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► **Research on youth entrepreneurship stimulation in Georgia:**

understanding the barriers and recommending reform interventions

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Final Report

Prepared by ISET Policy Institute

This report was prepared in collaboration with International Labour Organization (ILO) within the project Inclusive labour markets for job creation in Georgia, funded by the Government of Denmark (Ministry of Foreign Affairs of Denmark).

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Research on youth entrepreneurship stimulation in Georgia: understanding the barriers and recommending reform interventions

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► List of Acronyms

AA	Association Agreement
ABL	Administrative Boundary Lines
APMA	Agricultural Project Management Agency
ARDA	Agricultural and Rural Development Agency
B2B	Business-to-Business
BDS	Business Development Services
BTU	Business and Technology University
CG	Computer Graphics
CIS	Commonwealth of Independent States
CNC	Computer Numerical Control
CSDRG	Center for the Strategic Research and Development of Georgia
CU	Caucasus University
DANIDA	Danish International Development Agency
DCFTA	Deep and Comprehensive Free Trade Area
DRC	Danish Refugee Council
EaP	Eastern Partnership
EDEC	Education Development and Employment Center
EFC	Entrepreneurial Framework Conditions
EFTA	European Free Trade Association
EG	Enterprise Georgia
EIB	European Investment Bank
ENPARD	European Neighbourhood Programme for Agriculture and Rural Development
ETF	European Training Foundation
EU	European Union
EUR	Euro (European Monetary Unit)
GCI	Global Competitiveness Index
GEM	Global Entrepreneurship Monitor
GENIE	Georgia National Innovation Ecosystem
Geostat	National Statistics Office of Georgia
HQ	Headquarter
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
ILO	International Labour Organization
ISO	International Organization for Standardization

ISU	Ilia State University
KPI	Key Performance Indicators
LEPL	Legal Entity of Public Law
MES	Ministry of Education, Science, Culture and Sport of Georgia
MoESD	Ministry of Economy and Sustainable Development
NBG	National Bank of Georgia
NEET	Not in Education, Employment, or Training
NGO	Non-governmental Organization
OECD	Organization for Economic Co-operation and Development
PCB	Printed Circuit Board
R&D	Research and Development
RDA	Rural Development Agency
SESA	State Employment Promotion Agency
SME	Small and Medium Enterprise
STI	Science, Technology and Innovations
TSU	Tbilisi State University
TTPP	Technology Transfer Pilot Programme
UG	University of Georgia
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank
WEF	World Economic Forum

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► 1. Executive summary

This study attempts to identify the barriers youth entrepreneurship in Georgia faces and proposes interventions, which could be led by relevant actors within the ecosystem, to overcome the challenges. Following Isenberg's Model of Entrepreneurship (2010) as the main analysis framework, we address the role of the current Policy, Finance, Culture, Supports, Human Capital, and Markets in the development of the entrepreneurship ecosystem in Georgia. We further provide broad diagnostics of the ecosystem, map the existing players and initiatives, identify gaps and major weaknesses of each domain, and provide insights into addressing them.

The research findings are compiled based on the available statistical data, literature, and previous studies on Georgian and regional countries' ecosystems, as well as interviews with key public and private actors of the ecosystem, donor institutions operating in the field, universities, and young entrepreneurs.

Our findings revealed both a favorable environment for supporting entrepreneurship in the country and the shortcomings of the ecosystem. For instance, the policy domain and support infrastructure stood out in terms of creating a supportive environment for startup development. Nevertheless, there is still the need to address particular challenges related to cultural attitudes, underdeveloped alternative financing, and a lack of entrepreneurial skills in Georgia. The key findings and recommendations are summarized below.

Policy

Georgia's overall policy environment is rated as favorable. The business environment enables entrepreneurial activities, though some challenges remain. For instance, the absence of a legal basis in certain areas, such as crowdfunding and social entrepreneurship, restricts entrepreneurs from fully exploiting the existing incentives and benefits. To ensure informed policy-making, we encourage the respective governmental institutions to intensify their efforts in conducting impact assessments of such policies and to establish regular communications with stakeholders for all possible developments. Our findings further revealed a lack of championship towards policies focusing on youth entrepreneurship; which is currently treated as a cross-cutting issue that interfaces with a wide range of policy areas and various institutions. Recent developments and efforts taken by the Youth Agency in this respect are noteworthy, though we encourage the Agency to further lead the process to achieve a more coordinated and holistic approach to youth entrepreneurship development.

Finance

The research revealed sufficient public sector efforts that enhance access to finance for entrepreneurship development in Georgia via startup grants and co-financing schemes. There are also several private and donor-funded initiatives that support entrepreneurial activities in the country. In most cases, the existing support programmes do not have an explicit focus on the youth, though the design and the scope of these programmes largely encourages youth participation due to a focus on technological innovation.

Regardless, certain issues with access to finance still remain. Compared to traditional financing instruments, alternative funding practices (e.g., venture capital funds, equity-based funding, equity-based crowdfunding, and angel investing) are underdeveloped in Georgia. For startup businesses, friends, families, and commercial banks represent the most common sources of financing. Though, the latter source was not readily available for young entrepreneurs due to commercial bank age limitations on business loans. The research moreover revealed the lack of interest of angel investors ready to fund Georgian entrepreneurs. It would therefore be beneficial if state actors were to intensify their efforts and explore the Georgian diaspora as a potential source of seed funding. The successful Pulsar AI, for example, hints at the prospects, and necessity, of the diaspora's possible contribution to entrepreneurship development in Georgia.

Culture

Georgian cultural norms have historically been more supportive of secure jobs on the labour market than of entrepreneurship. In addition, parental influence on career choice, and the Soviet legacy, at times translates into a greater dependence on the state. Although, in recent years, attitudes towards entrepreneurship have become fairly positive and the career choice is valued by society with many young people aspiring to become entrepreneurs.¹ It was also discerned that the main reason few startups are founded by youths is a fear of failure and prominent societal stigmatization, leading people to choose more stable career paths. Recently, there have been a growing number of events and initiatives (e.g., Fuckup Nights, Startup Dekreti) that tackle this problem and stimulate full commitment among startups. Better communication of prior success stories is also essential for encouraging the youth to actively engage in entrepreneurship.

Supports

Entrepreneurship and innovation support infrastructure, such as Techparks, Fablabs, incubators, and networking platforms have only recently been developed in Georgia. Several public (GITA, Spark), private (TBC Bank, the Bank of Georgia), and educational institutions (GIPA, Ilia State University, BTU), accompanied by community initiatives (e.g., Startup Grind Tbilisi, Entrepreneur Magazine), are providing support infrastructure within the country, most concentrated in Tbilisi. There are also initiatives and programmes providing technical assistance and professional advisory services to entrepreneurs. This is crucial as some interviewees emphasized that the youth are largely inexperienced in the basics of business planning, accounting, market research, and communication. While this problem is yet more prominent in the regions, we recommend that support institutions increase their geographical coverage and regional access to their services and support infrastructure.

Moreover, after founding startups, Georgian entrepreneurs often find it difficult to properly manage and upgrade their business initiatives. To support the scaling up of Georgian startups, we assume it is important to strengthen the BDS provision, considering growing demand for such support services across the country. This might involve a gap assessment in existing BDS provision and potential capacity building of the service providers (state institutions (such as GITA, EG, ARDA, Spark), private and community organizations delivering BDS).

Human Capital

A lack of skills and weak entrepreneurial education is a barrier to commercial activities in Georgia. Currently, entrepreneurial education is provided by formal as well as informal institutions; with the “Principles of Entrepreneurship” having been incorporated as an elective course in some public schools. There are quite a few prominent institutions that also provide an entrepreneurship-related education. While certain programmes incorporate financial literacy components and practical elements into their curricula. As for vocational education institutions, entrepreneurship has become a compulsory module in every programme. From the providers of informal entrepreneurial education, the most prominent institution is Crystal Fund, which runs its Young Entrepreneurs School, under the scope of the project YES-Georgia. Despite these seemingly abundant educational programmes, a lack of skills is still a crucial factor hindering business creation. Moreover, reduced access to different educational programmes remains a challenge for young people living in the regions.

To strengthen entrepreneurial and interdisciplinary learning, Georgian universities may consider solidifying the entrepreneurship-related curricula to offer enriched financial literacy to their students. Universities might also benefit from ensuring that students have more academic and structured interactions with their peers from other disciplines. Such an interdisciplinary approach has great potential to establish lasting entrepreneurship synergies among the youth. Additionally, introducing entrepreneurship as a mandatory subject at Georgian schools may also generate positive impacts.

1 Global Entrepreneurship Monitor: 2016–2017 Georgia Report.

Markets

Georgia has a small domestic market, with 3.7 million people, though Georgian businesses have access to various countries through bilateral free trade regimes. There are also some state and donor-funded initiatives that promote Georgian business access to international markets. Nevertheless, as our findings reveal, entrepreneurs have an information shortage regarding the requirements of foreign markets and lack global vision, thus such international market potential is largely underexplored, and export-orientation is perceived as an advanced stage of business development. Despite the constraints of a limited domestic market, based on the observation of some young entrepreneurs, Georgia is considered well-suited for testing new products and services, which subsequently facilitates an upscaling of entrepreneurial activities abroad.

Cross-cutting

Some of our cross-cutting findings regard the need for enhanced inter-domain coordination within the entrepreneurial ecosystem. As part of the recommended coordination mechanism, we encourage the Youth Agency to consolidate information on existing entrepreneurship support opportunities, including startup grants, Business and Development Services (BDS), networking, and educational initiatives via a single, unified online platform; the initiative might also inform the audience on how to start a business in Georgia; the COVID-19 pandemic further amplifies the importance of such a digital solution. This platform will assist local state actors in discerning the current support landscape in order to identify any existing gaps or overlaps. It would also further enhance young people's awareness to the opportunities available. It could moreover be utilized for conducting needs assessments of platform users, which could later guide the different stakeholders in designing support programmes. In addition to these efforts, the intensified circulation of the best practices from various support initiatives to public and private actors would help foster informed policy-making regarding Georgian entrepreneurship.

In any policy or support programme, it is important to consider the specific requirements of the Youth Not in Education, Employment, or Training (NEETs). A clear communications strategy is thus required to better challenge their economic inactivity and transform it into an entrepreneurial capacity. The motivation and perspectives of NEETs is often significantly different to the youth outside the NEET group. When addressing this challenge, it is also sensible to consider utilizing the Youth Workers' institute within the country.

In promoting a youth-friendly support programme, collecting and analyzing the age- and gender-disaggregated data is of particular importance. Consequently, both state and non-state actors ought to better ensure the collection of age- and gender-disaggregated data from various support programmes for monitoring, evaluating, and assessing their impact. This would ultimately lead to more evidence-based, informed decisions, which would positively affect the willingness of youth and women to engage in entrepreneurship.

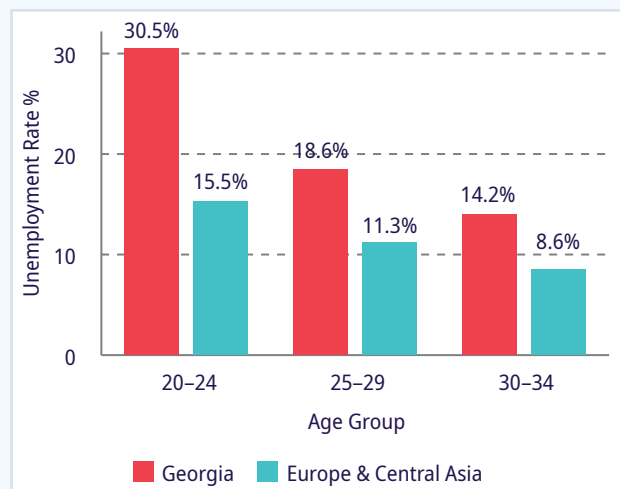
Lastly, to sustain the country's competitive advantage, identifying Georgia's potential for R&D could have strategic importance for the development of entrepreneurial activities.

► 2. Introduction

The unemployment rate in Georgia is the highest for the youth out of all ages; as of 2019, the unemployment rate was 30.5% for 20-24-year-olds, and 18.6% and 14.2% for those aged 25-29 and 30-34, respectively (Graph 1). In the same period, the reported youth unemployment rate was one of the highest in Europe and Central Asia, where youth unemployment stood at 17.5%, 11.3%, and 8.6% in their respective age cohorts. More alarming still is the share of youth not in employment, education, or training (NEETs): of those aged 15-24, 26% (29.1% of females, 23.3% males) are neither employed nor enrolled in any training or educational programme (ILOSTAT database, 2019). In Europe and Central Asia (Graph 2) this estimate equates to 14.5% (16.7% females, 12.4% males). It is also possible to observe heterogeneity across different socio-economic groups in Georgia, for example rural versus urban youth or men versus women. Unsurprisingly, a higher number of NEETs are found in rural areas (29.8%) than urban areas (23.6%). The share of female NEETs is particularly high in rural areas, accounting to 38.8%, while it is only 22.7% among male youth.

► Graph 1:

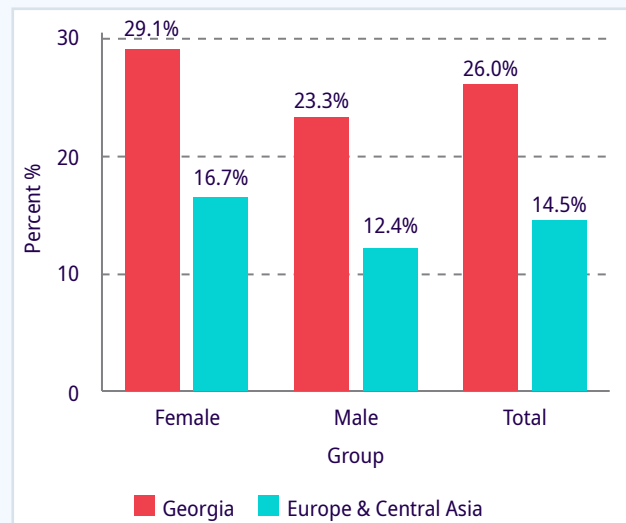
Youth Unemployment Rate (%)



Source: Geostat & ILOSTAT database.

► Graph 2:

NEET (age: 15–24)



Source: Geostat & ILOSTAT database.

