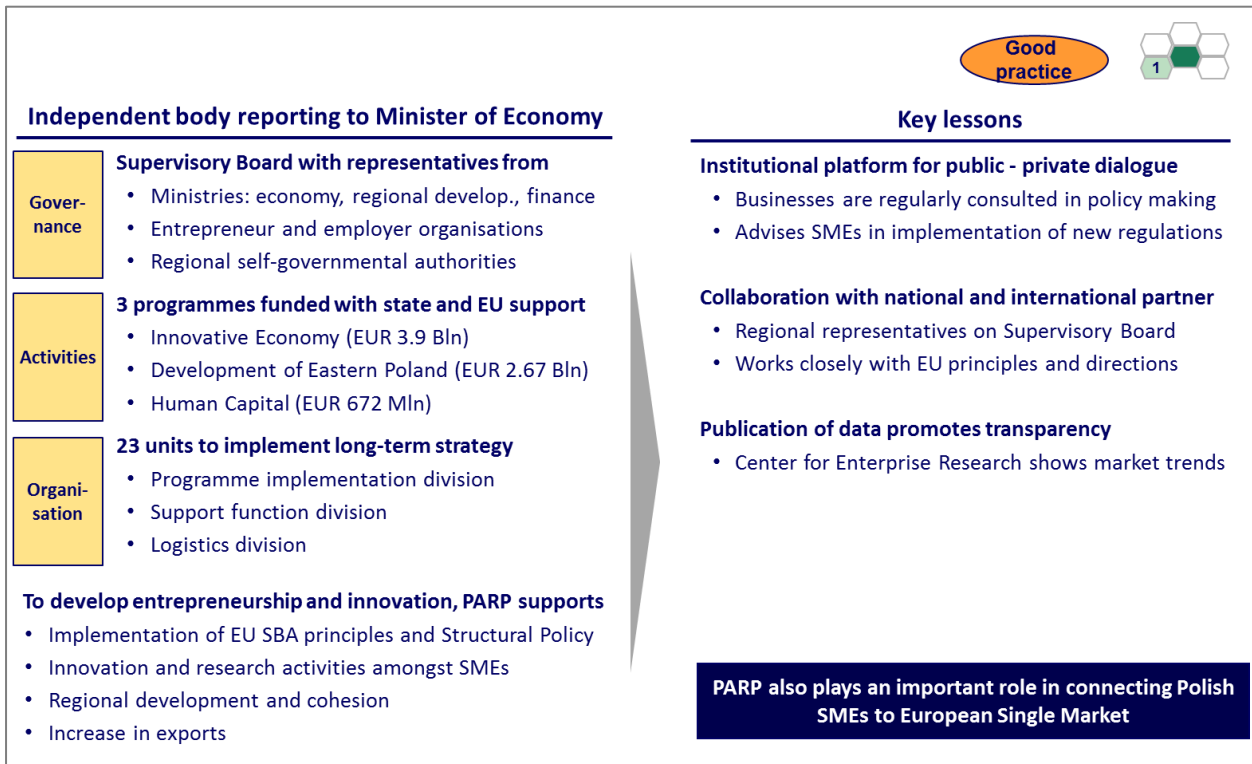
Figure 8. The SME definition could be made consistent across the legislation and tax code

SME Definition 									
Current status in Georgia and EU									
Two different definitions of SMEs in Georgia, no balance sheet criterion					EU definition includes balance sheet criterion				
Employment		Turnover			Employment	Turnover	Balance sheet		
Law*	Tax Code	Law*	Tax Code						
Micro	Self-employed (no hired labour)		≤GEL 30 000 (EUR 12 800)		Micro	<10 employees	≤ EUR 2m	≤ EUR 2m	
Small	≤20 employees Self-employed	≤GEL 500 000 (EUR 213 000)	≤GEL 100 000 (EUR 42 700)		Small	<50 employees	≤ EUR 10m	≤ EUR 10m	
Medium	≤100 employees	≤GEL 1 500 000 (EUR 640 000)			Medium	<250 employees	≤ EUR 50m	≤ EUR 43m	

Source: EC (2003), Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003H0361&from=EN>; GoG (2002), Law of Georgia on the Georgian National Investment Agency, <https://matsne.gov.ge/en/document/download/13810/6/en/pdf>; GoG (2010), Tax Code of Georgia, <https://matsne.gov.ge/en/document/download/1043717/94/en/pdf>.

Georgia currently has two different definitions of SMEs, one in the Law of Georgia on Georgian National Investment Agency and the other in the Tax Code. Neither definition includes a balance sheet criterion, which makes it inconsistent with the EU definition.

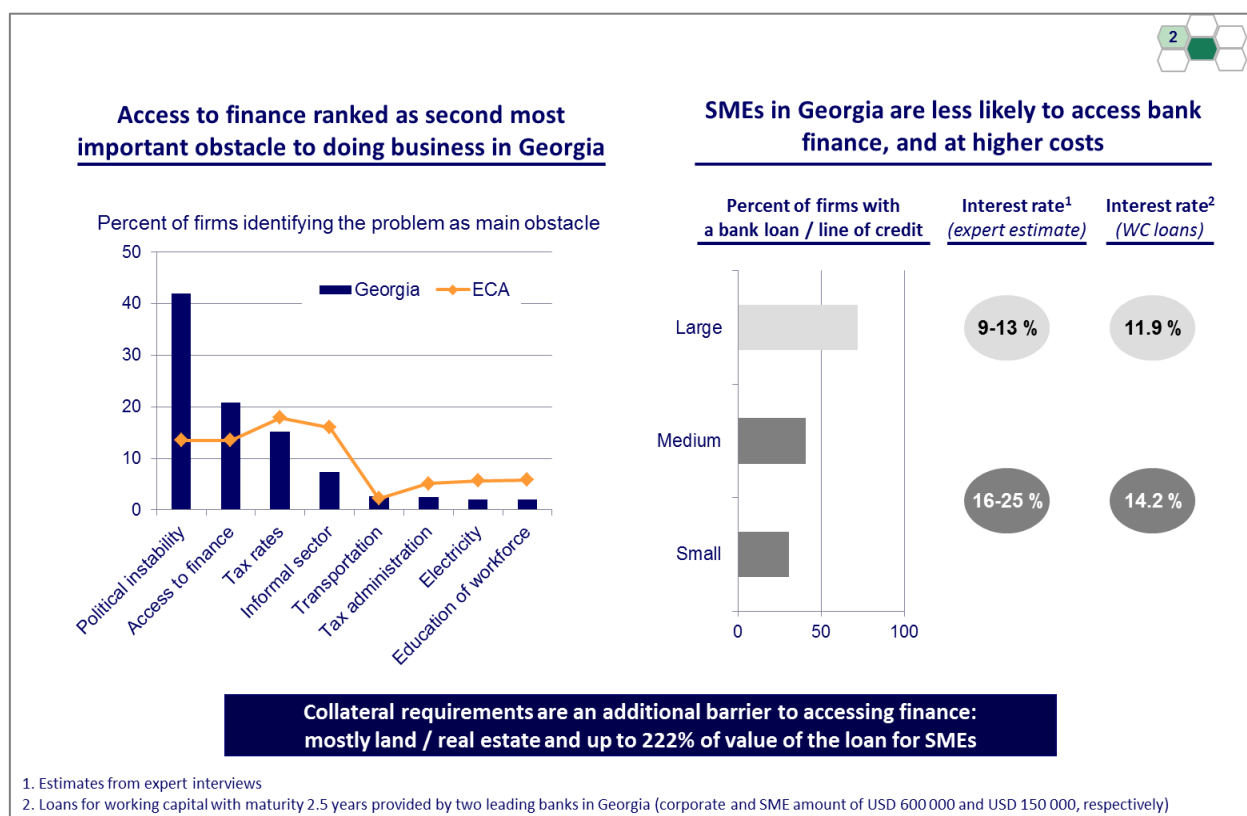
Figure 9. Poland's Agency for Enterprise Development (PARP) creates a supportive environment for SMEs



Source: PARP (2013), *Report on the Condition of Small and Medium-Sized Enterprise Sector in Poland 2011-2012*, <http://en.parp.gov.pl/files/214/19494.pdf>.

Good practice from Poland shows how an enterprise development agency can create a supportive environment for entrepreneurs, e.g. by putting in place an institutional platform for public-private dialogue or collaborating with international partners. Methods for public-private consultations may include meetings with business organisation representatives, expert group meetings or the establishment of representative SME business panels, each based on clearly defined principles of participation.

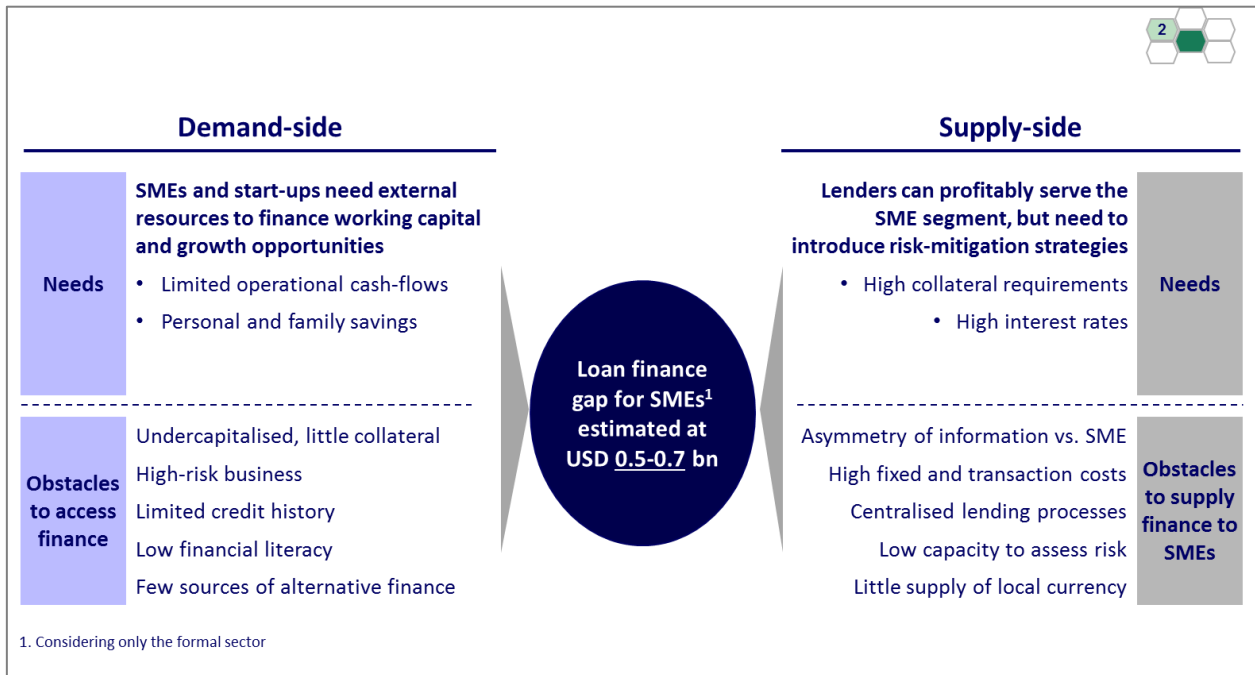
Figure 10. Access to finance is a major barrier for Georgian businesses, especially for SMEs



Source: Expert interviews; EBRD/WB (2013), "Business environment and enterprise performance surveys – Georgia country profile", webpage, www.enterprisesurveys.org/data/exploreeconomies/2013/georgia (accessed on 15 September 2015); KPMG (2014), *Cross-country Comparative Research on Credit Effective Interest Rates*, https://www.nbg.gov.ge/uploads/prezentacia/kpmg_presentation_draft_crosscountry_comparative_research_on_credit_effective_interest_rates_.pdf.