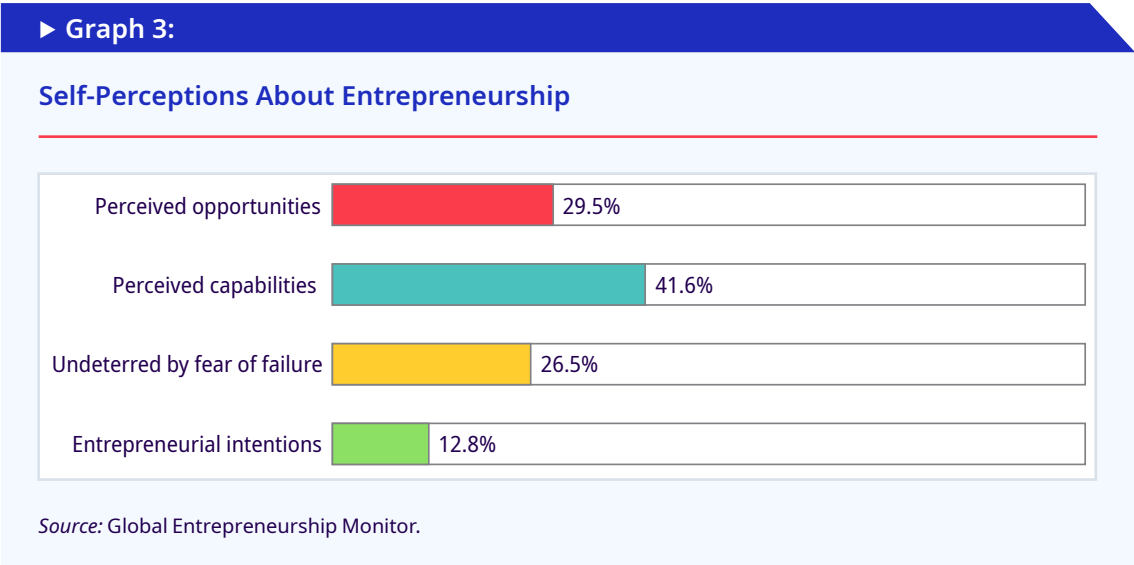
In a country like Georgia, facing issues of an aging population,² youth unemployment poses a momentous short-term challenge: the aging population translates into a shrinking labour force, and youth unemployment simply exacerbates the fiscal burden on the employed. Whereas in the long-term, it can have lasting effects on individuals' lifetime employability through depreciation of skills. The age dependency ratio in Georgia has been gradually increasing, from 47.6% in 2010 to 55.1% in 2020 (Geostat, 2020).³ A similar trend also persists in Europe and Central Asia, excluding high-income countries, where the dependency ratio was 44.5% in 2010 and increased to 50.3% as of 2019 (World Bank, 2019). Besides the fiscal burden on the employed, such circumstances may further create an increased opportunity cost for people leaving relatively secure formal jobs and starting their own businesses.

The significant youth unemployment in Georgia is linked to limited job creation, as well as problems of mismatching skills. According to the World Economic Forum's (WEF) Global Competitiveness Report (2019), Georgia ranks 120th (of 140 economies) worldwide within the "ease of finding skilled employees" indicator. Therefore, strengthening entrepreneurship as an alternative career path for the youth has the potential to generate long-lasting economic and social returns to stakeholders, policy-makers, and the public at large.

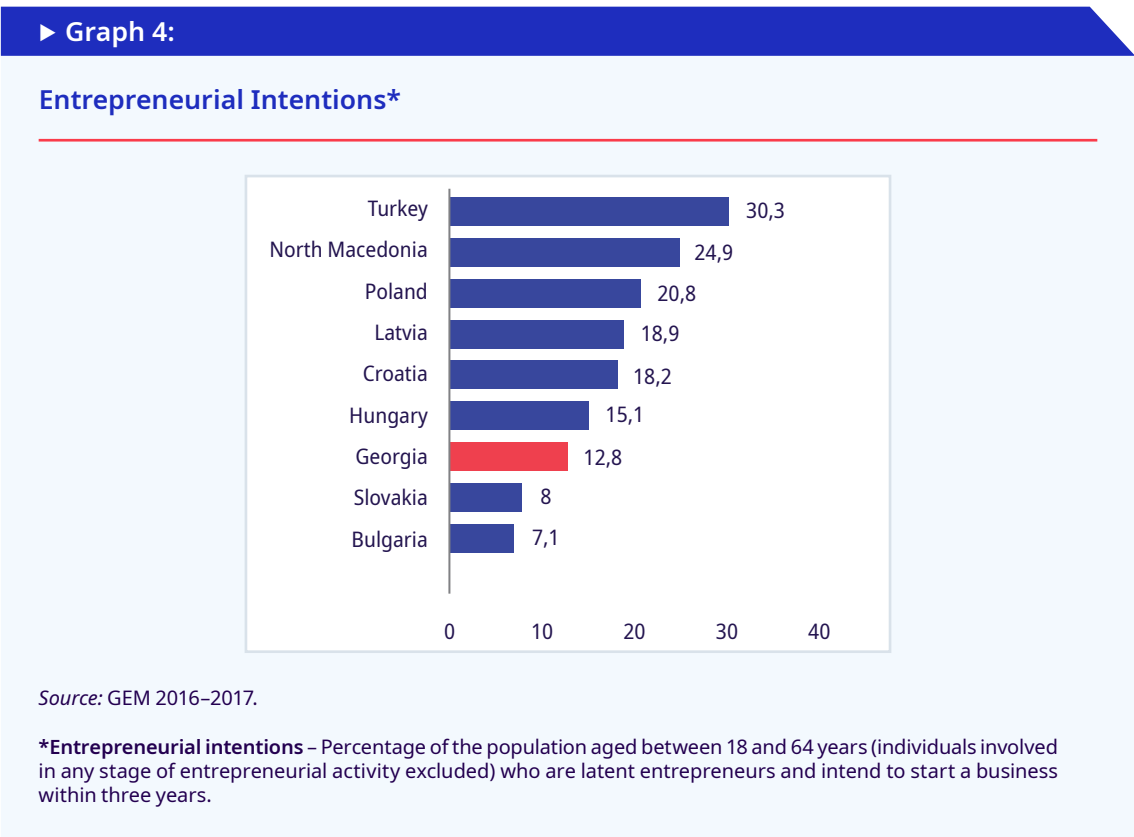
The Global Entrepreneurship Monitor (GEM) 2016-2017 Georgia Report reveals that around one third of the population are able to find self-employment opportunities, however, 58.4% believe that they do not have sufficient capabilities to act as entrepreneurs (Graph 3).

² The median age increased from 34.4 in 2002 to 37.4 in 2020. Over the same period, the percentage of population aged 65 and over increased from 13.2% to 15.1% (Geostat, 2020).

³ Age dependency is a ratio of dependents - people younger than 15 or older than 64 - to the working-age population, aged 15–64.



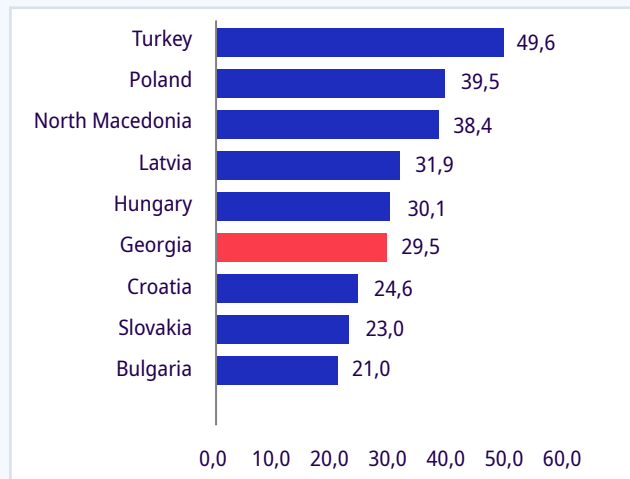
Ultimately, only 12.8% of the Georgian population aged 18-64 intends to start a business within the next three years. Within this index, Georgia is seventh among the nine efficiency-driven European economies,⁴ the third weakest after only Bulgaria and Slovakia (Graph 4). In addition, 29.5% of the population aged 18-64, see opportunity for starting a business in their local area; in this parameter Georgia ranks sixth of the nine efficiency driven economies (Graph 5).



4 The GEM classification of economies is based on the WEF’s classification, according to which efficiency-driven economies are increasingly competitive (of which Georgia is listed), with more efficient production processes and increased product quality.

► Graph 5:

Perceived Opportunities**



Source: GEM 2016–2017.

**Perceived opportunities – Percentage of the population aged between 18 and 64 years who see good opportunities to start a firm in the area they live.

Moreover, somewhat unexpectedly, 45–54 (12.1%) is the most active age group in terms of entrepreneurship, followed by those aged 25–35 years old (10.6%); whereas in comparative countries (excluding North Macedonia), the 25–34 and 18–24 age groups are dominant. According to the Youth Policy Concept of Georgia for 2020–2030, 17% of the population has attempted to start a business at least once, however, the success rate of Georgian enterprises falls far behind Eastern Europe. Although it is relatively easy to start a business in Georgia (according to the World Bank’s Doing Business indicator (2020), the country ranks second worldwide under the “ease of starting a business” indicator), it is much harder to keep it alive. Geostat business demography indicators show that out of 30,952 enterprises born in 2012, 42% survived just three years and only 22.8% of initial enterprises were operational after six years.⁵

The remainder of this report is structured as follows: Section 3 presents the research methodology; Section 4 provides a general overview of regional countries’ ecosystems; the research findings and insights from in-depth stakeholder interviews from each domain of the Georgian entrepreneurial ecosystem is presented in Section 5; and Section 6 makes the relevant conclusions and presents recommendations.

5 Geostat Business Demography Indicators, available from: <https://www.geostat.ge/en/modules/categories/69/business-demography>.

▶ 3. Research Methodology

The project team follows Isenberg's Model of Entrepreneurship (2010) as the main theoretical framework for the analysis of the current youth entrepreneurship ecosystem in Georgia. The proposed framework consists of dozens of elements that Isenberg consolidates under six key domains:

- ▶ **Policy** – Government and Leadership;
- ▶ **Finance** – Financial Capital;
- ▶ **Culture** – Societal Norms and Success Stories;
- ▶ **Human Capital** – Labour and Education Institutions;
- ▶ **Markets** – Networks and Access to Markets;
- ▶ **Supports** – Support Professions, Infrastructure, Non-governmental Institutions, and Business Development Support Services.

The present research identifies the gaps and main barriers for development under each domain of the ecosystem and provides insights to help address them. To this end, the project team utilized desk research techniques, examined benchmark reports, studies, and governmental strategic documents, which were supplemented by in-depth interviews with subject experts, young entrepreneurs, support organizations, relevant public agencies, representatives of educational institutions, and other stakeholders in the field (see Appendix 1 for the full list of interviewees). Based on a predefined questionnaire, the respondents were asked to share their views on different components of the ecosystem and to identify the challenges within youth entrepreneurship. The findings of the desk research and insights from stakeholder interviews were summarized under each domain and are presented separately in the report.

The study was conducted in consultation with the LEPL Youth Agency, a key beneficiary of this research. The findings will help the Agency develop an evidence-based 5-year strategy for youth policy in Georgia, taking into account the challenges identified throughout the entrepreneurship ecosystem. The project team also consulted with the representatives of the United Nations Industrial Development Organization (UNIDO), who provide support to the Youth Agency in strategy development, guided by the recently approved Youth Policy Concept of Georgia for 2020-2030.

The points below outline the major elements and topics studied within each domain of the entrepreneurial ecosystem:

- ▶ **Policy** – Entrepreneurship strategies and other policies that support entrepreneurship in the country; the regulatory framework (e.g., existing tax and other financial incentives for entrepreneurs) and the overall business environment;
- ▶ **Finance** – Traditional debt finance and alternative financing instruments (e.g., venture capital funds, angel investors, friends and family, private equity, etc.) available to entrepreneurs; issues related to access to finance; and the presence of networks connecting entrepreneurs and funders;
- ▶ **Culture** – The extent to which being an entrepreneur is accepted in society; whether failure is tolerated; if there are any role models for young entrepreneurs; society's willingness to support innovative and unconditional ideas; entrepreneurs' perceptions of a stable income; the degrees of partnership among entrepreneurs; and support from family and friends in starting a business;
- ▶ **Human Capital** – What are the business, managerial, and financial skills needed for successful entrepreneurship? An examination of the quality of academic and vocational education or training for entrepreneurs;
- ▶ **Markets** – Access to markets and distribution channels; competition, export burdens, and the degree of public involvement (licensing, price controls, etc.); present entrepreneurial and diaspora networks;

- ▶ **Supports** – Current accelerators, incubators, and non-governmental institutions supporting entrepreneurship; and supporting events, or any other business development service (BDS). This also includes physical infrastructure, such as science and technology parks, transportation and logistics, telecommunications, research and development facilities, and support professions (e.g., legal, accounting, investment bankers, technical experts, and advisors).

► 4. General Overview of Regional Countries' Ecosystems

This section compares the Georgian entrepreneurship ecosystem with its two neighboring countries (Armenia, Turkey) and several European counterparts (Estonia, Latvia, and Lithuania), those which share a common past and have similar socio-economic characteristics. The analysis of neighboring ecosystems is based on the most recent data on Entrepreneurial Framework Conditions (EFC) from the Global Entrepreneurship Monitor (GEM).⁶

Table 1 below summarizes the key factors of the entrepreneurship framework under each domain of the ecosystem for the selected countries, and provides a general overview based on the expert rating of the national Entrepreneurship Framework Conditions from the Global Entrepreneurship Monitor. For each selected country, GEM offers experts' insights for the nine conditions considered to have a significant impact on entrepreneurship. The experts rate countries on a scale of 1 (highly insufficient) to 5 (highly sufficient) for factors such as: governmental support and policies; tax and bureaucracy; governmental programmes; R&D programmes; financing for entrepreneurs; commercial and professional infrastructure; physical and services infrastructure; internal market dynamics and openness; cultural and social norms; and basic and post-school entrepreneurship education and training. Table 1 further links these conditions to Isenberg's Entrepreneurship model and depicts Georgia's ranking among the selected countries. A graphical representation of these results is also provided in Chart 1.

Comparing the selected ecosystems, Estonia appears to lead in most domains, depicting the high performance of governmentally implemented entrepreneurship programmes; R&D transfers; financing for entrepreneurs; ease of access to physical and service infrastructure; internal markets openness; culture and societal norms; and entrepreneurship education at the basic school and post-secondary levels. Lithuania is the best performer in the presence of property rights, commercial, accounting, and other legal and assessment services and for institutions that support or promote SMEs. While Turkey has the highest rate for internal market dynamics, showing the level of market change from year to year.

Whereas Georgia is in first position among its regional counterparts in terms of governmental support and its policies, as well for taxes and bureaucracy. The high standing in these components indicates that entrepreneurship is considered a relevant economic issue, and that taxes and regulations encourage new business creation in the country. Overall, the general and regulatory policies, as well as governmentally implemented programmes, are considered one of the most positive factors behind the Georgian entrepreneurship framework. Within these facets, Georgia is also the best performer among the efficiency-driven European economies. Moreover, Georgia is foremost in this group of countries for its cultural and societal norms, regarded as one of the most favorable conditions of the Georgian ecosystem (GEM, 2017).⁷ However, in comparison to its regional counterpart, the country is third, after Estonia and Armenia, for its cultural norms.

⁶ GEM does not provide data for Azerbaijan, therefore this country is exempt from the analysis.

⁷ Global Entrepreneurship Monitor: 2016-2017 Georgia report.

► Table 1:

Expert Ratings on GEM Entrepreneurship Framework Conditions: Country Comparison

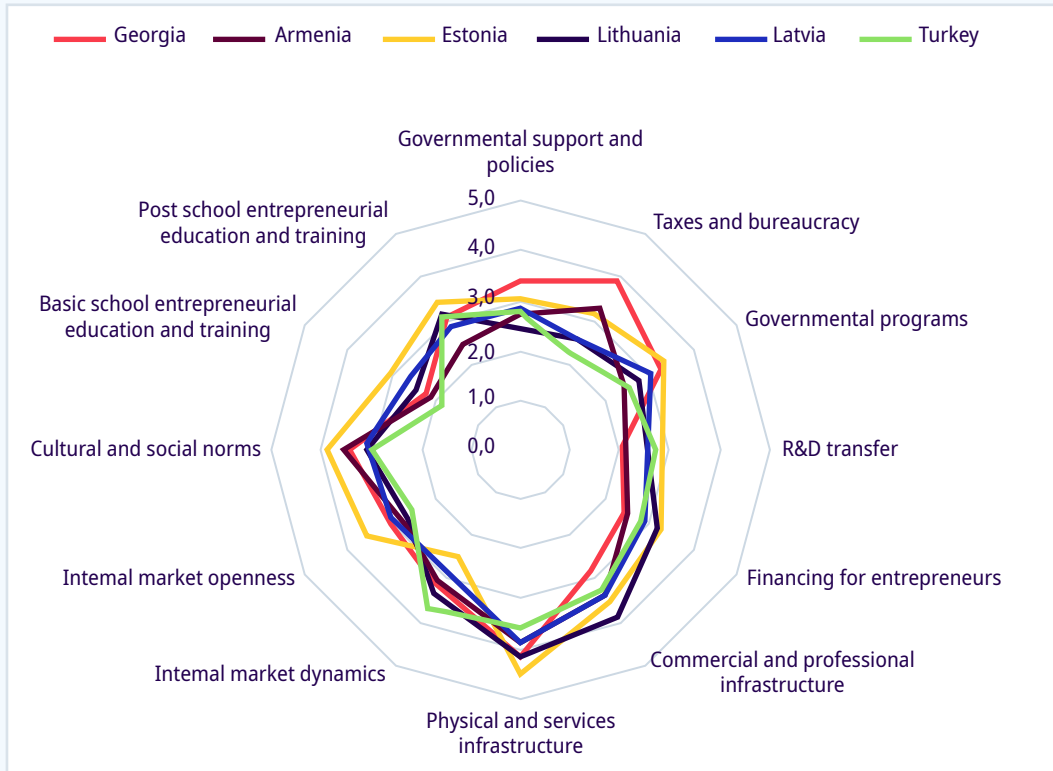
Domains	Entrepreneurship framework conditions:	Georgia	Armenia	Turkey	Estonia	Lithuania	Latvia	Georgian rank	Best Performer
Policy	Governmental support and policies	3.3	2.7	2.7	3.0	2.4	2.7	1 st	Georgia
	Taxes and bureaucracy	3.9	3.2	2.2	3.1	2.5	2.5	1 st	Georgia
	Governmental programmes	3.2	2.4	2.5	3.3	2.7	3.0	2 nd	Estonia
	R&D transfers	2.1	2.2	2.7	2.8	2.6	2.7	6 th	Estonia
	Average Score for Policy Domain	3.1	2.6	2.5	3.1	2.6	2.7		
Finance	Financing for entrepreneurs	2.4	2.5	2.9	3.3	3.2	2.9	6 th	Estonia
Support	Commercial and professional infrastructure	2.8	3.4	3.3	3.6	3.9	3.4	6 th	Lithuania
	Physical and services infrastructure	4.2	3.9	3.6	4.5	4.2	3.9	2 nd	Estonia
	Average Score for Support Domain	3.5	3.7	3.5	4.1	4.1	3.7		
Market	Internal market dynamics	3.2	3.1	3.7	2.5	3.4	2.9	3 rd	Turkey
	Internal market openness	3.0	2.8	2.5	3.5	2.7	3.0	2 nd	Estonia
	Average Score for Markets Domain	3.1	2.95	3.1	3	3.05	2.95		
Culture	Cultural and social norms	3.4	3.6	3.0	3.9	3.1	3.1	3 rd	Estonia
Human Capital	Basic school entrepreneurial education and training	2.2	2.1	1.8	3.0	2.4	2.6	4 th	Estonia
	Post school entrepreneurial education and training	3.0	2.4	3.1	3.4	3.1	2.8	4 th	Estonia
	Average Score for Human Capital Domain	2.6	2.25	2.45	3.2	2.75	2.7		

Source: Author's table based on Global Entrepreneurship Monitor data.

Note: The most recent data available on the GEM website from each country: Georgia – 2016; Armenia – 2019; Turkey – 2018; Estonia – 2017; Latvia – 2019; and Lithuania – 2014.

► Chart 1:

The GEM Entrepreneurship Framework Conditions: Country Comparison

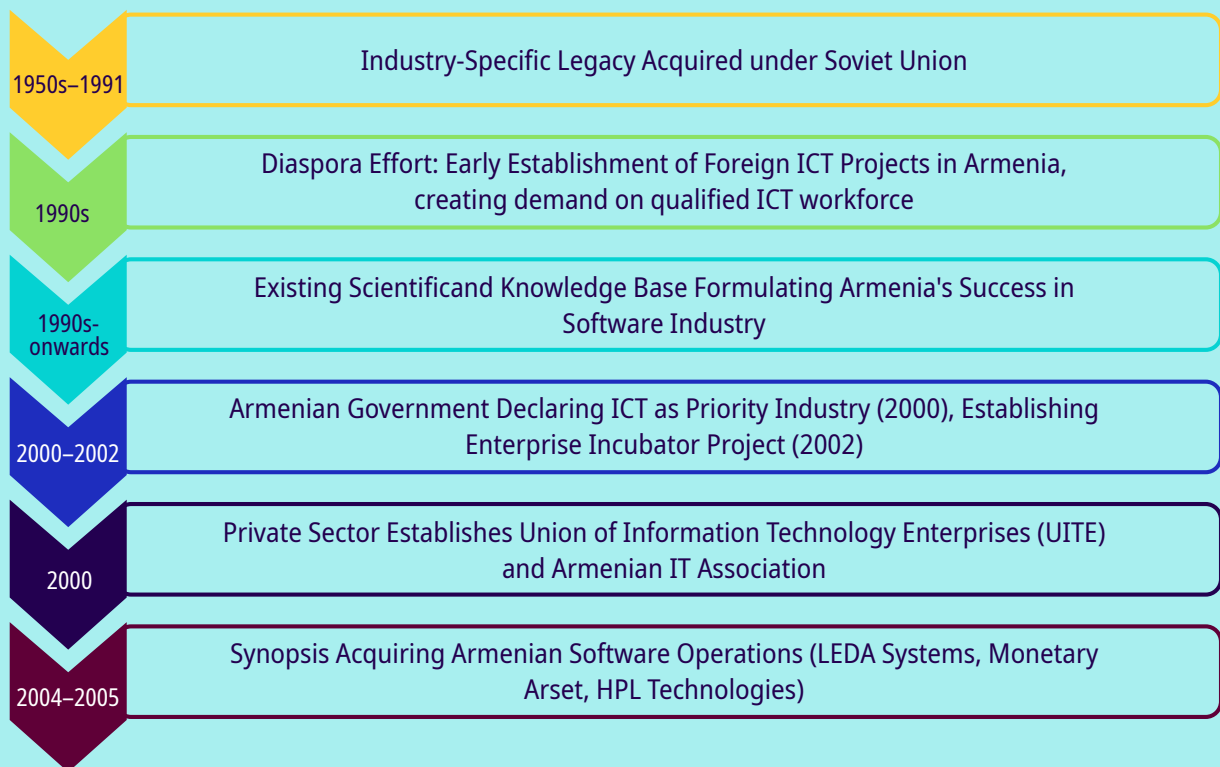


Source: Author's creation based on Global Entrepreneurship Monitor data.

► **Box 1: Development of the Armenian ICT industry**

When discussing Armenia’s entrepreneurship development path, it is crucial to mention how this country built its advanced Information and Communication Technology (ICT) industry. As one expert interviewee suggested, the industry-specific legacy of the Soviet Union played a decisive role in the process. During Soviet times, before its fall in 1991, Armenia used to specialize in microelectronics, mathematics, and supercomputing. Following the collapse of the Soviet Union, the Armenian diaspora fled the country and began outsourcing ICT projects to their homeland. This inflow of projects created a market demand for ICT professions. Having the respective educational and scientific base, the demand was easily met by Armenian tertiary institutions. Such synergy promoted the institutionalization of diverse engineers and software developers into the ICT sector. Finally, these trends were accompanied by the Armenian government providing the necessary policy framework and private and grassroots initiatives for various support and community services to strengthen the professional profile of local tech professionals, thus leading transnational technological companies to open branches in Armenia. Hence, besides indicating the significance of the knowledge base, the case in Armenia suggests that when developing an entrepreneurship ecosystem, change has to occur in several domains concurrently. Chart 2 below provides the timeline of the Armenian ICT industry development.

► **Chart 2: Development of the Armenian ICT Industry**



Source: Armenian Enterprise Incubator Foundation.

▶ 5. The Entrepreneurial Ecosystem in Georgia

This section provides an overview of the current initiatives that support entrepreneurial activities in Georgia and depicts the main actors within the Georgian entrepreneurship ecosystem for the six main domains of Isenberg’s model (Chart 3). The following respective sub-sections outline the findings of a desk review, as well as the insights from stakeholder interviews that are summarized under the Research Findings of each domain.

▶ Chart 3:

The Main Actors in the Georgian Entrepreneurship Ecosystem



Source: Authors’ elaboration.

5.1. Policy

Policy is one vital building block of an entrepreneurial ecosystem that consists of several components, such as governmental institutions, research institutions, policy and regulatory frameworks, venture-friendly legislation, and an overall business environment.

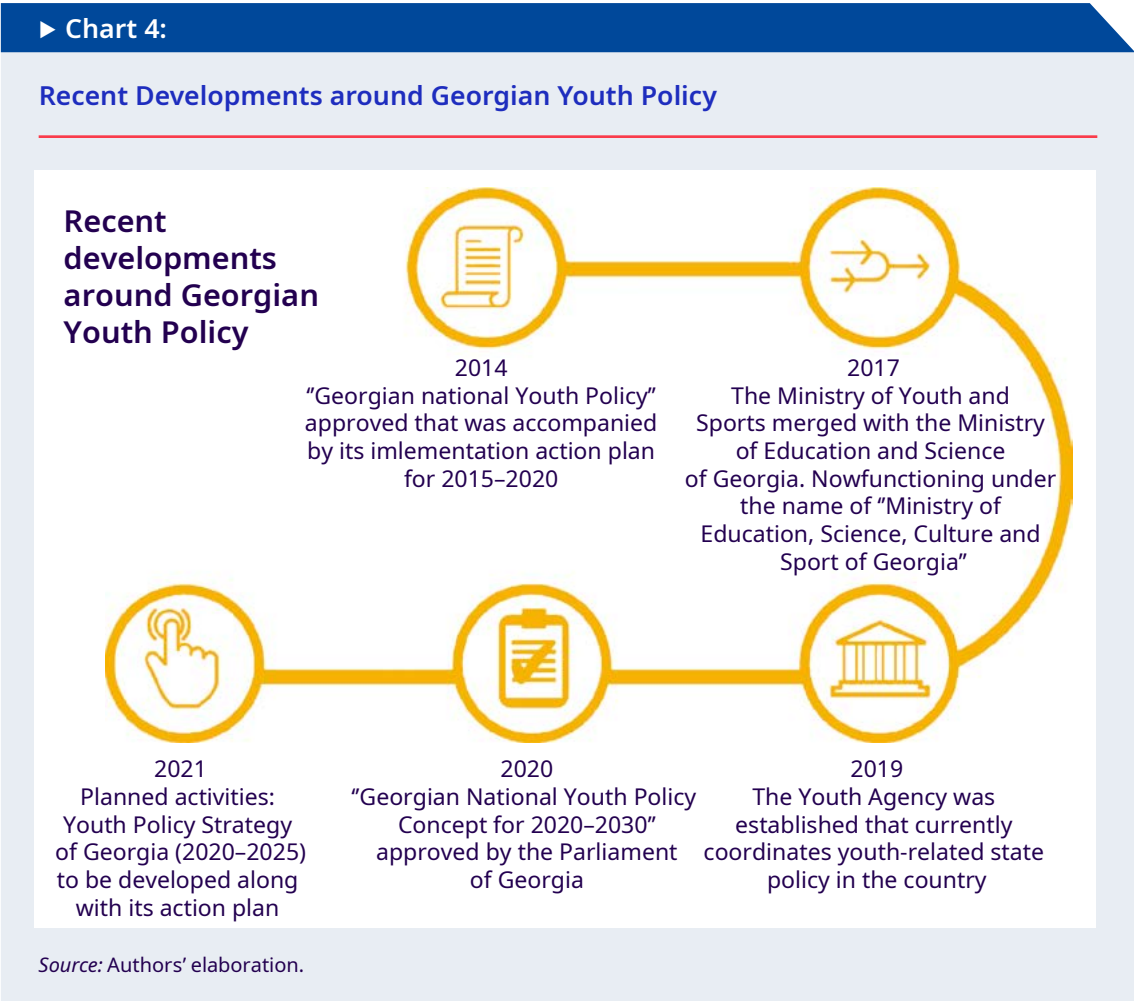
Governmental institutions and the main strategic policies

In recent years, the Georgian government has actively mainstreamed youth entrepreneurship issues in strategic documents, and taken important steps to establish new governmental institutions with an entrepreneurship and youth development agenda. Two such institutions – Enterprise Georgia (EG) and Georgia’s Innovation and Technology Agency (GITA) – were established in 2014 under the oversight of the Ministry of Economy and Sustainable Development (MoESD). Enterprise Georgia is responsible for promoting an entrepreneurial culture throughout the country by stimulating the establishment of new enterprises and supporting the expansion of existing operations, while GITA is a key coordinator and mediator in the process of building a national innovation ecosystem. Another noteworthy player is StartUp Georgia, founded by a state-owned investment fund – the JSC Partnership Fund – as part of a four-point governmental programme for 2016–2020. The institution provides funds for startups with a focus on ICT. According to an ETF (2019) report,⁸ StartUp Georgia and the EG programmes complement each other, with around 70% of their beneficiaries aged between 18-35.

Recent developments particularly related to Georgian youth policy and relevant government institutions in this regard are depicted in Chart 4 below. The Ministry of Youth and Sports, which in 2017 merged with the Ministry of Education and Science of Georgia,⁹ was the main governmental institution to develop and implement youth policy in the country. On 26 August 2019, the Youth Agency was established, which currently coordinates youth related state policy. Among its other activities, the Agency is developing a 5-year Youth Policy Strategy of Georgia (2020–2025), which will be based on the Georgian National Youth Policy Concept for 2020–2030, as approved by the Georgian parliament on 17 July 2020. An integral part of the strategy will be the economic empowerment of young people, which should, to a large extent, be based on increased levels of youth entrepreneurship; being an expected outcome of the respective policy measures in the Youth Policy Concept document. The action plan for the implementation of this strategy is set to be developed in 2021. Until that stage, the main document governing youth policy and establishing a strategic framework is the Georgian National Youth Policy, which was approved by the government on 2 April 2014, and was accompanied by its implementation action plan for 2015-2020. As noted in the Georgian Youth Policy Concept document (2020-2030), weak inter-agency coordination has had a negative impact on the implementation of this action plan. To improve the management process of youth policy implementation, the Georgian government plans to take appropriate steps towards achieving evidence-based youth policy at both the central and municipal levels: with enhanced coordination between the agencies implementing the youth policy; youth participation utilized in the process of developing, implementing, and monitoring policies and programmes; and with improved implementation and monitoring systems.