Access to finance is the second most important obstacle to doing business in Georgia, particularly for SMEs. Specific barriers include high collateral requirements and high interest rates.

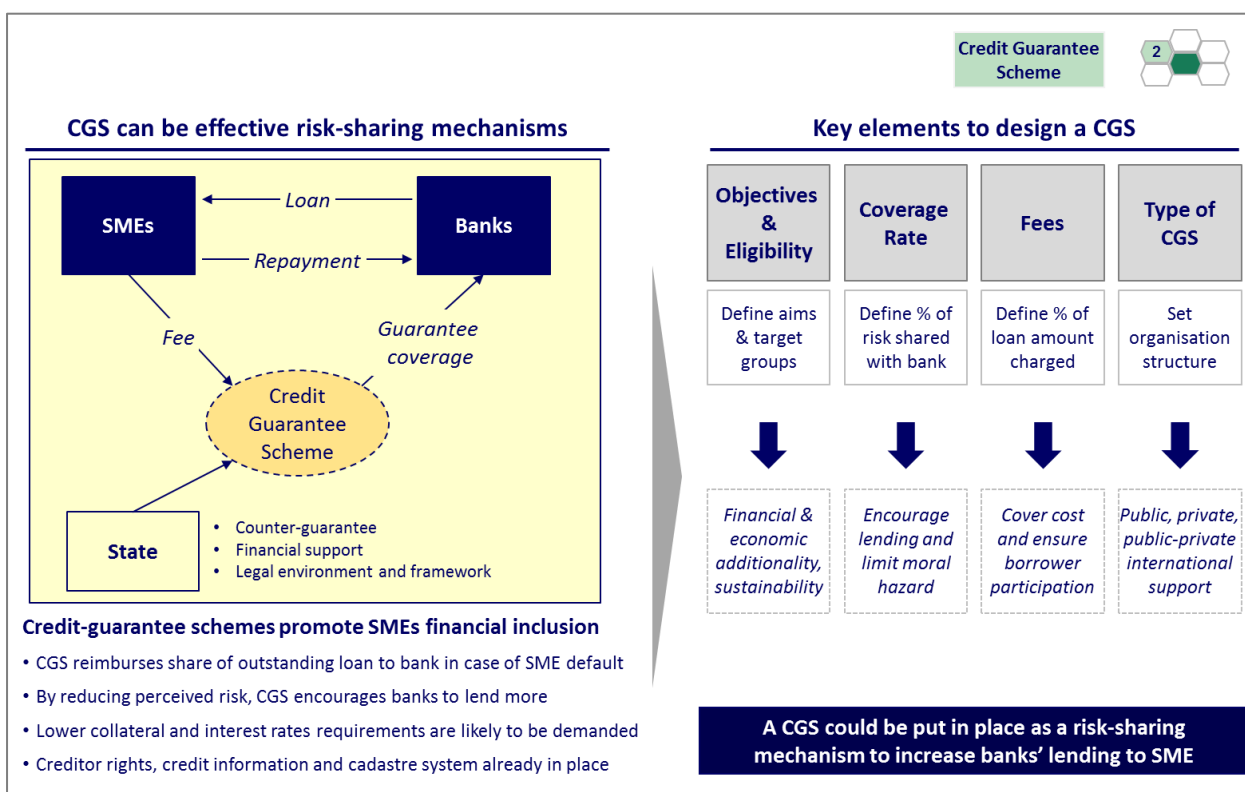
Figure 11. Both demand and supply-side factors contribute to the SME finance gap



Source: Expert interviews; EIB (2013), *Georgia: Private sector financing and the role of risk-bearing instruments*, www.eib.org/attachments/efs/econ_report_psf_and_the_role_of_rbi_georgia_en.pdf; IFC (2011), *Enterprise Finance Gap*, (database), <http://financegap.smefinanceforum.org/> (accessed on 15 September 2015)

Georgia's loan finance gap for SMEs, estimated at around USD 0.5-0.7 billion, is a result of both demand and supply-side factors, such as low financial literacy and asymmetry of information between banks and SMEs.

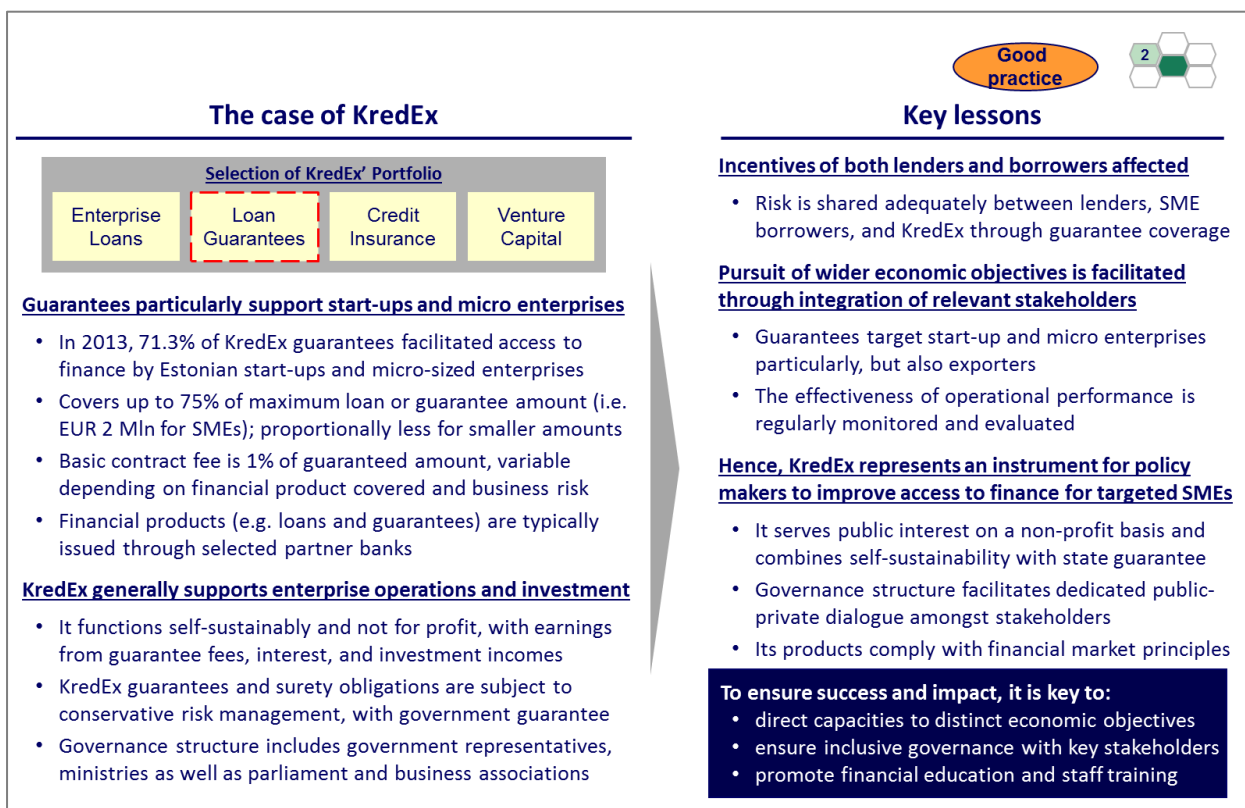
Figure 12. Credit guarantee schemes help SMEs access finance by creating a risk-sharing mechanism



Source: Hanedar, E.Y., Broccardo, E. and F. Bazzana (2014), "Collateral requirements of SMEs: the evidence from less-developed countries", *Journal of Banking and Finance*, Vol.38, pp.106-121, www.sciencedirect.com/science/article/pii/S0378426613003877; OECD (2013a), *Financing SMEs and Entrepreneurs 2013: An OECD scoreboard*, http://dx.doi.org/10.1787/fin_sme_ent-2013-en.

A credit guarantee scheme (CGS) could improve Georgian SMEs' access to finance, creating a risk-sharing mechanism between lenders (e.g. banks), borrowers (SMEs) and the state. In designing a CGS it is important to define key elements such as objectives, coverage rate, fees and the type of CGS to implement.