⁸ European Training Foundation (2019). *Policies supporting youth transition to work in Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine*.

⁹ Currently functioning under the title the Ministry of Education, Science, Culture and Sport of Georgia.



One of the strategic priorities of the Georgian National Youth Policy Concept for 2020-2030 is to promote youth development and realization of their potential. For this reason, the state plans to introduce the institute of youth workers in Georgia. As international practice shows, such institute plays an important role in reducing the share of NEET youth in the country.¹⁰ According to the Concept Document, the profession of youth worker is not yet acknowledged in Georgia, though there are many people engaged in non-formal education of youth through, for example, summer camps or arts and cultural clubs. Existing youth workers have low qualifications and there are no educational programmes in the country intended for their training. Development of the youth worker's institute is an obligation for Georgia under the EU Association Agreement. With this aim, Georgia should ensure the development of appropriate legal framework, recognition of youth worker's profession and the development of respective professional standards and certification opportunities.

Along with above-mentioned policy documents, other main strategic documents shaping entrepreneurial policy framework in the country are summarized in Table 2 with their respective youth entrepreneurship component.

10 Resolution of the Parliament of Georgia On Approval of the "Georgian National Youth Policy Concept for 2020–2030"

► Table 2:

Main Strategy Documents and Their Youth Entrepreneurship Component

Strategy/Action Plan	Components Related to Youth Entrepreneurship
Youth Policy Concept of Georgia (2020-2030)	Sets economic empowerment of Georgian youth as a strategic priority for the country and aims at increasing the level of entrepreneurial activity among youth as well as reducing the number of NEETs in the country.
Georgian National Youth Policy (2014). Georgian National Youth Policy Action Plan 2015-2020	No specific focus on entrepreneurship. Considers actions related to: <ul style="list-style-type: none"> ► Providing economic opportunities and better living conditions for youth in rural areas ► Financing projects through “Enterprise Georgia” of the youth living in the high-mountainous regions or near occupied territories.
Four-point government programme of Georgia for 2016-2020	Acknowledges youth employability and entrepreneurship development as one of the key priorities of the country. Some relevant actions considered, include: <ul style="list-style-type: none"> ► Maintenance and optimization of existing entrepreneurship supporting and financing programmes ► Introduction of entrepreneurial component in the agenda of every vocational education and training institution.
National Strategy for Labour and Employment Policy (2019-2023) and its Action Plan for 2019-2021	Sets the key task for employment promotion within entrepreneurship and innovation stimulation. This is expected to be achieved by improving entrepreneurial learning at the vocational educational level and by implementing innovative and technological grant programmes from GITA, alongside the different support programmes from Enterprise Georgia. The strategy also addresses NEETs, promoting their inclusion in the labour market through targeted social and inclusive employment policies.
SME development strategy of Georgia 2016-2020	One of the main objectives includes improving SME skills and establishing entrepreneurial culture in the country. No explicit focus on youth.
Vocational Education Reform Strategy 2013-2020	Important part of this strategy is developing and enhancing entrepreneurial skills in collaboration with employers and business sector; Elaboration of support mechanisms for VET graduates to start a venture; Facilitating contacts between VET students and existing entrepreneurs, etc.
Human Rights Action Plan 2018-2020	Sets objectives for popularizing entrepreneurship education throughout society by introducing entrepreneurship programmes at educational institutions, particularly at the general education stage, and by promoting female entrepreneurship.
Rural Development Strategy of Georgia (2017-2020)	Fosters entrepreneurial culture by prioritizing the actions that raise awareness in innovation and entrepreneurship. Promoting collaboration practices for skills development and supporting employment (especially among women and youth).

Source: Authors' elaboration.

Regulatory Framework and Venture-Friendly Legislation

Georgian regulatory framework has followed a long path of development since the Rose Revolution in 2003. The reforms were aimed at liberalizing the economy, minimizing the government's size, and making public administration more efficient. These important developments include a reduction in the number of taxes and tax rates, simplifying the procedure of issuing permits and licenses, and making public administration procedures less burdensome and more transparent. As a result of these ongoing efforts Georgia was recognized as the top improver country by the World Bank Doing Business report (2015).

The 2016-2017 Global Entrepreneurship Monitor (GEM)¹¹ report reveals that governmental policies, taxes and regulations, as well as governmental programmes are rated the most positive conditions of the Georgian entrepreneurship ecosystem; with Georgia coming first from the efficiency-driven European economies. Considering Georgian tax policy, small businesses are taxed at either 1% or 3% of their taxable revenue, moreover businesses with annual turnover less than GEL 100,000 (approximately USD 30,000) per annum are exempt from VAT. Businesses are also exempt from corporate income tax (which accounts to 15%) if corporate profit is not distributed. According to a WB Enterprise Survey (2019), 16.5 and 6.8 percent of small Georgian enterprises regard tax rates and tax administration, correspondingly, as major constraints to their operation. However, out of these enterprises, only 3.8% and 0.5% cite this as their biggest obstacle. Another testament to the fairly simple tax administration procedures is Georgia's position (14/190) within the World Bank's Doing Business (2020) 'Paying Taxes' indicator.¹²

The Doing Business Report further describes Georgia's standing across additional aspects of the business environment. More specifically, Georgia lags behind, relatively, in resolving insolvencies (ranking 64/190); trading across borders (45/190); and getting electricity (42/190); although its capacity for starting a business (2/190); registering property (5/190); and enforcing contracts (12/190) are praiseworthy. In particular, setting up a business in Georgia requires simple procedures. The registration process of new enterprises takes only 1 day. This process is handled through single-window principle that further facilitates starting a business.¹³

Despite the overall business enabling environment in the country, and high rank of general and regulatory policies as well as support programmes, the authors of the 2016-2017 GEM Georgia report advise the government to introduce monitoring mechanisms for better policy function and assessment tools for conducting policy effectiveness studies.

Research and Development (R&D) and Research Institutions

As an integral driver of the innovations ecosystem, an advanced R&D process significantly hastens the establishment of a knowledge-based economy (one of GITA's main goals), in any part of the world. The Shota Rustaveli National Science Foundation, a governmental agency responsible for the establishment of a Science, Technology and Innovations (STI) system, by implementing grant calls, targeted programmes, and projects, is the main governmental actor involved in stimulating the country's R&D process. According to the National Statistics Office of Georgia (Geostat), 56 entities and 15,522 employees conducted scientific research in Georgia in 2018.¹⁴ However, compared to other countries, as quantified by UNESCO's Institute for Statistics (UIS), the money spent on R&D in Georgia is negligible, constituting just 0.3% of the national GDP as of 2018.¹⁵

Research institutions clearly play a significant role in a country's entrepreneurial development. Consequently, two factors should be observed: whether these institutions create knowledge, and if they do, whether such knowledge is commercialized (R&D transfer). In Georgia, research institutions are mainly established under the authority of state universities (e.g., the Institute of Physics at Tbilisi State

11 Global Entrepreneurship Monitor: 2016–2017 Georgia report.

12 WB Doing Business report. Economy Profile of Georgia (2020).

13 Ibid.

14 For further information on the money spent on R&D in Georgia in 2018 see: <https://www.geostat.ge/ka/modules/categories/194/metsniereba>

15 For further information on UIS databases see: <http://data.uis.unesco.org/>

University, the Institute of Chemical Biology at Ilia State University, etc.). To prevent knowledge drain abroad, as in the past, the government has taken certain preventative measures. More precisely, since 2019 GITA has been implementing its Technology Transfer Pilot Programme (TTPP) that aims to support the commercialization of Georgian scientific results that respond to market needs. Similarly, the Center of Knowledge Transfer and Innovation at Tbilisi State University supports scientists, as well as students, in commercializing their ideas.

Research Findings

After the interviews with the relevant stakeholders, a few challenges were identified in the policy domain. The first question governments ought to address when choosing an entrepreneurial strategy is whether the system should be coordinated or decentralized. While decentralization is considered a better option at the initial stage, as it helps participants learn what is successful. However, after some time, once participants prove certain practices to be successful, coordinated efforts are required to ensure these practices are implemented by other players as well. For example, one StartUp Georgia beneficiary suggested that after winning a grant, he would perform better if the organization provided him with additional mentorship.¹⁶ Thus, there is clearly room for governmental institutions to pursue coordinated efforts and offer consolidated or holistic training opportunities to their beneficiaries. Yet another opportunity for coordination among state support organizations is to further solidify the complementarity of their programmes and to offer a unified platform to future entrepreneurs. One example of such a joint effort is the newly launched “Government – Your Partner” initiative (<https://programs.gov.ge>), which consolidates every programme offered by Enterprise Georgia, the Rural Development Agency, and the National Tourism Administration and provides services throughout Georgia via more than 100 Public Service Halls and Community Centers.

Another key component in the policy environment is the regulatory framework. It was mentioned that problems in this respect do not hinder entrepreneurial development significantly. However, a few specific issues were particularly emphasized by the stakeholders. Firstly, the absence of a legal framework for equity-based crowdfunding as an alternative source of finance; as crowdfunding is a common source of funding for startups that allows feedback, market validation, easy access to capital, and hedging against risks during the early stages of development. Thus, crowdfunding has the potential to significantly stimulate entrepreneurship in Georgia. Nevertheless, as the funding is online, there is a greater risk of fraud, money laundering, etc. Consequently, the National Bank of Georgia (NBG), which would be responsible for monitoring the system, has been taking a conservative approach.

The next challenge the research identified relates to social entrepreneurship, which has the unexploited potential to become a sizeable contributor to youth entrepreneurship development in Georgia. The unfavorable environment for social entrepreneurship, in particular the absence of a legal basis, is regarded as one of the root causes for low level entrepreneurship among the youth. Under the current legislation even the term “social entrepreneurship” has not been defined, highlighting one of many obstacles enterprises encounter. In addition, there is no state level public strategy, concept, or policy document aimed at supporting social entrepreneurship.¹⁷ A recent study by ETF (2019) made one suggestion to policymakers in Eastern Partnership countries to incentivize the development of social entrepreneurship as “an opportunity for young people to explore the innovative ways of achieving their emancipation through entrepreneurship”.¹⁸ Currently, a draft law on Social Entrepreneurship has already passed to Georgian parliament, which defines the legal grounds for the institutionalization and development of social entrepreneurship. If adopted, the government will be obliged to approve a social entrepreneurship support strategy within six months of the enactment of the law.¹⁹

16 It should be noted that Start-up Georgia actually offers mentorship, but it seems that specific beneficiary may not have been aware of this opportunity or did not find its scope useful.

17 Center for the Strategic Research and Development of Georgia (CSDRG) (2017). *The Practice and Challenges of Social Entrepreneurship*.

18 European Training Foundation (2019). *Policies supporting youth transition to work in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine*.

19 CSDRG (2020). *Social Entrepreneurship in Georgia. Overview of the Georgian Practice*.

To summarize, in Georgia the youth entrepreneurship policy is currently treated as a cross-cutting issue interfacing with a wide range of policy areas (such as SME policy, rural policy, VET, employment, etc.) and various support institutions. While this is not necessarily a notable constraint, the country could benefit from a more coordinated and holistic approach towards youth entrepreneurship. It would entail firstly developing a separate strategy, particularly dedicated to fostering entrepreneurship among young people in Georgia; for which steps have already been taken, with the Youth Agency taking the lead. In near future, the Agency is planning to elaborate its youth entrepreneurship strategy, taking into account the existing challenges in the local entrepreneurship ecosystem. During this process, it is particularly important to have effective implementation monitoring and quality assurance mechanism in place. In addition to a joint and consistent state vision, one which offers a clear signal to stakeholders, enhancing coordination between the different governmental and private service providers that support entrepreneurial activities would build synergies among the various, sufficient, support programmes, thus yielding greater and more sustainable results.

5.2. Finance

The diversity of funding sources available for Georgian entrepreneurship was investigated, including the availability of both traditional and alternative financing instruments (e.g., private equity, angel investors, crowdfunding, etc.).

Despite the recent concerted efforts from the public and private sectors and international donors, access to finance has remained a central obstacle for entrepreneurial development.²⁰ According to the World Economic Forum's Global Competitiveness Index (GCI), Georgia's financial system ranked 91st of 141 participating countries.²¹ Moreover, from the most recent GCI, one can see that Georgia scores below the World median in terms of venture capital availability and financing of SMEs.²²

For startup businesses, friends, family, commercial banks and microfinance institutions, represent the most common sources of financing. Regardless, private sector claims suggest that Georgian commercial banks charge excessively high interest rates and require often insurmountable collateral, making their services less attractive to fresh corporate clients.^{23,24} Thus, one potential explanation could be the simple absence of diverse financial institutions and instruments on the market.

In addition to hindered access to traditional finance, alternative funding practices are underdeveloped in Georgia, due to both cultural and legal barriers. Venture capital funds, equity-based funding, equity-based crowdfunding, and angel investing currently represent nascent sources of entrepreneurial financing.²⁵ Though it should be noted that the Law of Georgia on Collective Investment Undertakings offers clear definitions for stock funds (e.g., venture capital and private equity funds)²⁶ and lays the positive foundation for further development and diversification of financial markets.

Public Sector Finance Schemes

Considering the aforementioned trends, the public sector attempts to play a significant role in promoting an entrepreneurial spirit in Georgia. As of 2020, Georgia's Innovation and Technology Agency (GITA), the JSC Partnership Fund, and Enterprise Georgia are entitled to be core public entities, providing uninterrupted financial programmes for Georgian startups. Among their other services, GITA offers the following grant schemes for different stages of startup development:

20 EU4Business (June 2018). *Investing in SMEs in the Eastern Partnership: Georgia (Country Report)*.

21 World Economic Forum (2019). *The Global Competitiveness Report*.

22 Ibid, P.251.

23 Business and Technology University (2020). *Assessment of Access to Finance for Startups*.

24 Organization for Economic Co-operation and Development (OECD) (2019). *Access to Green Finance for SMEs in Georgia*.

25 OECD (2019).

26 Article 2, paragraphs 7-8 of the Law of Georgia on Commercial Investment Undertakings. Available from: <https://matsne.gov.ge/en/document/download/1981090/4/en/pdf>

- **Prototyping micro grants up to 5,000 GEL** for innovative product or service prototypes, including Research and Development (R&D), that have the high potential for commercialization;
- **Co-financing grants up to 100,000 GEL** for innovative, year-long startup projects that have clear international market potential. The 100,000 GEL assigned is the maximum amount and should not constitute more than 90% of the project budget. The potential beneficiary co-finances the project with a minimum of 10% of the budget. Over four full rounds of the programme, 76 beneficiaries have received GITA's co-financing to date;
- **Co-financing of innovations up to 650,000 GEL** for enterprises registered in the public registry and working on projects, for a maximum of 24 months, that include technological or business-process innovation elements and have significant global potential. The prospective beneficiary co-funds the project with a minimum of 50% of the budget;
- Financing, mentoring, and coaching high-tech startup ideas with up to 100,000 GEL, and in return a maximum seven-year control of 5% of the business.

Table 3 summarizes GITA beneficiary success stories by investment volume.

► Table 3:

GITA Beneficiary Success Stories by Investment Volume

Startup	Information	Investment Volume
Pulsar AI	Winner of GITA's 650,000 grant programme, utilizing AI to create automated communication between customers and car sellers.	3.740 mln. GEL
Appidea	Winner of GITA's 650,000 grant programme, developing mobile games for iOS and Android.	2.975 mln. GEL
Cryptx IQ	Winner of GITA's 650,000 grant programme, creating personalized, secured programme solutions for crypto traders.	2.500 mln. GEL
Cargon	Winner of GITA's 650 000 grant programme, and winner of 500 Startups Georgia, creating a digitalized communication channel connecting shippers and carriers.	2.500 mln. GEL
Biochimpharm	Winner of GITA's 650,000 grant programme, creating sustainable pharmaceutical alternatives to replace antibiotics.	1.455 mln. GEL
Cardeal	Winner of GITA's 100,000 grant programme, and winner of 500 Startups Georgia, a digital single window platform for auto importers.	0.515 mln. GEL

Source: Forbes²⁷.

27 For further information on GITA beneficiary success stories see: <https://forbes.ge/news/9741/Georgian-Startups-Rankings-with-the-Volume-of-Attracted-Investments->

Besides which, GITA offers micro grants of up to 5,000 GEL to startups for traveling or event organization. Moreover, recently, following the global outbreak of the novel Coronavirus (COVID-19), GITA introduced a new grant scheme of up to 15,000 GEL for prototypes that include innovative and technological solutions to such virus-driven challenges. Notably, a central portion of GITA's overall operational budget is derived from the World Bank's (WB's) International Bank for Reconstruction and Development's (IBRD's) five-year long (2016–2021) Georgia National Innovation Ecosystem (GENIE) project, with a value of 40 million USD.²⁸

It is also noteworthy that through the Global Startup Foundation, the Israeli Silicon Wadi Angel investors, in partnership with GITA and the Ministry of Economy and Sustainable Development of Georgia, support Georgian startups and invest in business and entrepreneurial development.

Although the programmes listed do not have an explicit focus on youth, the design and the scope of these support programmes mostly encourages youth participation. Appendix 2 further summarizes the various programmes and initiatives supporting entrepreneurship in Georgia, outlining their target beneficiaries and the extent of their youth orientation.

Alongside GITA, the JSC Partnership Fund operates the StartUp Georgia programme and finances Georgian inventive ideas with up to 100,000 GEL. After financing, the JSC Partnership Fund and the beneficiary become partners of a joint venture, where the Fund controls no more than 49.5% of the business for no longer than 10 years.²⁹ Besides financing, StartUp Georgia delivers free legal, accounting, business, and marketing consultancies for its recipients. While there is not distinct selection criterion prioritizing youth, participants aged between 18-30 clearly dominate StartUp Georgia's beneficiary profile (constituting 80% of all beneficiaries). Furthermore, StartUp Georgia, in partnership with the USAID Zrda project, finances innovative enterprises along the Administrative Boundary Lines (ABL) of the Georgian occupied territories.

When financing entrepreneurs, certain components of Enterprise Georgia are worth mentioning. Since 2014, EG has supported the establishment of new enterprises and business expansion or refurbishment under its three divisions of business development, investment, and export promotion. Through the business development division, EG has unified Industrial, Micro, and Small Businesses support, alongside the Create in Georgia, Film in Georgia, and Produce for a Better Future elements. The scope of the components are structured as follows:

- The industrial component of the programme covers the following sectors: Industries (enlisted priority industries), the Film Industry, the Hotel Industry, Balneological Resorts, and the Tourist Services Industry, and assists them by enhancing access to finance (including interest rates, leasing and franchise/management agreement financing pillars), to real estate, and technical assistance;
- The Micro and Small Businesses support component offers entrepreneurs grants of up to 30,000 GEL, with at least a 10% financial participation obligation for beneficiaries;
- Under Create in Georgia, the programme assists innovative, tech-oriented ideas with 200-1,000 GEL and it promotes their commercialization;
- Through Film in Georgia, EG promotes production and post-production within Georgian territory, offering beneficiaries a 20-25% refund on qualified expenses;
- The Produce for a Better Future component aims at enhancing business activities in Georgia's occupied territories, Abkhazia and South Ossetia, by offering entrepreneurs small grants, ranging between 7,000-35,000 GEL.

Lastly, the Ministry of Environmental Protection and Agriculture of Georgia, with support from the Agricultural and Rural Development Agency (ARDA)³⁰ and Denmark International Development Agency (DANIDA) donor organizations, implements the Young Entrepreneur support project, assisting young innovators from rural areas. Notably, the governmental programmes mentioned do not have any clear youth-orientation and target Georgian entrepreneurs in general, thus such a gap only increases the importance of the Young Entrepreneur project. Under the current design, the programme:

28 For further information on GITA's ongoing programmes and projects see: <https://gita.gov.ge/eng>

29 For further information on StartUp Georgia's ongoing programmes and projects see: <http://startup.gov.ge/geo/home>

30 Currently functioning as a Rural Development Agency (RDA), the RDA was established on the basis of a merger between ARDA and the Agricultural Project Management Agency (APMA).

- ▶ Finances business activities launched by young entrepreneurs or an agricultural cooperative, with shareholders aged between 18-35 and 18-40, for male and female beneficiaries, respectively;
- ▶ The agency co-finances businesses with up to 40% (not exceeding 60,000 GEL) of the investment of the business plan. Although the programme targets agricultural projects, it is possible to fund non-agricultural initiatives with up to 20% of the overall project budget;
- ▶ The programme offers three major services to beneficiaries: technical assistance prior to co-financing, co-financing, and technical assistance after co-financing.³¹

Private Sector Finance Schemes

Alongside the public sector, a number of private initiatives have contributed to developing financing in the Georgian entrepreneurship ecosystem. The majority of private initiatives are led by Georgian commercial banks, such as TBC Bank, which runs the programme StartUpper and offers diverse financial and non-financial benefits (e.g., training, individual consulting, media support, etc.) to Georgian startups. Since 2017, 28,000 Georgian startups have registered for the programme, out of which 691 have received low-interest loans, amounting to 247 million GEL.³²

TBC bank is not an exception to the rule, and since February 2020, the Bank of Georgia (BoG) and GITA have collaborated with the most active global venture capital firm, 500 Startups. According to the partnership agreement, 500 Startups receives two cohorts of entrepreneurs, operating from within the country (i.e. both Georgian and non-Georgian), for a four month-long acceleration process in three stages. The startups receive funding for each acceleration stage in return for equity shares. BoG, as a venture fund, is spending 1 million USD on project implementation.³³

Crystal Fund has also significantly promoted Georgian entrepreneurs, specifically the young, since 2014. In 2015-2018, the fund implemented the USAID YES-Georgia programme, supporting youth entrepreneurship and youth participation in economic activities. Throughout the programme's history, the donors have supported more than 3000 youths. Crystal Fund and USAID are currently implementing an extension of the programme targeting employability and economic empowerment of Georgian youth and women; with investment amounting to 840,000 USD.³⁴

Other financial institutions contributing to a stronger entrepreneurship ecosystem in Georgia include Credo Bank and ProCredit Bank by providing low-interest loans to Georgian SMEs (BTU, 2020: 17). The latter, ProCredit Bank also runs the InnovFin SME Guarantee Programme, which provides financial guarantees and finances enterprise R&D activity to boost their competitive advantage.³⁵

Research Findings

The research revealed the public sector's sufficient efforts to enhance access to finance entrepreneurial development in Georgia. The current government involvement, through the provision of startup grants and co-financing schemes by multiple support institutions, ensures ample financial resources for launching and developing enterprises. Even though majority of these resources target high-tech startups (of which many might be opportunity-driven), there are number of initiatives focusing on necessity-driven entrepreneurs (Enterprise Georgia, ARDA in partnership with DANIDA). Many respondents even described the state as an overly generous source of entrepreneurial financing. However, Georgia's regulatory framework for stimulating access to finance has been outlined as underdeveloped in certain regards. As a primary example, the interviewees referred to the absence of a regulatory framework for

31 For further information on Young Entrepreneur see: <http://danida.arda.gov.ge/>

32 TBC Group, *TBC's Corporate Social Responsibility: Report to Media* (2019, p.7) Available from: <https://www.tbcbank.ge/web/documents/10184/314504/CSR-19+geo.pdf/4f5e0f3f-2bb5-48d9-9b22-56a23b415678>

33 For further information on Partnership Details see: <https://cbw.ge/startup/largest-business-accelerator-500-startups-enter-to-georgia-supported-by-bank-of-georgia>

34 For further information on Crystal Fund's ongoing programmes and projects see: <https://crystalfund.ge/youth-entrepreneurship-development-en/>

35 For further information on ProCredit Bank's ongoing programmes and projects see: <https://www.procreditbank.ge/en/>

promoting crowdfunding. In recent years, Georgia's Innovations and Technology Agency (GITA) has been unable to promote the enactment of a legal basis for crowdfunding institutions (loan-based, equity-based crowdfunding, etc.). The National Bank of Georgia, perceiving crowdfunding as a potential threat that encourages money laundering, has also delayed the legislative process around the issue.

Moreover, for the access to finance of young Georgian entrepreneurs, the age limitation on business loans set by commercial banks is considered a notable hindrance. While there is no centralized regulation from the National Bank of Georgia restricting commercial banks from issuing business loans under a certain age, commercial banks themselves, to mitigate risks, introduce such age limitations, ranging between 19-23 depending on their internal regulations.³⁶ Furthermore, the current public procurement system has been referred to as largely oriented towards the purchase of cheap products or services, rather than prioritizing national innovations. The availability of a permanent public procurement scheme for local innovations would thus add an additional layer to the current access to finance structure and would create significant stimulus for developing Georgian entrepreneurs, including newly created enterprises.

From the private sector, the research indicated a lack or absence of interest from Georgian businesses and angel investors to fund entrepreneurs; notable, as private sector involvement is the cornerstone for building robust entrepreneurship ecosystems around the world. However, the list of businesses eager to finance innovation is plainly limited to financial institutions, such as commercial banks and microfinance organizations (e.g., TBC Bank, the Bank of Georgia, and Crystal Fund). There are two main factors that drive motivation for private entities to finance innovation in the country: first is the intrapreneurship or internal managerial system that encourages entrepreneurial activity of top employees within companies; and second is the long-term vision for sustainable organizational development. The latter implies that private sector entities attempt to nurture their own clients, future credible borrowers, and themselves. Such a sophisticated motivational structure might explain the shortage of businesses willing to finance innovations in Georgia.

Considering angel investors, the research outlined the specific, effusively risk-averse mindset of Georgian to-be-angels, who tend to support traditional business ideas, with quick and credible potential wealth generation. Generally, the typology of angel investors covers former entrepreneurs, who know the essence of innovation function, and the second generation of wealthy families, who are neutral towards the risky nature of startups. However, the country has too few individuals in both instances.

Interviewees stated that to institutionalize angel investing in the country, besides having local angels, emphasis has to be placed on the Georgian diaspora. Therefore, in order to attract angel investment, it is essential to have credible, established, and local angels, who signal the favorable institutional structure and serve as intermediaries between the country and investors abroad. While local businessmen are reluctant to take risks, diaspora representatives have the potential to establish angel networks in the country. Though, compared to neighboring countries (e.g., Armenia), Georgia's potential for developing a diaspora network is insignificant. Nonetheless, considering the recent example of Pulsar AI, a Georgian startup improving communication channels via artificial intelligence, there are a number of native Georgians willing to invest in newborn enterprises. In their partnership with Startup Grind Tbilisi, GITA supported the notable precedent of angel investing in Georgia: with two prominent Georgian diaspora members (Zaza Pachulia and George Arison) financing Pulsar AI with 1.2 million USD.

³⁶ During the research, we contacted several commercial banks to identify their internal regulations on age limitations for business loans.

5.3. Culture

The domain of culture consists of factors such as general attitudes towards entrepreneurship, the social status of an entrepreneur, the culture of tolerance towards failure and risk, the art of communicating entrepreneurial success stories, and general entrepreneurial spirit. When considering Georgian entrepreneurial culture, Soviet influences should be first mentioned as they are the root of the majority of problems and time is still required for its influences to fade. For example, a study of entrepreneurial attitudes among Georgian youth in the regions, conducted during interviews with focus groups, identified that there is too much dependence on the state, a major challenge that hinders people from taking charge of their lives. Rather they have always believed someone else is responsible for solving their problems.³⁷

There are several social norms working against entrepreneurship in Georgia. The most destructive factor being parental influence on children's career choice, identified as a common cause of skill mismatch on the labour market. Typically, people realize which profession they truly aspire to later in life, and thus take positions they are not qualified or educated for. For entrepreneurship, this means that fewer people pursue the career since parents usually guide their children to specialize in medicine, law, or another specialty profession to secure jobs on the labour market.³⁸

Another instance where cultural norms act as a hindering factor for entrepreneurs is for women, especially the married. A GEM study (2014)³⁹ on female entrepreneurship in Georgia found that women lack social support after starting a family. The majority of women in the regions face pressure from their families to stop working and concentrate solely on housework. Additionally, due to the lack of traditional female involvement in entrepreneurship, most women have no "connections" in the sector to assist starting a new business. As a result, there are more necessity-driven entrepreneurs among women than men. Some stakeholders in the Georgian ecosystem, most notably Crystal Fund, have already taken this insight into account and are placing special emphasis on women in their programmes.

For people to aspire to entrepreneurship, the career choice should be valued by society, therefore entrepreneurs should maintain a high social status and be subject to significant media attention. In this respect, it is possible to observe a transformation in Georgian society over recent years. According to the Global Entrepreneurship Monitor (2016–2017),⁴⁰ Georgia ranks 2nd, 1st, and 4th in the aforementioned indicators, respectively, when compared to the other eight efficiency-driven European economies. In general, attitudes towards entrepreneurship have become quite positive throughout the country; a conclusion reinforced by the survey study by Natsvlshvili and Kharashvili (2019),⁴¹ which found that the vast majority of surveyed students (83%) would like to become an entrepreneur within the next five years, and they also expressed greater interest in self-employment over being an employee. This change may have been partially triggered by improving attitudes towards self-employment and private sector employment in general, whereas public-sector work has tended to be less-popular lately. However, many young Georgians lack certain important personal characteristics vital in an entrepreneur. When considering the question "what stops youngsters from starting a business venture?", the main barrier identified by university students was uncertainty regarding income and a fear of bankruptcy. The lack of entrepreneurial success stories in the country was also identified as another important challenge.⁴²

Entrepreneurial culture moreover involves social capital, relating to cooperation among entrepreneurs, shared values, and societal understandings that enable social groups to trust each other and thus work together. Certain efforts undertaken by Startup Grind in Georgia have been made to build a community of startups, such as organizing events and implementing new norms of solidarity among overly competitive entrepreneurs. Similar efforts from Entrepreneur Magazine have also turned out to be fruitful, as confirmed from the precedent of two startups (Altersocks and Tasma.ge) cooperating and selling their products as a bundle.