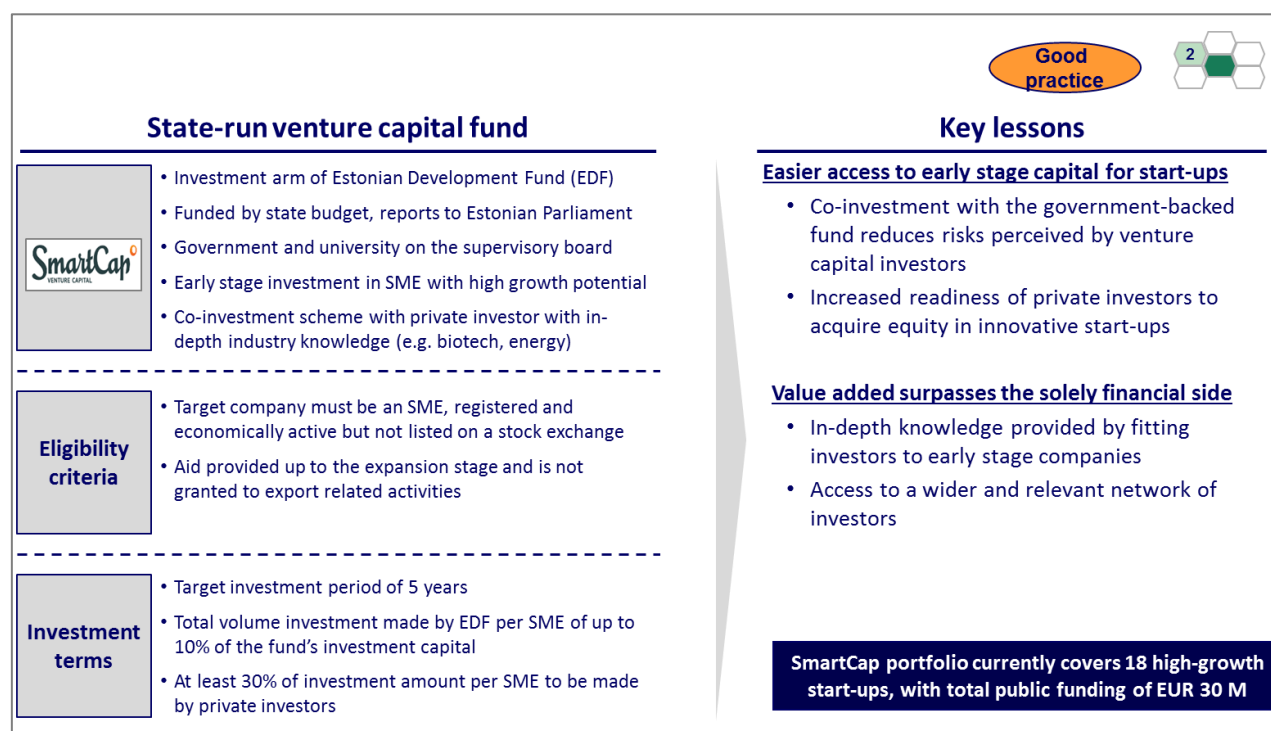
Figure 13. Estonia's KredEx offers government-backed guarantees to help SMEs develop and expand



Source: Kredex (2014a), *Annual Report 2013*, www.kredex.ee/public/aastaraamat2013/en/KredEx_annual_report_2013.pdf; Kredex. (2014b), "Financial services" (brochure), www.kredex.ee/public/Trukised/KredEx_ENG.pdf.

This good practice example from Estonia suggests how to implement government-backed guarantees in order to support SMEs' development and expansion. Clear objectives, inclusive governance and capacity-building measures are necessary conditions for the success of such schemes.

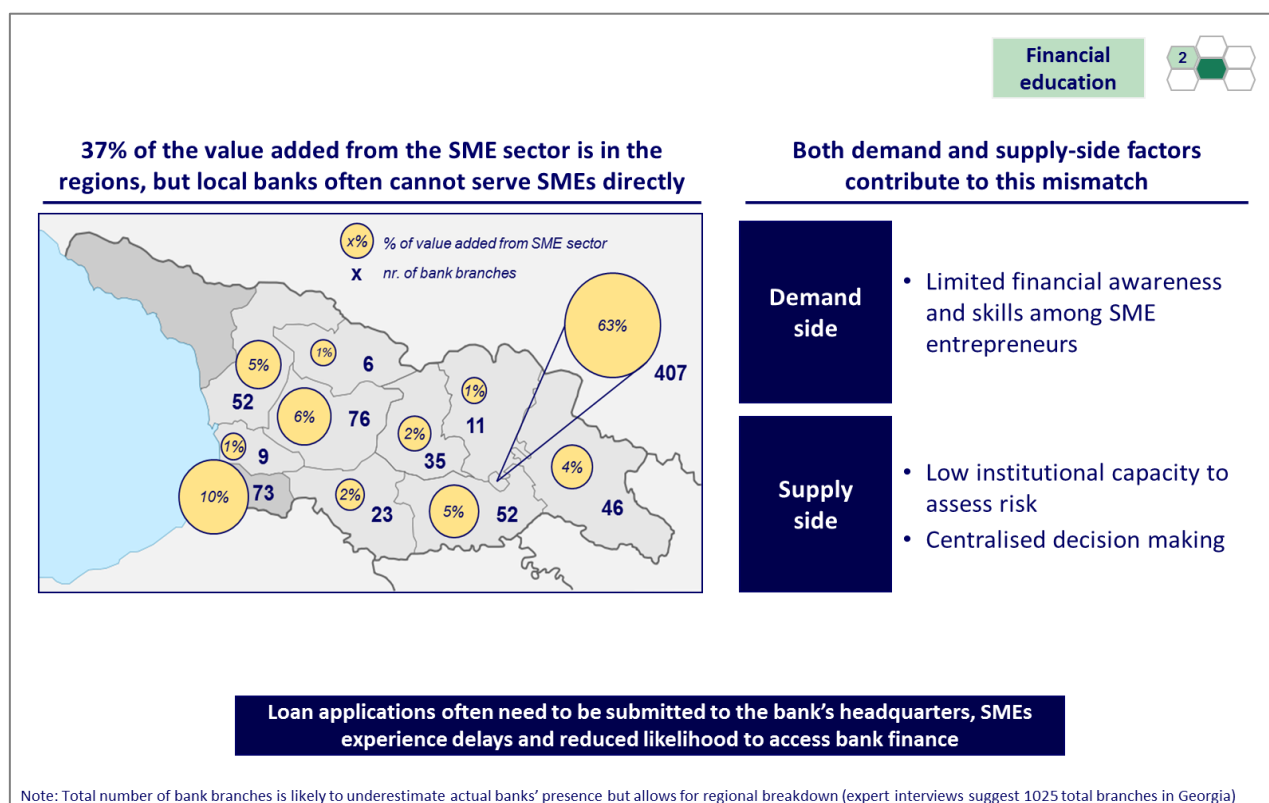
Figure 14. Estonia's SmartCap matches government and private investors' funds to provide financial support to SMEs



Source: EC (2014a), *Commission Services Position Paper on the Trade Sustainability Impact Assessment in Support of Negotiations of a Deep and Comprehensive Free Trade Area between the European Union and respectively Georgia and the Republic of Moldova*, http://trade.ec.europa.eu/doclib/docs/2014/may/tradoc_152461.pdf; SmartCap (2015), "Invest", website, www.smartcap.ee/invest (accessed on 15 September 2015).

In Estonia, a state-run venture capital fund provides financial support to early stage entrepreneurs, matching government and private investor funds to reduce the risks perceived by the latter.

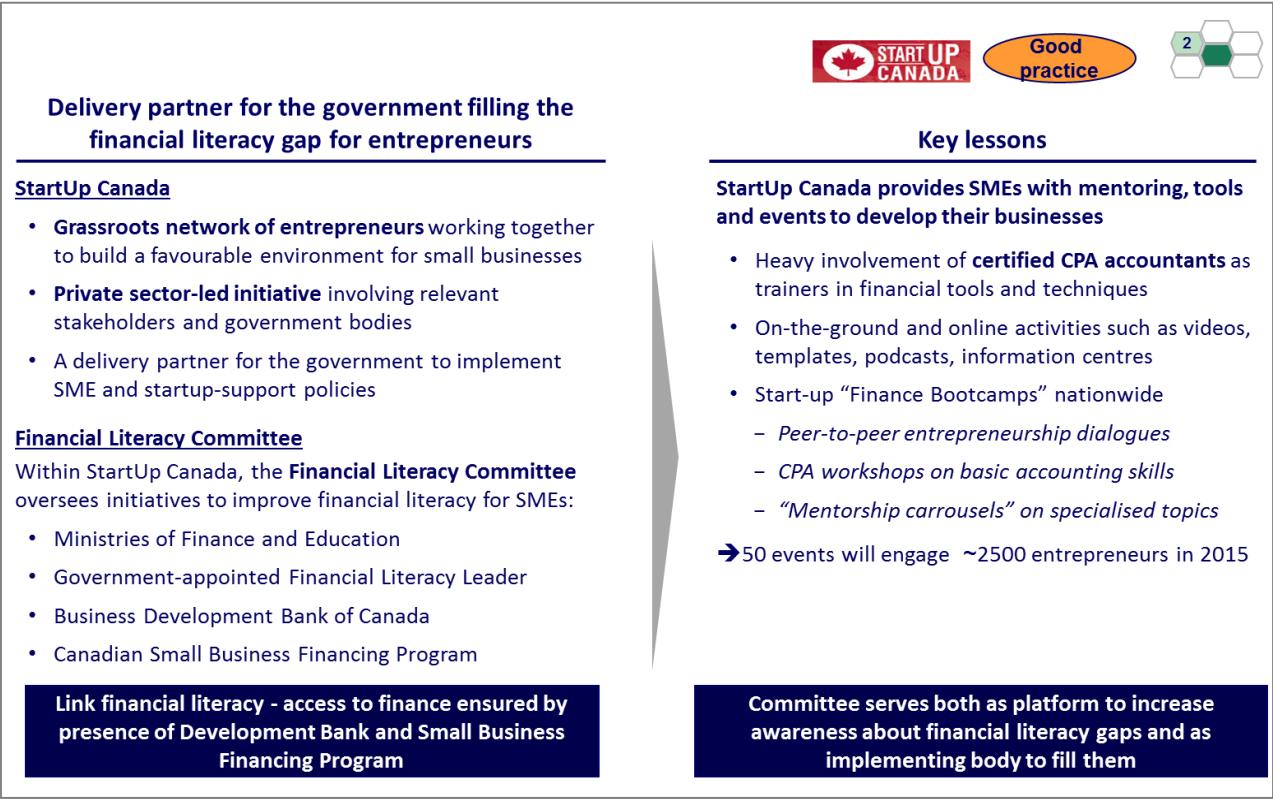
Figure 15. Improving demand and supply-side financial literacy favours a match between SMEs and banks



Source: Findings of Public-Private Working Group for SME Strategy; Geostat (2014a), *FDI by Economic Sectors*, (database), Geostat, Tbilisi, http://geostat.ge/index.php?action=page&p_id=140&lang=eng (accessed on 15 September 2015).

Demand and supply-side factors contribute to a mismatch between SMEs and banks in the regions: on the one hand, financial awareness and skills among SME entrepreneurs are weak. On the other hand, low institutional capacity to assess risk, as well as centralised decision making, reduce the likelihood of SMEs accessing bank finance.