37 Business Consulting Group Georgia (2015). *Entrepreneurial Opportunities and Needs of the Youth in Regions*.

38 Friedrich-Ebert-Stiftung (2016). *Generation in Transition: Youth Study 2016 – Georgia*.

39 Global Entrepreneurship Monitor (2014) *Women Entrepreneurship in Georgia*.

40 Global Entrepreneurship Monitor: 2016-2017 Georgia Report.

41 Kharashvili, E. and Natsvlshvili, I (2019). *Challenges of re-connecting entrepreneurship and business education at universities (evidence from Georgia)*.

42 Business Consulting Group Georgia (2015). *Entrepreneurial Opportunities and Needs of the Youth in Regions*.

Research Findings

After the interviews with the relevant stakeholders, a few challenges were identified in Georgian entrepreneurial culture. Firstly, the problem of significant state dependence was emphasized once again. The constant expectation for other people to help solve problems has led to a lacking sense of responsibility. It was also stated that the overinvolvement of state agencies has made people less motivated, resulting in their rarely acting independently. However, taking risks and leaving one's comfort zone are core prerequisites of entrepreneurial success. A lack of enthusiasm results in the majority of young entrepreneurs giving up after hitting their first difficulties. Unfortunately, there is no culture of turning a problem into an opportunity, considered an important skill in business. Another major challenge, also at a root obstacle, is the lack of self-confidence, especially in regions, which may be caused by a lack of education as well as the prevalent unfavorable social norms.

The main reason behind such few youth startups is cited as a fear of failure and prominent societal stigmatization, leading people to choose more stable career paths. Some efforts have been taken to tackle this problem; for example, the Georgian beer brand Karva has the motto "Ganikarve" ("take it easy") and sponsors "Fuckup Nights", thus delivering messages to the youth that it is acceptable to fail. One of the main factors impeding people from engaging in risky business ventures is simply the unstable nature of entrepreneurship.⁴³ For people with a stable income, it is particularly hard to leave their job and start an enterprise. It was noted that this problem in Georgia is prominent due to the current difficulty in finding secure jobs, as well as generally low levels of accumulated wealth (quite a common problem in post-Soviet nations),⁴⁴ while the absence of social security guarantees also increases the opportunity cost of becoming an entrepreneur once a person is already employed. Though there have been efforts by the relevant stakeholders to address this issue. For example, GITA is thinking of adding a wage component to its grant in order to stimulate full commitment among its startups. In addition, TBC is working on creating an entrepreneurial culture and reducing the cost of mistakes for its employees by introducing the Startup Dekreti programme that incentivizes entrepreneurship among company employees by providing them with a six-month paid leave of absence if they decide to create a startup.

The research also outlined that when founding startups, the majority of the Georgian youth are inexperienced in the basics of business planning, accounting, market research, or communication. Nonetheless, their eagerness to complete entrepreneurial schooling before starting a business is fairly low. Instead, it is considered preferable to access easy money first.

Another interesting research finding concerns the importance of success stories. It is believed that Georgia needs one great success, like Skype in Estonia, to contribute to positive attitudes among investors, as well as general society. Stakeholders identify the lack of success stories as a reason for the poor self-confidence of the Georgian youth in starting enterprises. Yet another issue is whether existing success stories are well-communicated to society and to investors in particular. It was therefore suggested that the role of governmental institutions should be increased in this respect.

5.4. Supports

Under the supports pillar, the study considers the existing infrastructure (i.e., physical, technological), support professions, community events, conferences, and R&D processes advancing entrepreneurship development, as well as the availability and accessibility of non-financial business development services.

Georgia has only recently started building a support infrastructure for entrepreneurs. However, it is already possible for new entrepreneurs to utilize the services of diverse Techparks, Fablabs and Ilabs, and networking initiatives in the country. In more general terms, according to the 2019 Global Innovations Index (GII), Georgia's innovations infrastructure ranked 81st worldwide.⁴⁵

Noticeable among the other dimensions, is the current design of support domain in the Georgian entrepreneurship ecosystem, which has the clearest and most explicit youth orientation. Below we

43 Kharashvili, E. and Natsvlshvili, I. (2019). *Challenges of re-connecting entrepreneurship and business education at universities (evidence from Georgia)*.

44 Guriev (2006). *The Evolution of Personal Wealth in the Former Soviet Union and Central and Eastern Europe*.

45 Global Innovations Index 2020: *Who Will Finance Innovation?* Available from: <https://www.globalinnovationindex.org/gii-2020-report>

differentiate between, and give an overview of, the governmental and non-governmental support initiatives in Georgia.

Governmental Support Initiatives

Governmental initiatives represent one of the main sources of support services in Georgia. GITA and Spark Tbilisi are two core state agencies responsible for enhancing entrepreneurial access to the support infrastructure.

GITA's support services include, but are not limited to, Techparks and Innovations Centers, Fablabs and Ilabs. Techparks are a free physical space, unifying professional, technological, and educational resources, which are targeted at developing a knowledge-based economy in Georgia, through advancing the skillsets of Georgian entrepreneurs and helping their products reach higher market potential. Techpark spaces generally engage incubators, co-working, training, recreational aspects, and laboratories. Currently, GITA has three Techparks in Tbilisi, Telavi, and Zugdidi. Moreover, two Innovation Centers, small-scale Techparks, function in the Akhmeta and Rukhi municipalities.⁴⁶ It is notable that such a broad geographical distribution of resources certainly increases the availability of GITA's support infrastructure.

GITA's Fablabs (Factory Laboratories), offer tech-focused entrepreneurs various opportunities to prototype their creative startup ideas. Fablabs are equipped with 3D printers, CNC rubbers, laser cutters, PCB facilities, etc.⁴⁷ Besides GITA, two state universities, Tbilisi State University and Ilia State University, offer Factory Labs to their students and interested entrepreneurs.

Alongside its Fablabs, GITA has supported the establishment of several Ilabs (Innovations Laboratories) in Georgia. One of which, Geolab, was launched in partnership with the Georgian telecommunications company, Geocell, and is the largest of the listed Ilabs. The remaining two, GamelabIliani and CG Multilab GIPA, were introduced by two Georgian universities, Ilia State University and the Georgian Institute of Public Affairs (GIPA).⁴⁸

Alongside the infrastructural support services, GITA collaborates with non-governmental community initiatives by stimulating networking events and conferences. Notably, GITA designs annual entrepreneurship camps and idea generation-oriented gatherings for schoolchildren to nurture entrepreneurial spirit in youth.

As previously mentioned, Spark Tbilisi, a recent initiative of Tbilisi City Hall, represents another significant governmental support service provider functioning in Georgia. It offers emerging enterprises, those registered in Tbilisi or with an owner registered in the capital, diverse support opportunities, including co-working spaces and training centers; business consultancy; working meetups (e.g., B2B); mentorship services; and professional business assistance. Moreover, under its competencies, in partnership with local universities, Spark organizes pre-acceleration events for university students. As its next step, following local acceleration, Spark aims to send Georgian entrepreneurs to international accelerators.⁴⁹

Furthermore, the National Bank of Georgia has recently launched its financial education platform, finedu.gov.ge,⁵⁰ which offers the potential to improve Georgian entrepreneurs' financial behavior; additional information on the platform is provided in the following chapter on Human Capital Domain.

Crucially, besides supporting high-tech business establishment and development, several state-funded support schemes offer consultancies to their beneficiaries. The JSC Partnership Fund-led project StartUp Georgia, makes legal, accounting, marketing, and management training available, and acts as an example for such support schemes. Under the industrial component of Enterprise Georgia, the agency also offers technical assistance to its recipients and attempts to promote their resilience, knowledge base, and compliance with international standards (e.g., ISO).

46 For further information on GITA's support infrastructure see: <https://gita.gov.ge/eng/static/45/teknoparki-tbilisi>

47 For further information on GITA's support infrastructure see: <https://gita.gov.ge/eng/static/49/fablabebe>

48 For further information on GITA's support infrastructure see: <https://gita.gov.ge/eng/static/51/ilab-ebi>

49 For further information on SPARK's support services see: <https://www.facebook.com/AcceleratorSpark/>

50 For further available details see: <https://finedu.gov.ge/ge/chven-shesakheb-1>

Private and Non-Governmental Support Initiatives

The private sector, financial institutions, and grassroots communities are major sources of support services in Georgia. Out of the financial institutions actively engaged in delivering support opportunities, the contribution of Crystal Fund is worth emphasizing. Under its youth entrepreneurship school, Crystal Fund offers a two-stage training course to young Georgian entrepreneurs. Through the primary stage, the entrepreneurship school aims to enhance planning, management, decision-making skills and financial literacy. During the next phase of competition, youths are trained in transforming their business ideas into workable business projects. Notably, Crystal Fund support services are not limited to the capital but also reach the youth and women in the Georgian regions.⁵¹

Besides Crystal Fund, TBC Bank's Startuper unifies various support projects such as startup education, media promotion, business and individual consultancy, and assistance in product commercialization. Under the scope of specific support, the TBC Startuper includes specialized training and business activities for regional startup initiatives.⁵² Alongside TBC, the Bank of Georgia also participates in establishing support services via the introduction of 500 Startups; further details on their acceleration platform are included in the access to finance pillar above.

Regarding grassroots support initiatives, three major players have been identified in Georgia: Startup Grind Tbilisi, Fuckup Nights Tbilisi, and Entrepreneur Magazine. In terms of promoting entrepreneurship in youth, their efforts in eliminating the risk-averse nature and stimulating networking between youth startups is highly significant. Of these entities, Startup Grind Tbilisi represents the Georgian chapter of a global grassroots movement, organizing diverse local and international startup events, flagship conferences and partnerships, connecting potential funders with clients, and teaching the specificities of investing and risk-taking.⁵³ While, Fuckup Nights Tbilisi acts as a platform for event series, delivers conferences on the essence of business failure, and nurtures bravery in Georgian entrepreneurs.⁵⁴ Where Entrepreneur Magazine, in the Georgian chapter of an American initiative, represents a meaningful resource in creating support opportunities in Georgia via its educational permanent publishing activities and frequent community conferences, which serve as a commercial opportunity for the magazine and a networking platform for entrepreneurs.⁵⁵

Lastly, innovations and entrepreneurship centers at private tertiary institutions, such as the Businesses and Technology University, the University of Georgia (UG), and Caucasus University (CU), are of the utmost importance for youth-oriented support services. With ongoing efforts to deliver startup literacy, training, boot camps, incubation, and infrastructure, the Entrepreneurship Center at BTU,⁵⁶ the UG Startup Factory,⁵⁷ and C10 at CU,⁵⁸ accelerate their students' ideas and promote entrepreneurial aspirations.

Research Findings

The research revealed that the challenges in Georgia's supports pillar interconnect with the current problematic cultural attitudes held by potential entrepreneurs, including the youth. According to respondents, although sufficient in number at a glance, the current networking and community platforms are still unable to tackle the competitiveness and arrogance of Georgian entrepreneurs. Combating arrogance, however, is a crucial prerequisite in establishing fruitful communities and networking platforms for sharing ideas and expertise. Moreover, the respondents stated that in order to increase

51 For further information on Crystal Fund's support services see: <https://crystalfund.ge/youth-entrepreneurship-development-en/>

52 For further information on TBC Startuper's support services see: <https://startuperi.ge/ka/>

53 For further information on Startup Grind Tbilisi's ongoing programmes and projects see: <https://www.startupgrind.com/about-us/>

54 For further information on Fuckup Nights Tbilisi's ongoing programmes and projects see: <https://www.fuckupnights.com/tbilisi/?locale=en>

55 For further information on Entrepreneur's ongoing programmes and projects see: <https://www.entrepreneur.com/>

56 For further information on BTU's Entrepreneurship Center see: <https://btu.edu.ge/proeqtebi/metsarmeobis-centri>

57 For further information on UG's Startup Factory see: <https://www.ug.edu.ge/ge/announcement/ug-startup-factory-starts-the-fourth-acceleration-batch>

58 For further information on CU's C10 see: <https://cu.edu.ge/ka/startup-accelerator/about-startup-accelerator>

the number of successful entrepreneurs, the country has to boost the quantity of its startups. This cannot be done without fighting the fear of failure and lack of self-confidence that is rooted in potential Georgian entrepreneurs, youngsters included. Lastly, it was revealed that Georgian businesses are frequently unaware of the potential of Georgian startups, and thus hire international service providers. Consequently, more and large-scale community initiatives and B2B meetings are needed to nurture determination and collaborative attitudes in potential startups, and to become a source of useful local synergies.

The research further outlined that the reluctance of regional NEETs to risk becoming an entrepreneur is largely fed by their limited access to information regarding entrepreneurial opportunities in Georgia. Hence, dealing with such asymmetries should be within the future design of Georgia's supports pillar. This could be achieved by institutionalizing direct outreach (e.g., peer-to-peer outreach in the field) to the regional youth. Such a strategy is currently an efficient part of Crystal Fund's approach towards expanding its number of young and female beneficiaries. Moreover, raising accessibility of entrepreneurial learning nationwide and strengthening provision of BDS might also have a role in engaging more NEETs in entrepreneurship.

Furthermore, it was emphasized that the current structure of governmental agencies, such as GITA, is not fully responsive to the needs of Georgian entrepreneurs. This occurs as state entities are largely designed as top-down institutions, therefore they dictate the development path to entrepreneurs and are not sufficiently reactive to startup needs. The stakeholder consultations highlight that it is necessary that GITA, in line with SPARK, provide more training and acceleration programmes to boost entrepreneur software skills so that they were better able to solve the problems that their business initiatives face.

Another significant insight outlined during the stakeholder consultations relates to BDS provision. According to the assessment of OECD, in 2017 around half of Georgian SMEs benefitted from the business development services that were funded or co-funded by the state. On the contrary, in case of EaP countries, only one sixth of the SMEs utilized government financed BDS. Despite such high level of BDS uptake by Georgian SMEs, stakeholder interviews revealed that there is additional demand on such services across the country. This could imply the need for delivering more diversified operational or strategic business development services that target the requirements of Georgian enterprises, especially the startups. To this end, we encourage relevant stakeholders to conduct thorough gaps assessment of existing BDS provision, which might be potentially lead to capacity building of relevant Georgian BDS providers.

Finally, the challenges regarding R&D were outlined as significant barriers. At present, Georgia is unable to promote commercialization of its local research; known to occur when there is a drain of research projects from national research centers. Through financing Shota Rustaveli National Science Foundation schemes, Horizon 2020, and international donor grants, the state has recently increased funding into R&D. However, two core steps were defined in the stakeholder interviews required to increase the efficiency of state involvement in R&D promotion. Firstly, Georgia's competitive advantage in R&D should be identified. Such a field of competitive advantage might relate to institutional-specific legacies held from the Soviet Union, such as medicine, spatial research, or applied mathematics. Secondly, it is vital that university-based research centers modernize their approaches by integrating more young scientists and being better aware of the current scientific trends.

5.5. Human Capital

In the domain of human capital, the quality and accessibility of formal and informal education and the availability of a skilled labour force on the market have each been evaluated.

Education is the main driver of human capital development, an important source of which being formal educational institutions, such as universities. Georgian universities have quite a diverse profile, providing almost every form of qualification, nevertheless challenges persist in the system. According to one study by Friedrich-Ebert-Stiftung (2016),⁵⁹ universities do not typically include practical modules or internship components in their programmes, thus failing to ensure the readiness of their graduates for the labour market. Skills and job mismatches on the labour market also negatively influence the availability of a qualified labour force in SMEs. According to the Labour Market Analysis of Georgia (2019),⁶⁰ 9% of graduates to have failed to find work believe the main reason for their unemployment is a skills mismatch. As one current study on Business Demand on Skills (2020)⁶¹ reveals, a major difficulty in filling job vacancies relates to applicants' insufficient qualifications (28.7% of responses); in only 0.7% of cases were applicants over-qualified for the position. As identified by the World Bank Enterprise Survey,⁶² 14.9% of Georgian employers see a poorly educated workforce as a key obstacle to the operation and growth of their firms.

Moreover, a lack of management skills is considered a key constraint for Georgian small and medium enterprises. Lack of long-term and business planning; lack of technical, marketing, and sales skills; insufficient level of risks assessment and scheduling; and reluctance to accept innovations all hinder effective businesses operations management (PMC Research, 2019).⁶³ Among the recent initiatives, one is directed towards improving the financial literacy of entrepreneurs, the online financial education platform (finedu.gov.ge), launched by the National Bank of Georgia. This platform will help micro and small business owners and financial managers acquire and develop the skills and knowledge essential for making the correct financial decisions, based on their business needs.

Aside from occupation-specific qualifications, the importance of transferable skills, like problem-solving and work ethics, is increasingly prevalent in the ever-evolving 21st century. These skills are in high demand on the labour market, though it seems the Georgian educational system fails to provide proper training and integrate transferable skills. Consequently, the competitiveness of the Georgian labour force has been diminished.⁶⁴

A further discussion concerns entrepreneurship-specific education. In Georgia, entrepreneurial education is provided by formal as well as informal institutions. For formal education, the Ministry of Education, Science, Culture and Sport of Georgia recently published its 2019–2020 Action Plan for the Implementation of Life Long Entrepreneurial Learning at All Levels of Education.⁶⁵ Within this action plan, entrepreneurial components are projected to be integrated into curricular and extracurricular components of primary and secondary education. Similarly, since 2015, Principles of Entrepreneurship has been incorporated as an elective course in 221 public schools, and this pilot programme is projected to be expanded. The curricula of private schools are also more entrepreneurship-oriented, for instance, Newton Free School prominently implements entrepreneurial elements in both primary and secondary education.

At the vocational level, entrepreneurship is a compulsory module in every programme. Despite the stigmatized attitudes of the Georgian youth towards vocational training in comparison to higher education,⁶⁶ it should be noted that vocational institutions are gradually gaining significance. This being the result of the ongoing efforts of the Vocational Education Reform Strategy 2013–2020 of Georgia: one example of such an effort is the active engagement of the Georgian Farmer's Association, offering

59 Friedrich-Ebert-Stiftung (2016). *Generation in Transition: Youth Study 2016 – Georgia*.

60 The Ministry of Economy and Sustainable Development of Georgia (2019). *Labour Market Analysis of Georgia*.

61 The Ministry of Economy and Sustainable development of Georgia (2020). *Survey of Business Demand on Skills*.

62 WB, EBRD, EIB (2019). *Enterprise Survey – Georgia 2019, Country Profile*.

63 PMC Research Center (2019). *Rapid Assessment of Rural SME Development in Georgia and Armenia*.

64 The Ministry of Health, Labour and Social Affairs of Georgia (2016). *Survey on Attitudes, Motivation and Employment*.

65 The Ministry of Education, Science, Culture and Sport of Georgia. *The 2019-2020 Action Plan for the Implementation of Life Long Entrepreneurial Learning at All Levels of Education*.

66 Friedrich-Ebert-Stiftung (2016). *Generation in Transition: Youth Study – Georgia*.

work-based learning projects that provide a new model of vocational education within various fields of agriculture.

At the higher education level certain prominent institutions provide entrepreneurship-related education: Tbilisi State University (TSU), Free and Agricultural Universities, Ilia State University (ISU), the Business and Technology University, Caucasus University, and the Black Sea University. Each institution provides a business administration programme, though with different types of emphasis. Beyond theoretical knowledge, some programmes also incorporate practical elements in their curricula. For example, as a part of a practical course at ISU and BTU, students are divided into groups and develop startup ideas during the semester, and the final assignment at the end of semester is to develop a prototype of the idea. In addition, certain university programmes are aimed at further stimulating entrepreneurship. For example, Spark has a pre-acceleration programme operating at different institutions that provides students with the training required to turn their ideas into startups. Within the framework of the Creative Spark: Higher Education Enterprise Programme, in 2019, training in entrepreneurship was also launched for employees of Tbilisi State University, Tbilisi State Conservatoire, Tbilisi State Academy of Arts, the National Science Library, and Shota Rustaveli Theatre and Film State University. After undergoing the training course, these employees held a series of TechArT Sessions at TSU over three months, enabling around 600 students to learn about the startup ecosystem, its development, and the rules of starting and managing businesses. Furthermore, the TSU Knowledge Transfer and Innovation Center implemented a pre-acceleration programme funded by the Bank of Georgia in February 2020.

Informal education can also be a particularly important stimulator of human capital development. There are a few providers of informal entrepreneurial education in Georgia, the most prominent among them being Crystal Fund's Youth Entrepreneur School, under the scope of the YES-Georgia project. Beyond which, the Danish Refugee Council (DRC), in collaboration with the Education Development and Employment Center (EDEC) and with European Union financial support, has delivered its Entrepreneurship School to the Georgian youth from the conflict-affected regions (Shida Kartli, Samtskhe-Javakheti, and Samegrelo). To date, 80 young beneficiaries (aged between 20-35) have received the schooling offered, which includes business consultancy, business mentoring and coaching, financial literacy, and marketing training.⁶⁷

Taking the current educational ecosystem into account, certain challenges were identified by the different studies. Firstly, a lack of access to diverse educational programmes remains a challenge for the regional youth.⁶⁸ However, recent efforts have been directed towards this problem. More precisely, a new component, Buzz-Georgia, was added to YES-Georgia and under this project, women in the regions will be given access to entrepreneurial training. A further issue is that, despite the seemingly abundant educational programmes, a lack of skills is still a considerable obstacle for Georgians starting a venture. The Global Entrepreneurship monitor (2016–2017)⁶⁹ found that only 41.6% of Georgians who see entrepreneurial opportunities think they have enough skills, knowledge, or experience for starting new ventures. The same problem was also identified by Natsvlshvili and Kharaisvili (2019),⁷⁰ based on surveys with TSU Business and Economics students. The interviewees for this study moreover concluded that study programmes at TSU need greater practical and internship components, as well as enhanced facilitation of contact between youth and entrepreneurs.

Research Findings

The interviews conducted with the relevant stakeholders helped identify major factors affecting the development of human capital in Georgia. Some of which correspond with, and reinforce, the problems highlighted in the previous section. For example, the shortage of a qualified workforce was regarded as a problem by the interviewees; the essence being that there are either experienced, relatively old workers who are unfamiliar with corporate culture, or the inexperienced young who require additional

67 For further information on Entrepreneurship School and Dual Vocational Education Scheme see: <https://www.euneighbours.eu/en/east/stay-informed/projects/eu4youth-enhancing-youth-education-employment-and-participation>

68 Business Consulting Group Georgia (2015). *Entrepreneurial Opportunities and Needs of the Youth in Regions*. Retrieved from: <http://www.economists.ge/storage/uploads/publication/150915013937885d.pdf>

69 Global Entrepreneurship Monitor: 2016–2017 Georgia Report.

70 Kharaisvili, E. and Natsvlshvili, I. (2019). *Challenges of re-connecting entrepreneurship and business education at universities (evidence from Georgia)*.

training. Equally, the absence of transferable skills among the labour force was reemphasized; workers lack communication, time management, self-discipline, budgeting, and idea generation skills. It was suggested that elements of this form of education should be incorporated into school and university curricula, as is the best practice in developed nations. The respondents further recommended that the state take a more active role by consulting with the private sector, identifying needs, and incorporating respective qualifications into the education system. Alongside transferable skills, aspects of an entrepreneurial education should be introduced to school age children. Thus, schools should be equipped with all the necessary technology to enable students to properly develop and experiment with their ideas.

In 2018, the Ministry of Education, Science, Culture and Sport of Georgia (MES) introduced a new reform into the general education system, based on students learning 'how to fish, rather than giving them fish'. "As the world changes rapidly, schools should reflect the new reality. Professions of today soon will be outdated and if our children do not know how to learn, they will face challenges", the MES New Technology Expert, Sandro Asatiani, stated. Instead of raising children as passive recipients of knowledge, the new school model aims at nurturing independent thinkers, problem solvers, and investigators. Such an approach goes hand in hand with cultivating the entrepreneurial mindset, where people do not wait to be offered a job, rather they create new opportunities themselves. Nevertheless, there are certain challenges in achieving this goal that mainly relate to the qualifications and motivations of teachers.

Another objective of this reform, in close relation to the last issue, is decentralization of schools, where teachers are more free to plan lessons, and not follow a strict curriculum. Schools and teachers, after experimentation, are encouraged to share the best practices with each other. Thus far however, classes in entrepreneurship and economics are only taught at private schools. In scope of this programme, if collaboration between schools is facilitated, the best practices for enhancing an entrepreneurial mindset could be shared across institutions. Moreover, teaching entrepreneurship at an early age might prove beneficial as it helps instill and develop the important personal characteristics required of an entrepreneur.

This study also crucially discovered that much youth production potential is currently left unutilized, simply because universities do not take an interdisciplinary approach – they do not connect students from different programmes. For a startup to be successful, technical as well as administrative knowledge is needed. However, at the early stages of development, particularly for students, entrepreneurs often cannot afford to hire qualified specialists with technical or administrative skills. Therefore, it is especially important for them to be able to connect with their peers, those equipped with complementary know-how, to share ideas and start ventures together. For example, the successful Georgian startup Enkeni was founded by three students from the Agricultural University: one from the business administration programme and two from food technology. By combining their knowledge, they produced an important synergy. One fundamental reason behind their success story was simply fortuitous – the students were childhood friends. Their example clearly shows how fruitful it can be for students from different educational backgrounds to interact and share ideas. Universities therefore should direct energy towards achieving such synergies by adopting an interdisciplinary approach – arranging courses where students with different qualifications can meet one another.

Some additional insights were also gained about universities. First of all, it was noted that curricula are often largely flawed. These problems also correlate with the poor qualifications of lecturers teaching entrepreneurship. The majority of lecturers are equipped only with a theoretical knowledge, without any practical skills. For entrepreneurial learning to be successful, the lecturer should be an entrepreneur or at least have related experience. Unfortunately, there are too few enthusiastic, philanthropic entrepreneurs available to deliver lectures without a motive (the slight compensation for lecturers being unattractive). Another concern is that entrepreneurial education does not receive enough attention or financial support from universities, which are generally focused on preparing students for the labour market. Universities are not typically perceived as the main sources of innovative startups. Consequently, they rarely direct resources towards any programme in which they see no potential benefit, and for which the demand is not high.

Lastly, it was stated that less formal education institutions, such as educational NGOs and community initiatives do not prioritize entrepreneurial learning in their curricula and rather focus on citizenship education. Besides secondary and tertiary institutions, it is informal educational actors that greatly contribute to the intellectual development of the future generation. Hence, by integrating startup

training into their learning schemes, such educational actors would enhance entrepreneurial literacy in the Georgian youth.

To summarize, alongside the systematic changes the Georgian educational system requires, one core beneficial effort, that could lead to fast results, is building synergies between different interdisciplinary courses at educational institutions, thus connecting students with various backgrounds and qualifications and increasing the likelihood of establishing successful startups. At the primary educational level, it is recommended that entrepreneurship be taught at early ages, and be made a mandatory course, to contribute to developing an entrepreneurial mindset in the young.

5.6. Markets

Within the markets domain, the research considers access to international markets, distribution channels, and explored current export burdens, degree of public involvement, and the presence of entrepreneurship and diaspora networks in the country. Below is an overview of the extent to which each component of the market pillar is established in Georgia.

The Main Component of the Markets Domain in Georgia

Georgian businesses have access to 2.3 billion market without customs duty. To date, Georgia has bilateral free trade regimes with various countries, including its neighbors (Armenia, Azerbaijan, Turkey); Commonwealth of Independent States (CIS) members, such as Ukraine, Moldova, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan; and the Republic of China. Notably, since June 2014, under the Association Agreement (AA), Georgia has joined the Deep and Comprehensive Free Trade Area (DCFTA) with the European Union, and has launched a free trade regime with European Free Trade Association (EFTA) countries (Norway, Iceland, Lichtenstein, and Switzerland). Moreover, under the General Schemes of Preferences (GSP), 3400 of exported goods to the United States, Canada, and Japan enjoy lower tariffs.⁷¹

Despite such a diversified list of trade partners, the annual export to CIS countries still dominates Georgia's export profile. In 2019, exports to CIS amounted to 54% of the total, in contrast to exports to the EU, which, although gradually increasing in volume, constituted 22% of the total Georgian exports in the past year.⁷² Such an asymmetry is largely driven by businesses' lack of technical expertise and fiscal resources to integrate their production processes with EU regulations and standards. As small and medium enterprises are frequently unable to achieve economies of scale, typically large companies have higher trade volume with the EU.⁷³ However, even when reaching foreign markets, it is unlikely that Georgian firms remain internationalized. According to the World Bank (WB), 60% of firms are inactive after just one year of entering the international market, this number increases to 80% and 95%, after two and five years of internationalization, respectively.⁷⁴ To promote Georgian business access to international markets, several initiatives are currently active:

- The governmental programme Enterprise Georgia includes an export promotion component through which Georgian entrepreneurs attend various international events, such as trade fairs and flagship conferences;⁷⁵
- The EU's European Neighborhood Programme for Agriculture and Rural Development (ENPARD), under three phases, has promoted the establishment of local cooperatives, stimulating the collaboration of micro and small entrepreneurs to enhance their production quality and export potential;⁷⁶

71 For further information on Georgia's free trade regimes see: <https://investinggeorgia.org/en/georgia/free-trade-regimes>

72 For further information on Georgia's export profile see: <https://www.geostat.ge/ka/modules/categories/637/eksporti>

73 EU4Business. (2018). *Investing in the SMEs in the Eastern Partnership: Georgia, Country Report* p.17. Available from: https://www.euneighbours.eu/sites/default/files/publications/2018-07/country_report_2018_ge_def_lr_0.pdf

74 World Bank Group. (2018). *Georgia from Reformer to Performer: A Systemic Country Diagnostic* p.40. Available from: <http://documents1.worldbank.org/curated/en/496731525097717444/pdf/GEO-SCD-04-24-04272018.pdf>

75 For further information on Enterprise Georgia's ongoing programmes see: <http://www.enterprisegeorgia.gov.ge/en/home>

76 For further information on ENPARD's ongoing projects see: <http://enpard.ge/en/what-is-enpard/>

- Following the EU4Business initiatives in Georgia, several projects have been implemented to boost the international profile of Georgian businesses. For instance, the Ready to Trade project, with an overall EU contribution of six million EUR, assists SMEs of EaP, including Georgian SMEs, to gain exposure to global value chains and new markets, with a specific emphasis on EU markets.