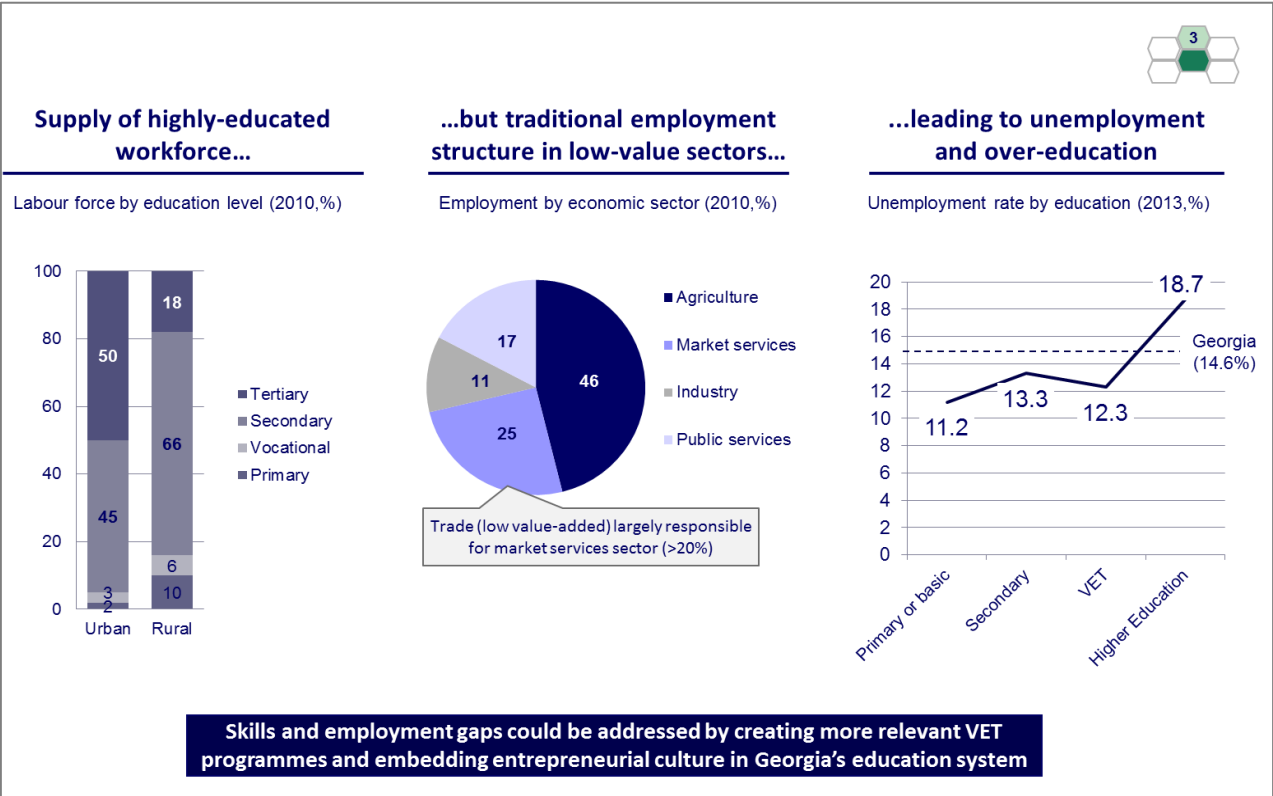
Figure 16. StartUp Canada’s Financial Literacy Committee indirectly increases SME access to finance



Source: Expert interviews; StartUp Canada (2015), “Our work”, website, www.startupcan.ca (accessed on 15 September 2015).

In Canada, a Committee for Financial Literacy was established in order to bridge demand-side financial literacy gaps. It serves both as a platform to increase awareness of financial literacy gaps and as the implementing body to fill them.

Figure 17. Labour market outcomes show large unemployment due to low job creation and skills mismatch



...leading to unemployment and over-education

Unemployment rate by education (2013,%)

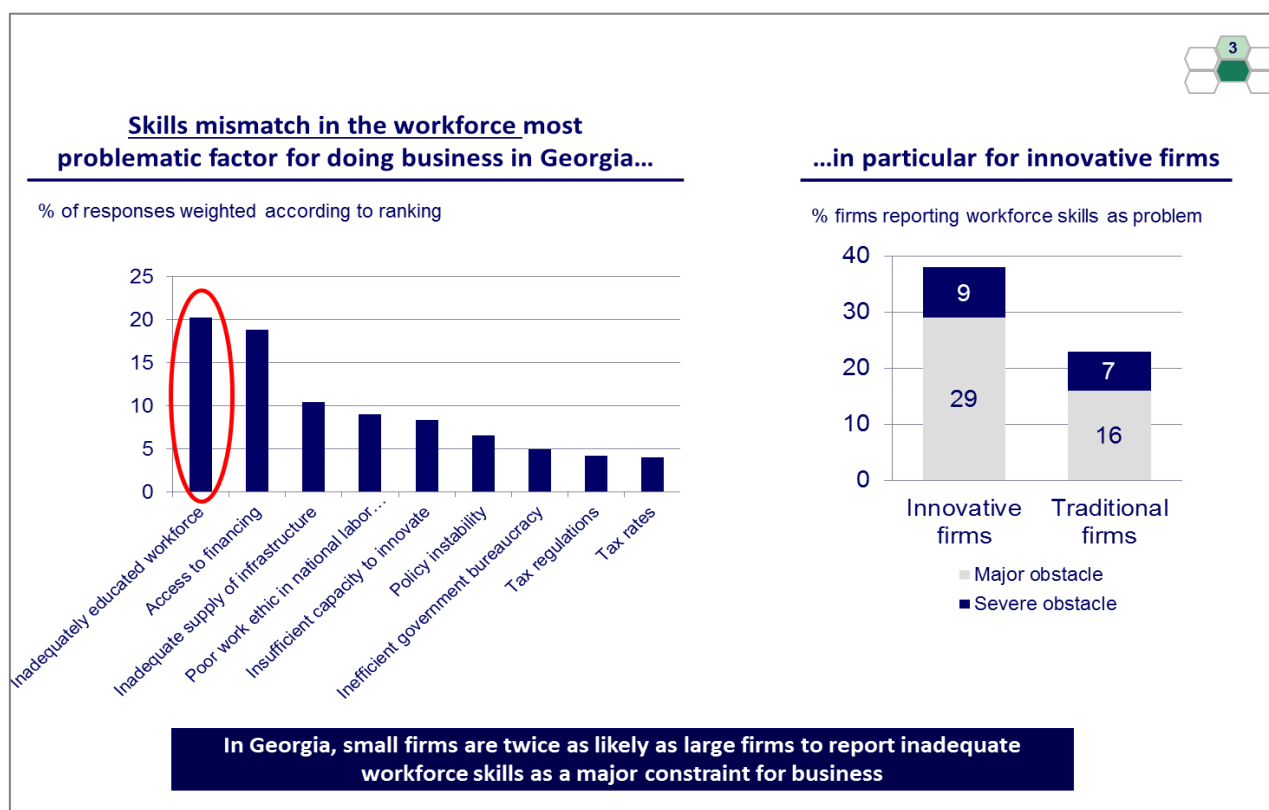
Education Level	Unemployment Rate (%)
Primary or basic	11.2
Secondary	13.3
VET	12.3
Higher Education	18.7
Georgia (Average)	14.6

Skills and employment gaps could be addressed by creating more relevant VET programmes and embedding entrepreneurial culture in Georgia's education system

Source: ETF (2014), *Torino Process 2014: Georgia*, www.etf.europa.eu/web.nsf/pages/TRP_2014_Georgia; World Bank (2013), *Georgia: Skills Mismatch and Unemployment, Labor Market Challenges*, <http://hdl.handle.net/10986/15985>; Geostat (2014b), *Employment and Unemployment*, (database), http://geostat.ge/index.php?action=page&p_id=146&lang=eng (accessed on 15 September 2015).

A skills mismatch between the demand and supply of workforce contributes to high unemployment rates: with the employment structure being traditionally in low-value sectors, the Georgian workforce today is overeducated.



Figure 18. Skills are key to competitiveness, but Georgia needs a better match in the labour market



Source: WEF (2014a), *The Global Competitiveness Report*; World Bank (2013), *Georgia: Skills Mismatch and Unemployment, Labor Market Challenges*, <http://hdl.handle.net/10986/15985>; EBRD/WB (2013), "Business environment and enterprise performance surveys – Georgia country profile", webpage, www.enterprisesurveys.org/data/exploreeconomies/2013/georgia (accessed on 15 September 2015).

The skills mismatch in the workforce is the most problematic factor for doing business in Georgia, particularly for small and innovative firms.

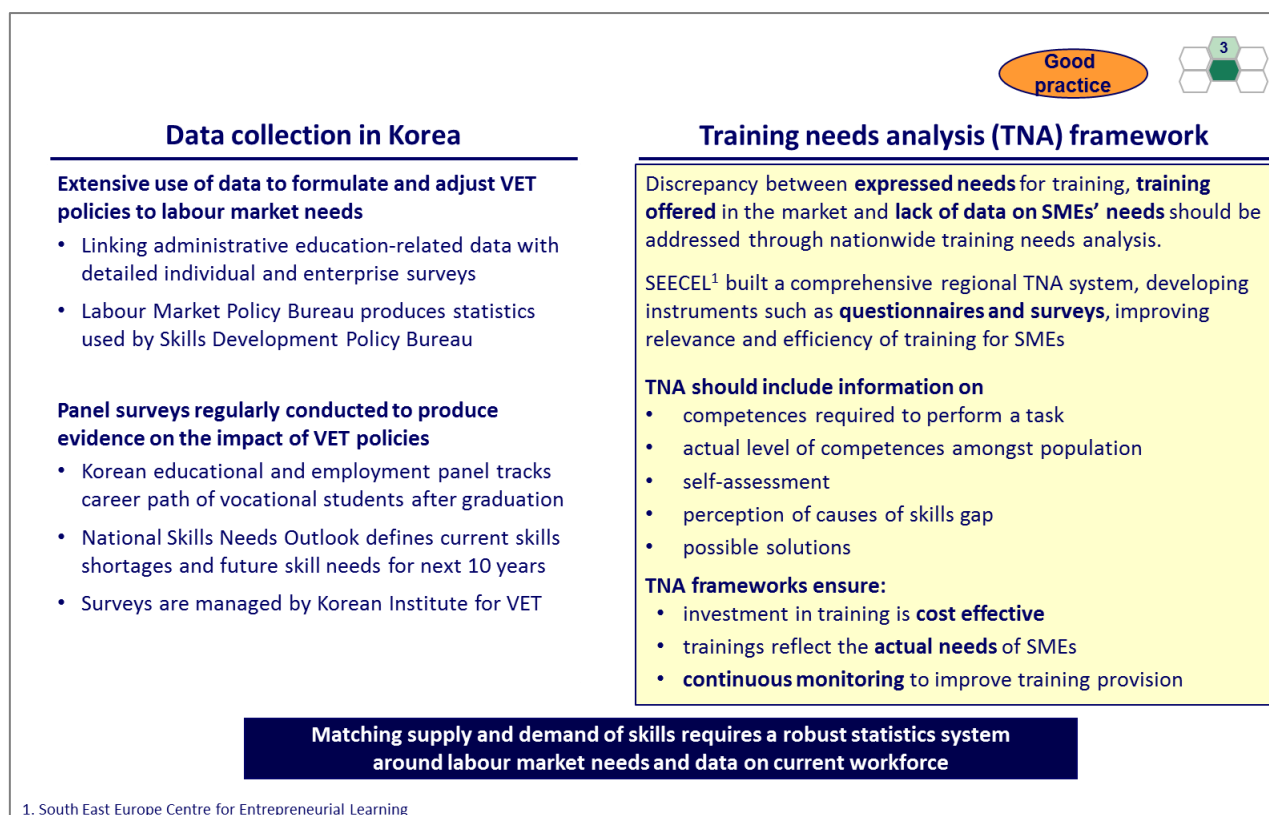
Figure 19. Stakeholder engagement and capacity building for efficient VET: examples from Austria and Germany

 Stakeholder engagement	 Capacity building for VET trainers
<p>Strong involvement of social partners with advisory and decision-making roles through:</p> <ul style="list-style-type: none"> • Government ministers • Austrian economic chambers • Austrian chamber of labour • Providers of formal education • Affiliated research institutes <p>Constitute a Federal Advisory Board on Apprenticeships, as advisory body to the Ministry of Economic Affairs</p> <p>“Bottom-up” approach to VET policy making, driven equally by social partners and the government</p> <p>High participation of students in VET at upper secondary level contributes to low youth unemployment rate</p>	<p>Quality and competencies of VET trainers are among strategic objectives of the European Cooperation in VET</p> <p>In Germany, VET trainers pass national examination, which covers basic pedagogical principles and certifies:</p> <ul style="list-style-type: none"> • assessing VET requirements and plan training • development of teaching materials and online tutoring • ability to identify skills of trainees and plan activities • awareness of nationally - recognised qualifications • leadership skills <p>Regional Chambers (IHKs) offer programmes to help candidates prepare for the trainer’s aptitude exam. They also provide courses to trainers in SMEs</p> <p>The Federal Institute for VET (BIBB) has developed specific guidelines for trainers in SMEs</p>
<p>Strong social co-operation increases readiness of companies to engage in formal VET training</p>	<p>Examinations for VET trainers at national level ensure quality of training provided and increase trust in VET</p>

Source: OECD (2012b), *Developing Skills in Central Asia through Better Vocational Education and Training Systems*, www.oecd.org/globalrelations/VocationalEducation.pdf; CEDEFOP and EC (2014), *Guiding Principles on Professional Development of Trainers in VET*, www.cedefop.europa.eu/fr/news-and-press/news/guiding-principles-professional-development-trainers-vet.

Good practice examples from Austria and Germany suggest how to develop efficient VET systems, based on strong co-operation between stakeholders and regular capacity building for VET trainers.

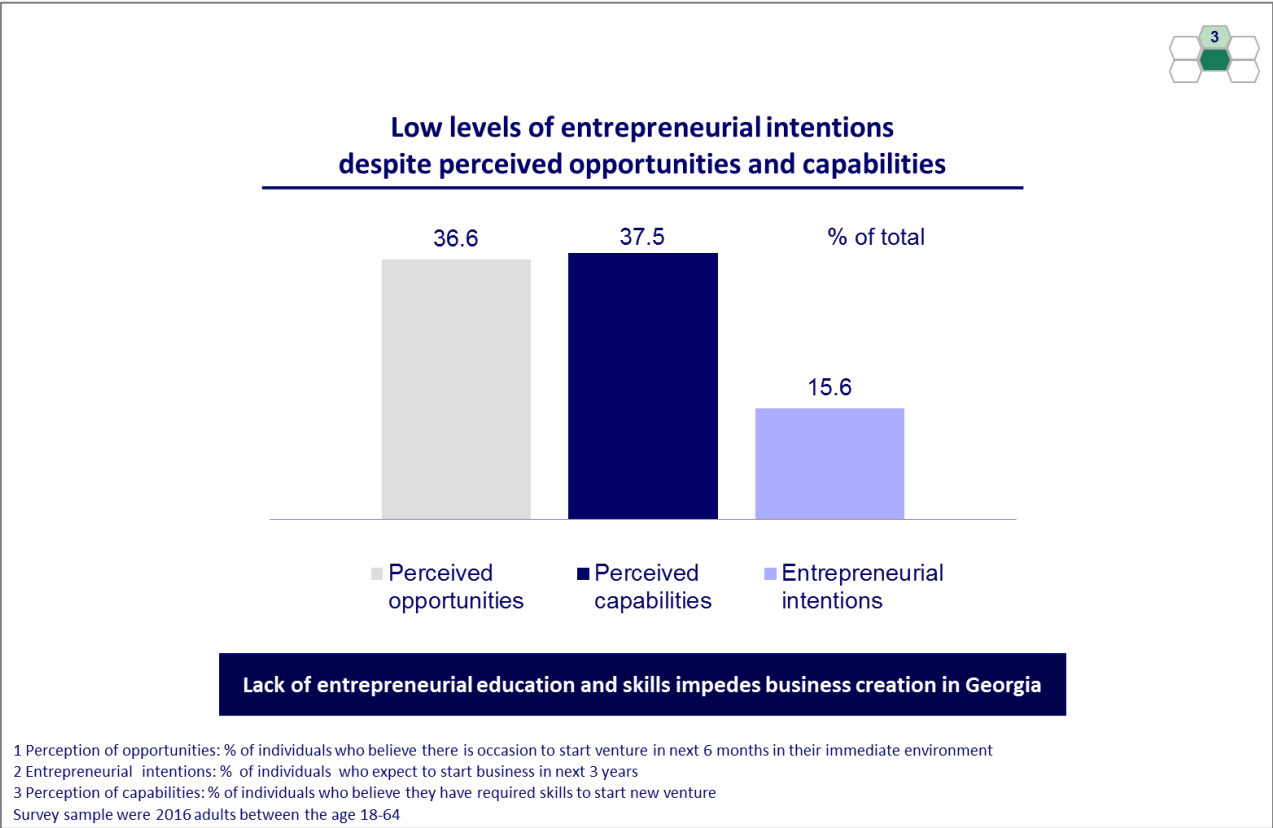
Figure 20. Korea's databases address labour market needs, while its training needs analysis framework ensures country-wide efficiency of SME training



Source: OECD (2012b), *Developing Skills in Central Asia through Better Vocational Education and Training Systems*, www.oecd.org/globalrelations/VocationalEducation.pdf; SEECEL (2013), *Training Needs Analysis for SMEs: Western Balkans and Turkey's Experience*, www.seecel.hr/UserDocImages/TNA_Optimized.pdf.

Korea helps to match skills supply and demand by extensively using databases addressing labour market needs, as well as regular panel surveys to produce evidence on the impact of training policies. Training needs analysis frameworks ensure the country-wide relevance and efficiency of SME trainings.

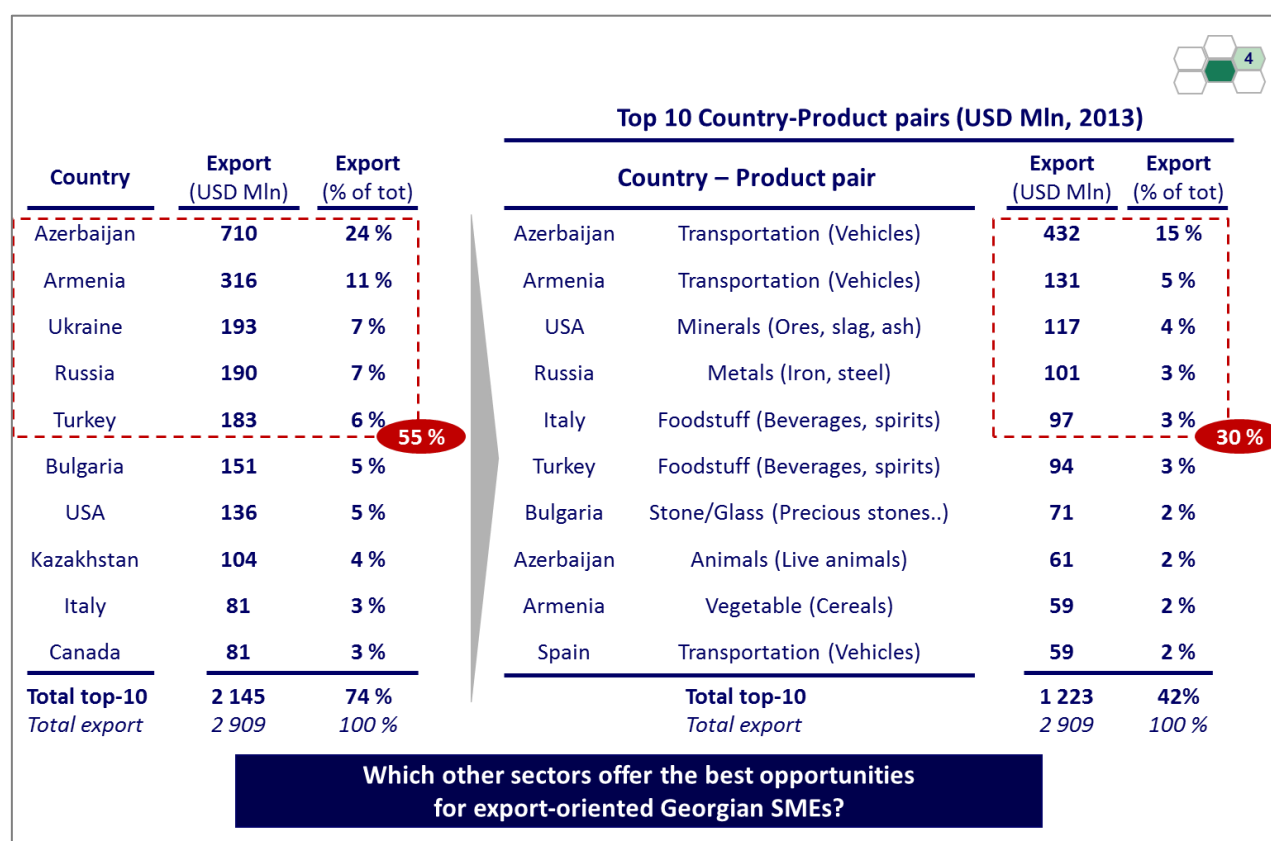
Figure 21. Georgians are aware of business opportunities, but only a few intend to become entrepreneurs



Source: Lezhava, B. et al. (2014), *Global Entrepreneurship Monitor: 2014 Georgia Report*

In Georgia, awareness of business opportunities is twice as high as intentions to actually become an entrepreneur. Lack of entrepreneurial education and skills is an obstacle to business creation in Georgia.

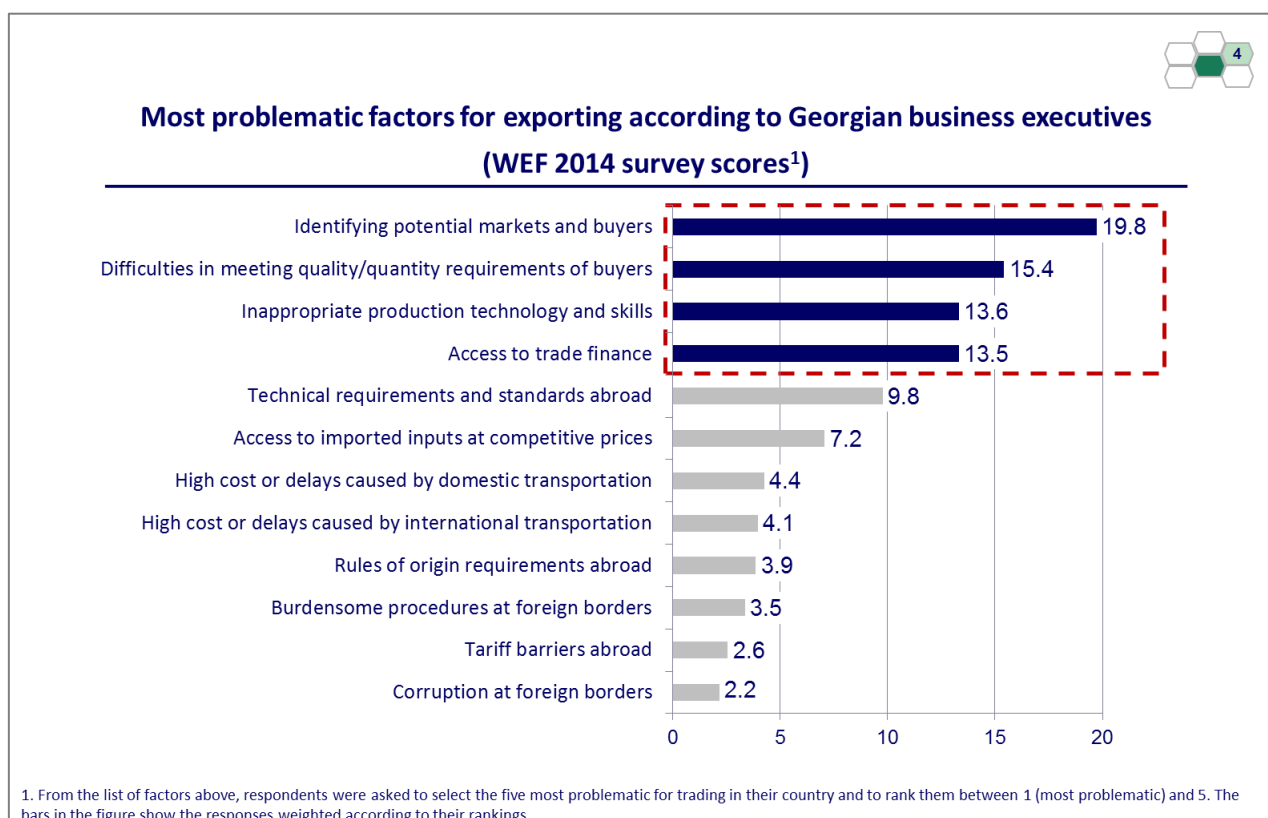
Figure 22. Georgian exports are concentrated in neighbouring countries and low value-added sectors



Source: UN Comtrade (2014), "Commodity trade statistics" (database), <http://comtrade.un.org/> (accessed on 15 September 2015).

Current Georgian exports are mainly concentrated in nearby countries such as Azerbaijan, Armenia and Ukraine, and are driven by low value-added activities.

Figure 23. Limited foreign market information and difficulties meeting quality requirements hamper exports



Source: WEF (2014b), *The Global Enabling Trade Report*

Limited foreign market information, and difficulties in meeting buyers' quality requirements and accessing trade finance, are perceived as the most problematic factors for exporting according to Georgian business executives in 2014.

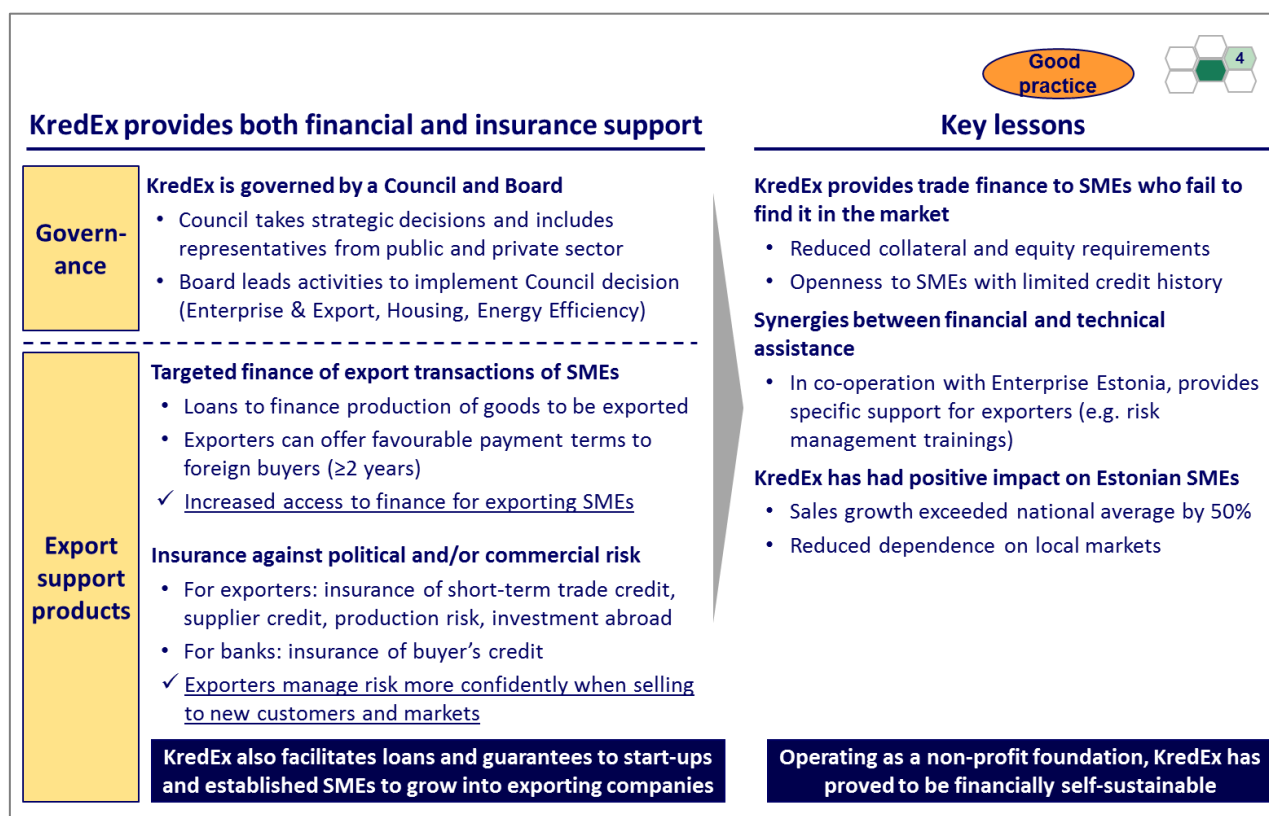
Figure 24. Germany's Trade and Invest provides extensive information to exporters



Source: UNCTAD (2009), *Promoting Investment and Trade: Practices and Issues*, Investment Advisory Series A/4, http://unctad.org/en/Docs/diaepcb20099_en.pdf; GTAI (2015), "About us", website, www.gtai.de/GTAI/Navigation/EN/Meta/about-us.html (accessed 15 September 2015).

In Germany, extensive information on foreign markets is available through a trade and investment promotion agency. It supports domestic companies in expanding their business abroad through a range of services such as export skills development and market intelligence.

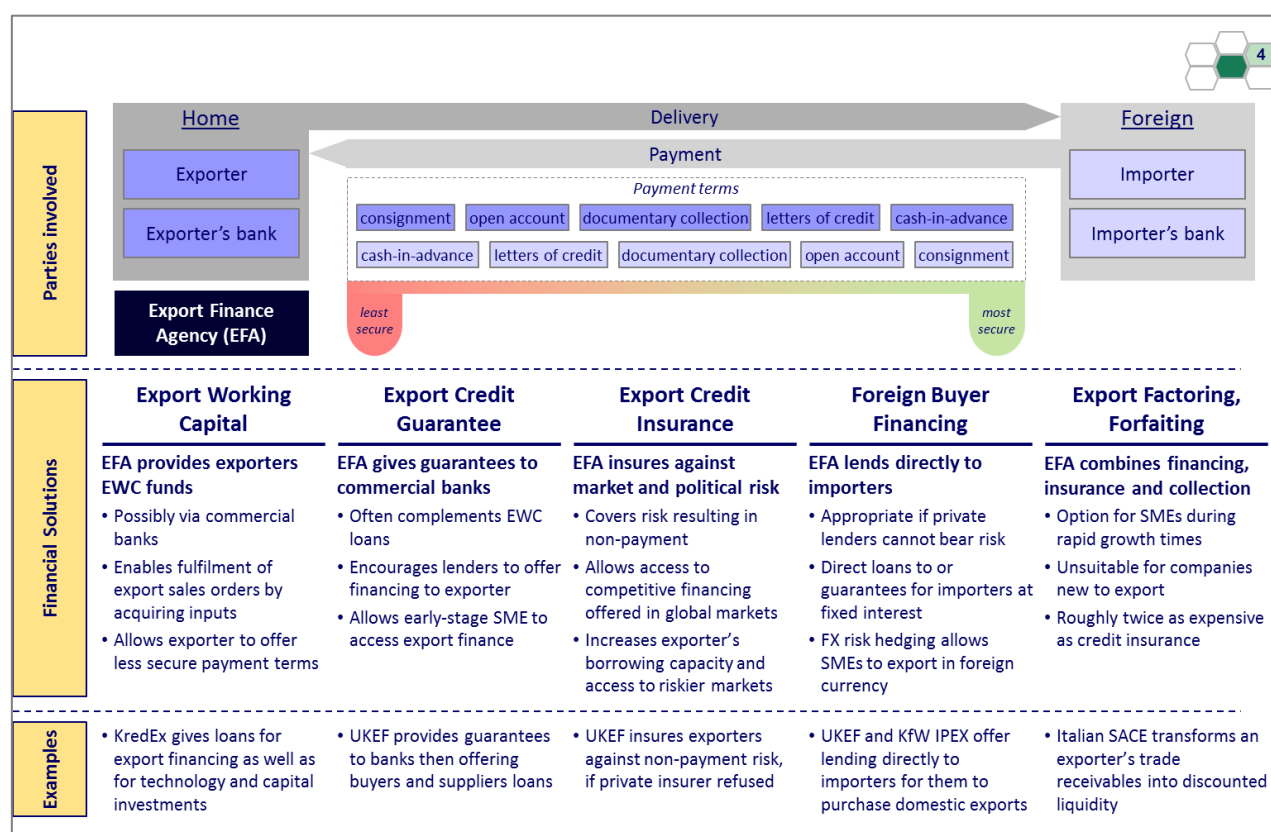
Figure 25. Estonia's KredEx links financing institutions with exporting SMEs and foreign buyers



Source: Kredex (2014a), *Annual Report 2013*, www.kredex.ee/public/aastaraamat2013/en/KredEx_annual_report_2013.pdf; Kredex. (2014b), "Financial services" (brochure), www.kredex.ee/public/Trukised/KredEx_ENG.pdf; Crichton (2006), "Estonian Credit and Export Guarantee Fund (Kredex), Estonia", in *Entrepreneurship in the Districts Uckermark in Brandenburg, and Parchim in Mecklenburg-Western Pomerania*, Discussion Paper, OECD, Paris, www.oecd.org/site/cfecpr/38795722.pdf.

In Estonia, KredEx links exporting SMEs, financing institutions and foreign buyers. KredEx is a financially self-sustainable agency providing financial and insurance support to exporting companies.

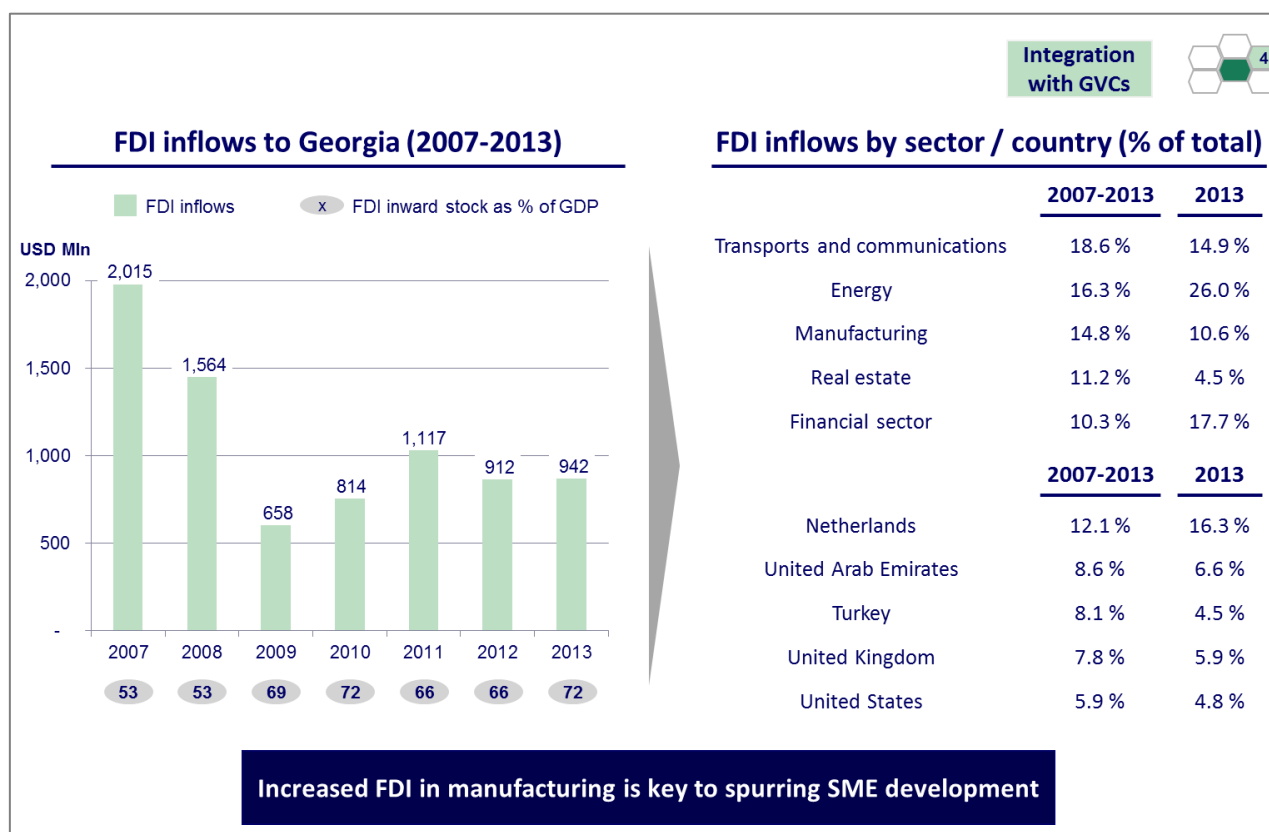
Figure 26. Export-finance agencies help SMEs overcome export risks and difficulties accessing finance



Source: ITA (2012), *Trade Finance Guide - A quick reference for US exporters*, www.export.gov/static/TradeFinanceGuide_All_Latest_eg_main_043219.pdf; UKEF (2014), "Take your business further: export finance explained" (brochure), www.gov.uk/government/uploads/system/uploads/attachment_data/file/303683/UKEF_Brochure_v2_04.14.pdf; SACE (2015), "Products and services", website, www.sace.it/en/products-and-services (accessed on 15 September 2015); KfW IPEX (2015), "International project and export finance", website, <https://www.kfw-ipex-bank.de/International-financing/KfW-IPEX-Bank/> (accessed on 15 September 2015).

Export finance agencies (EFAs) support private firms by offering diverse financial solutions to overcome export-related risks and difficulties in accessing finance. Solutions include instruments such as credit guarantees, factoring and foreign buyer financing.

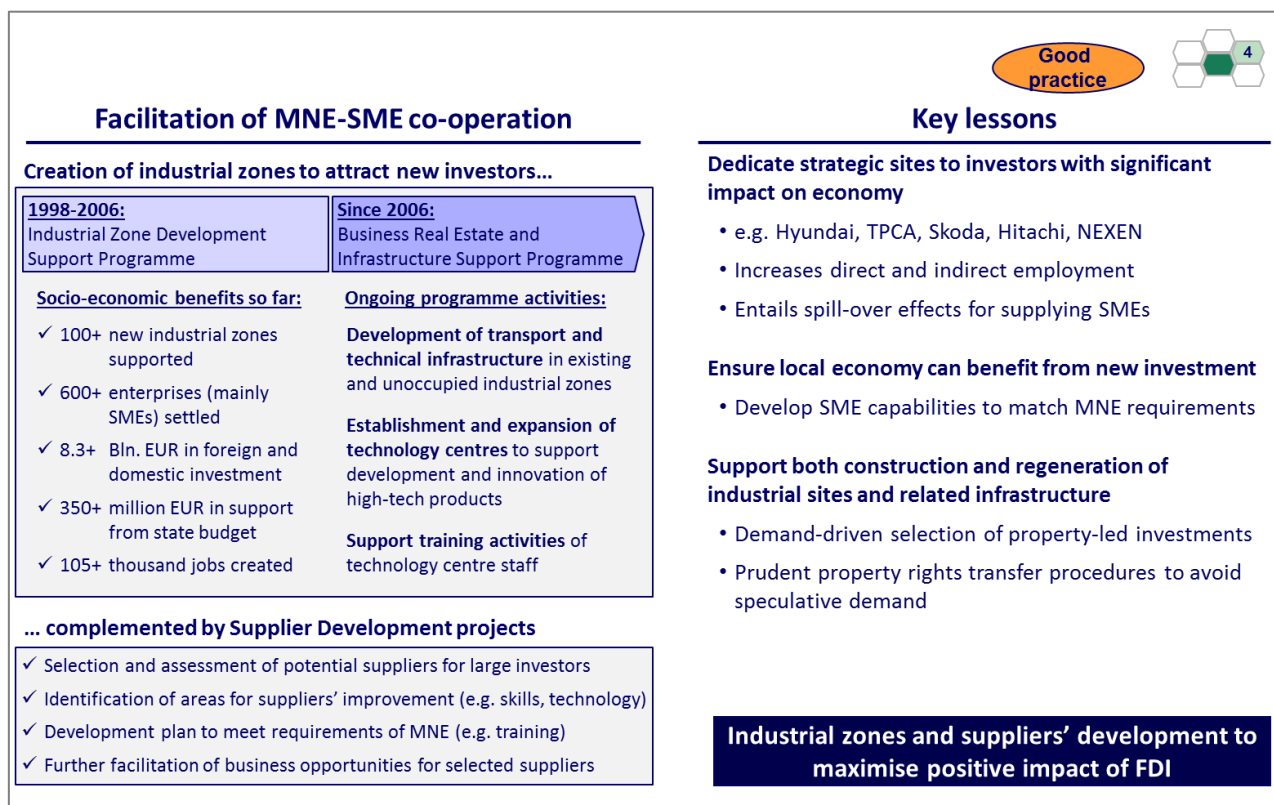
Figure 27. Foreign direct investment plays an important role in the Georgian economy



Source: Geostat (2014a), "FDI by economic sectors" (database), http://geostat.ge/index.php?action=page&p_id=140&lang=eng (accessed on 15 September 2015); UNCTAD (2014), *World Investment Report 2014 – Investing in the SDGs: an Action Plan*, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf; USAID (2012), *Country Development Cooperation Strategy Georgia: Fiscal Year 2013-2017*, www.usaid.gov/sites/default/files/documents/1863/GeorgiaCDCS.pdf.

FDI plays an important role in the Georgian economy. The inward stock reached 72% of GDP in 2013. Currently concentrated in the energy (26% of total FDI in Georgia) and financial sectors (17.7%), increasing FDI in manufacturing would be key to boosting the development of SMEs.

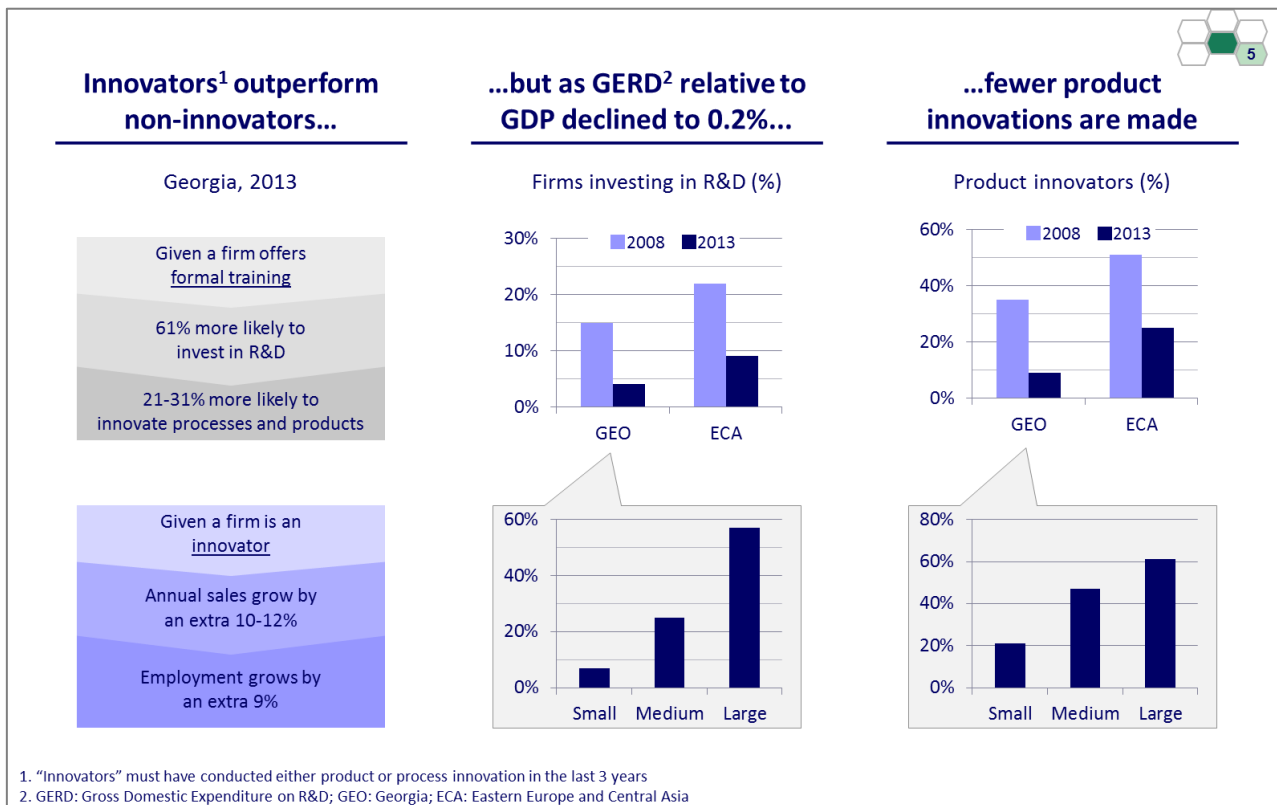
Figure 28. The Czech Republic's industrial zones facilitate FDI-SME linkages



Source: MPO (2009), "Investment support in the Czech Republic: industrial zones" (presentation), www.oecd.org/globalrelations/43361602.pdf; OECD (2013c), *Innovation-driven Growth in Regions: The Role of Smart Specialisation*, www.oecd.org/innovation/inno/smart-specialisation.pdf.

Industrial zones in the Czech Republic facilitate co-operation between multinational enterprises and SMEs by supporting property-led business development. Examples of such supplier development projects are the identification of areas for suppliers' improvement and plans to meet the requirements of multinational enterprises (MNEs.)

Figure 29. Innovative firms are key for an economy's competitiveness, but innovation is weak in Georgia



Source: EBRD/WB (2013), "Business environment and enterprise performance surveys – Georgia country profile", webpage, www.enterprisesurveys.org/data/exploreeconomies/2013/georgia (accessed on 15 September 2015); Kuriakose, S. (2013), *Fostering Entrepreneurship in Georgia. Directions in development: private sector development*, <http://documents.worldbank.org/curated/en/2013/01/18147170/fostering-entrepreneurship-georgia>.

Although innovative firms are essential for an economy's competitiveness and sustained growth, innovation activities are low in Georgia.

Figure 30. France's collaborative research schemes foster SME innovations



Source: ANR (2011), *Etude d'impact du dispositif Carnot*, www.agence-nationale-recherche.fr/fileadmin/user_upload/documents/DPC/2011/etude_impact_AVRIL_2011_version_courte_VF.pdf; Carnot Institutes (2014), *The Carnot Institutes Network*, online publication, www.instituts-carnot.eu/livres/our-network/FLASH/index.html?page=1; OECD (2014b), *OECD Reviews of Innovation Policy: France*, <http://dx.doi.org/10.1787/9789264214026-en>.

To foster innovation activities, France has designed collaborative research schemes to promote research-industry linkages. These schemes allow for the sharing of human resources, equipment and facilities and help to better match business needs.

ANNEX B: METHODOLOGY AND PROJECT APPROACH

The first step of the project was for the OECD Eurasia Competitiveness Programme (ECP) and its project partners to identify key strategic directions for SME development through the framework of the SME Policy Index.³ This targeted approach enabled the government to focus resources on specific policy issues and prioritise their implementation. It also helped to translate private sector experience into policy reforms that can be acted upon, and facilitate dialogue and exchange with international best practice by breaking down this broad topic into well-defined policy issues.

As a second step, a Steering Group and Working Group were established under the co-ordination of the OECD ECP and the Georgian Ministry of Economy and Sustainable Development in order to discuss each priority direction. Several meetings have been held in Tbilisi, involving thematic presentations and illustrated by international good practice examples. These meetings served as the basis to cover all key aspects of SME development, provide inputs for the draft of the “SME Development Strategy 2016-2020” as well as design a related reform action plan supported by OECD guidelines and recommendations presented in this document. The following meetings were held in preparation for the peer review of Georgia:

- **22 October 2014:** First Working Group meeting at the MoESD in Tbilisi to present project outline.
- **4 and 5 February 2015:** First Steering Group meeting at the MoESD in Tbilisi and second meeting of the Working Group on Institutional framework and Operational Environment and Internationalisation at the Georgian Chamber of Commerce and Industry in Tbilisi.
- **15 April 2015:** Third Working Group meeting on Access to Finance at the Georgian Chamber of Commerce and Industry in Tbilisi.
- **24 and 25 June 2015:** Second Steering Group meeting at the MoESD and fourth Working Group meeting on Skills and Entrepreneurial Culture and Innovation and R&D in Tbilisi.

This document was peer reviewed on 25 November 2015 at the third session of the OECD Eurasia Competitiveness Roundtable, a policy network that brings together high-level representatives and technical experts from Eurasia countries, OECD member countries and partner organisations. The Roundtable meets annually and serves as a platform for peer review and knowledge sharing on the implementation of competitiveness reforms.

The Roundtable discussion was facilitated by four international experts, who provided an overview of the current situation in Georgia and insights into the policy experience in selected OECD countries:

- Prof. Salvatore Zecchini, Chair of the OECD Working Party on SMEs and Entrepreneurship.
- Ms. Piret Treiberg, Head of Enterprise Division, Ministry of Economic Affairs and Communication, Estonia.
- Mr. Pavel Komárek, Board Member of TACR - Technology Agency of the Czech Republic.
- Mr. Volker Genetzky, Deputy Head of Unit, Development of Digital Technologies, Ministry of Economics and Energy, Germany.

Progress in the implementation of these recommendations will be discussed in two years' time at the 2017 OECD Eurasia Competitiveness Roundtable.

³ See www.oecd.org/fr/relationmondiales/smallandmedium-sizedenterprisessmepolicyindex.htm for more details.

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Supporting Small and Medium-Sized Enterprises in Georgia Recommendations for the SME Development Strategy 2016-2020

Small and medium-sized enterprises play a significant role in Georgia's economy. However, the country needs to develop its SME sector further, especially in view of the recently signed Association Agreement with the EU, which brings about important challenges and opportunities for Georgian SMEs. This Note presents comprehensive policy recommendations for the design of Georgia's "SME Development Strategy 2016-2020", which will outline a set of reforms to create the framework conditions within which SMEs can thrive and become more competitive on international markets.

The recommendations for the SME Development Strategy address current market failures and suggest targeted support to improve the competitiveness of Georgian SMEs in five areas: the institutional framework and operational environment; access to finance; skills and entrepreneurial culture; internationalisation; and innovation.

This Note was peer reviewed on 25 November 2015 at the OECD Eurasia Competitiveness Roundtable. The Roundtable is a policy network for sharing knowledge on the implementation of competitiveness reforms, and brings together high-level representatives and technical experts from Eurasia countries, OECD member countries and partner organisations.



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