Following AA requirements, since 2014, Georgia has reactivated its Competition Law based on European Union Law, ensuring liberalization of the Georgian market, and regulating the concentration of undertakings and agreements that hinder fair competition between market players.⁷⁷

There are no export burdens in Georgia and public involvement in the economy, in the form of adopting price controls or licensing, is minimal. The country has six flat taxes and offers 0% tax on exports. According to the World Economic Forum's 2019 Global Competitiveness Index (GCI), Georgia was ranked 11th worldwide for its absence of burdensome government regulations.⁷⁸ The preceding chapter of this report on policy domain introduces a further analysis of Georgia's tax regulations.

Considering entrepreneurship networks, although nascent platforms of communication, the country already has several initiatives, mainly led by Startup Grind Tbilisi, Entrepreneur Magazine, and Fuckup Nights Tbilisi. The supports pillar, given in the preceding chapter of this report, provides a brief overview of their design and scope of operations.

Lastly, at present there are no diaspora networks established in Georgia. It is under the scope of the Ministry of Foreign Affairs to communicate with the Georgian diaspora, however, such communication is not consolidated and does not exist as a network.

Research Findings

The research identified several important challenges regarding the access to foreign markets. This includes the lack of information regarding the requirements for entering the foreign markets as well as the low awareness about international entrepreneurship ecosystems, such as the opportunities for acceleration and investment attraction. Being unaware of international market specificities at an early stage, Georgian startups often fail to integrate into the foreign funding networks and find it difficult to trade with equity shares. Furthermore, it was stated by the interviewees, that Georgian entrepreneurs often do not have global vision and their international market potential is largely underutilized. Export-orientation is considered only at the advanced stages of business development. Nevertheless, some young entrepreneurs perceive Georgia as well-suited for testing and selling new products and services on the local market as country offers business enabling environment and preferential terms for small entrepreneurs to develop and sustain their businesses.

In addition, the unconsolidated diaspora network was outlined as a significant challenge. Recently, the Georgian government attempted to create an online platform (tanamemamule.ge) to unify the Georgian diaspora. Though a beneficial initiative at its core, the effort was unsuccessful. Nonetheless, even with scattered resources, the potential of the diaspora might be central for the future development of a local entrepreneurship ecosystem. It would also be useful to study the Georgian diaspora as a possible source of investment for Georgian startups

77 Article 1, paragraph 1 of Law of Georgia on Competition (2014). Available from: <https://admin.competition.ge/uploads/23634a72fc634c3bbfaf5d072a8dd426.pdf>

78 World Economic Forum (2019). Global Competitiveness Report. Available from: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

► 6. Concluding Remarks and Recommendations

This research has studied Georgia's youth entrepreneurship ecosystem through Isenberg's theoretical framework of the six major domains. According to Isenberg's grouping, robust pillars of policy, finance, culture, human capital, supports, and markets are each needed to develop a foundation for startup establishment and successful performance. Each of the pillars function in Georgia and contribute to youth motivation for engaging in entrepreneurship. Nevertheless, policy and support infrastructure stand out in terms of enabling an environment for startup development. Regardless, it is still necessary to address particular boundaries stemming from restrictive cultural attitudes, underdeveloped sources of alternative financing, and a lack of entrepreneurial skills in Georgia.

Furthermore, cohesion between the different domains is also missing across the entrepreneurial landscape. A number of study participants emphasized that there is clear potential for more fruitful synergies between state and non-state actors representing diverse areas; nonetheless, a methodical attempt to nurture such cooperation has yet been largely absent. The study identified that a driving contributor to most challenges within each domain may be attributed to fragile communications between stakeholders in the ecosystem. For instance, regardless of whether the Youth Agency plans to spur entrepreneurial activity among the youth, to track its performance, it will need other support institutions to collect the age-disaggregated data via their support programmes. Additionally, if state actors aim to nurture more entrepreneurial initiatives among the youth, they might better collaborate with Georgian universities to deliver interdisciplinary learning to their students.

A list of recommendations and suggested actions for the different areas is provided below. While some are domain-specific, others concern cross-cutting issues within the entrepreneurship ecosystem. All suggested actions are intended to achieve quick wins in the medium-term, however further in-depth research should be employed to diagnose the lasting obstacles in Georgia's youth entrepreneurship ecosystem and envisage any associated reforms.

Enhance Inter-domain Coordination

Entrepreneurship theory and experience from neighboring countries alike reveal that to yield efficient results, the state should take a holistic approach in developing an entrepreneurship ecosystem. Therefore, change has to occur in several domains at once to ensure it is integrated and aligned. Hence, it will be beneficial if there were a dedicated institution (the Youth Agency could take this role) to help the different stakeholders under each domain in the ecosystem better coordinate, thus minimizing any overlap in their scope of operations and resource utilization.

As part of the recommended coordination mechanism, we encourage the Youth Agency to consolidate information on the existing entrepreneurship support opportunities, including startup grants, Business Development Services (BDS), networking, and educational initiatives, information on how to start a business in Georgia, all under a one-stop-shop digital platform. One example of such a platform is the newly launched "Government – Your Partner" initiative (<https://programs.gov.ge>). The approach of which has several advantages. Firstly, it would assist state actors in better picturing the current support landscape in Georgia to identify any existing gaps or overlaps. Secondly, it would increase youth awareness of available opportunities and enhance their access to support programmes across the country. Thirdly, the platform could be utilized to conduct an online user needs assessment. This information could be thereafter used to improve the quality of future support initiatives. The COVID-19 pandemic has further amplified the importance of such a digitized approach, as demand for online communications has notably increased recently.

Provide Age- and Gender-disaggregated Data per Support Programme

The research revealed that the majority of entrepreneurship support actors do not track the age- and gender-disaggregated data of their programme beneficiaries. The provision of such data is important for promoting youth-friendly entrepreneurship programmes to better track their progress and to develop more refined Key Performance Indicators (KPI).

Promote More Informed Policy-Making

Furthermore, it is vital that the responsible state actors establish robust communication with stakeholders to advocate for the establishment of a legal base for crowdfunding. There are though justifiable motivations behind a relatively conservative approach towards elaborating legislation on crowdfunding; as the process takes place online, there is a high risk of fraud and money laundering. However, there is certainly room to better inform stakeholders on the state policy towards crowdfunding. The state maintaining a definitive standpoint would greatly enrich the ongoing advocacy process for the establishment of alternative sources of financing.

Moreover, it is critical that efforts to establish a legal basis for social entrepreneurship continue. There is keen interest on the side of donors to support and empower social entrepreneurs; nonetheless, the absence of a clear definition for social entrepreneurship complicates the provision of economic incentives. Although, the draft law on social entrepreneurship has already passed into Georgian parliament, to ensure informed policy-making, we encourage the respective governmental institutions to intensify their efforts in conducting impact assessments of such policies and to establish regular communications with stakeholders.

To further foster informed policy-making and support programme design, it is important that the ecosystem actors better communicate and share their best practices in entrepreneurship development among one another. This will significantly enhance the efficiency of the ongoing and planned support programmes. For example, while institutionalizing Youth Workers, the Youth Agency might consider the experiences of Crystal Fund, which has expertise in motivating future entrepreneurs via face-to-face direct outreach techniques (e.g., Crystal Fund currently runs BUZZ-Georgia and aims at motivating women to engage in entrepreneurial activities).

Better Communicate Success Stories

It is essential that public and private support institutions enhance the strategic communication of beneficiaries' success stories to the wider public. Several reasons drive such a need. Enhanced awareness of success stories might stimulate local angel investors (who tend to finance less risky business ideas), by informing them about the potential, long-term profitability of successful Georgian startups. Moreover, the research showed that, due to fear of failure and bankruptcy, youth lack enough motivation to start a business. Therefore, better communication of success stories may trigger their willingness to engage in entrepreneurship. Lastly, communicating female success stories may reduce gender gap in entrepreneurship through increasing women's motivation to start their own enterprises.

Strengthen Bottom-up Decision-making

It is crucial that state support agencies reveal a keen interest in more level decision-making. The study revealed that there is information asymmetry among state agencies and startups. Frequently, especially when designing educational support schemes, government entities are misinformed about actual needs regarding mismatched skills and what is relevant to entrepreneurs. Thus, governmental agencies might benefit from more robust communication with their target audience when designing support programmes. It is also desirable that startups themselves develop strong grassroots initiatives with the firm potential to deliver joint interests at the state level. Non-state actors (e.g., donors) might also nurture such advocacy opportunities among young entrepreneurs.

Strengthen Entrepreneurial and Interdisciplinary Learning

The research has also revealed the clear importance of entrepreneurial education among the youth in order for them to found successful startups. A number of the informants interviewed emphasized that the youth are largely untrained in the basics of business planning, accounting, market research, and communication, with the problem even more prominent in the regions. Hence, we recommend that state and private actors increase the geographical coverage and regional access to their entrepreneurship education services.

In this matter, Georgian universities offering entrepreneurial courses are advised to consolidate financial literacy components into their curricula (as is the practice of Ilia State University). Universities might also benefit from more interdisciplinary learning, ensuring that students have more academic and structured interactions with their peers in other disciplines. This has the serious potential to establish lasting entrepreneurship synergies among the youth. Additionally, introducing a mandatory course in entrepreneurship at Georgian schools may generate positive impacts.

Enhance Business Development Service Provision

After founding startups, Georgian entrepreneurs face various challenges at different stages of business development. This relates to different obstacles related to routine operations as well as strategic decision-making. Hence, to support the scaling up of Georgian enterprises, it is significant that the provision of business development services is enhanced across the country. This might involve a gap assessment in existing BDS provision and potential capacity building of the service providers (state institutions (such as GITA, EG, ARDA, Spark), private and community organizations delivering BDS).

Place Emphasis on Youth NEETs

Considering the specific necessities of the Youth Not in Education, Employment or Training (NEETs), a distinct communication strategy is required to better challenge their economic inactivity and transform it into capacity for entrepreneurship. The research indicated that NEETs motivations and perspectives are notably different from the youth outside the NEET group. While addressing this challenge, one may consider utilizing the institute of youth worker that is planned to be operationalized in Georgia.

Explore the Georgian Diaspora

It would be fruitful for state actors to explore the potential of the Georgian diaspora as a source of seed funding and angel investments. The research revealed that diaspora effort played a crucial role in developing Armenia's entrepreneurship ecosystem. Although it is clear that Georgia's ability to mobilize diaspora resources is less than Armenia, the successful instance of Pulsar AI hints at the necessity of studying the possible contribution of the diaspora to entrepreneurial development in Georgia.

Identify Georgia's Potential in Research and Development

Lastly, another significant dimension in advancing the entrepreneurship ecosystem lies within Research and Development. The Armenian experience reveals the significance understanding a country's R&D potential to encourage entrepreneurial, technology-based activities. Georgia is in a nascent stage of exploring local R&D potential. However, the country has recently seen an inflow of R&D-related support grants, such as the Technology Transfer Pilot Programme, jointly implemented by the World Bank and GITA. The state might thus take a strategic approach in this matter and study the potential of R&D to sustain a competitive advantage within entrepreneurial activities.

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► Appendices

Appendix 1. List of Interviewees

Name	Workplace	Current Position
Mariam Lashkhi	GITA	Deputy head of director
Nato Chakvetadze	500 Startups, Ilia State University	Local Programme Associate, Head of entrepreneurship direction at Ilia State University
Sandro Kandelaki	Spark; Ilia State University	General Manager, Entrepreneurship lecturer at Ilia State University
Giorgi Sharashidze	Entrepreneur Georgia (Magazine)	Founder
Colin Donohue	Startup Grind Georgia Chapter	Head
Archil Bakuradze	Microfinance Organization Crystal	Director
NutsaKurdadze	Tbilisi State University Knowledge Transfer and Innovation Center	Head
Nika Kurdiani	TBC Bank	Deputy CEO
Tamar Kitiasvhili	Ministry of Education, Science, Culture and Sports	Deputy Minister
Irakli Kochlamazashvili	Young Farmers Association	Deputy Head
Irakli Abuladze	Smart Home	Founder, Entrepreneur
Vano Chaladze	Cargon	Founder, Entrepreneur, participant of 500 Startups
Zura Maisashvili	Gvinuka	Founder, Entrepreneur
Hayk Asriynats	Tbilisi Startup Bureau	Co-founder
Giga Bedineishvili	Free and Agrarian Universities, Business faculty	Dean
Irakli Gabriadze	Enterprise Georgia	Head of Analysis, Monitoring and Evaluation Department
Sandro Asatiani	GeoLab	Co-founder
Elene Toidze	Creative Georgia	Head of Creative Industries Division
Giorgi Lomidze	StartUp Georgia	Director
Giorgi Todua;	UNIDO;	National Project Coordinator;
Tengiz Lomitashvili	TBSC Consulting	Managing Consultant, Partner
Max Fras	EU Skills4Jobs	Youth Policy Expert
Giorgi Tsimintia	UNDP	Coordinator for Economic Diversification;Project: Improving Rural Development in Georgia
NatoAntia	Danish Refugee Council	Project Coordinator

Name	Workplace	Current Position
Meriko Kajaia	Human Rights Secretariat	Specialist
Vasil Tsakadze; Irma Gvilava	Geostat	Head of Social Statistics Department; Head, Labour Statistics Sub-Division – Social Statistics Division
Nino Veltauri	LEPL State Employment Promotion Agency (SESA)	Acting Deputy Director

Appendix 2. Existing Programmes and Initiatives Supporting Entrepreneurship in Georgia

Programme	Description	Target/Youth Orientation
State Programmes		
StartUp Georgia	Promoting the development of startup businesses (startups) in Georgia. The programme has two components: innovative and high-tech.	Anyone with innovative or high-tech business ideas. No explicit focus on the youth, though around 80% beneficiaries are young entrepreneurs.
GITA innovative and technological grant programmes	Promoting and improving the country's innovative and technological base. Under a core component of GITA's scope of operations, they distribute a diverse grant packages, from 5000, 100,000 and 650,000 GEL, to programme beneficiaries (i.e. winners of the grant contest).	No explicit focus on the youth, though the design and the scope of the support programmes mostly encourages youth participation.
Micro and small business support programme from Enterprise Georgia	The programme offers entrepreneurs grants of up to 30,000 GEL, with at least 10% financial participation (5% for those living in high mountainous settlements) obligations for new beneficiaries.	No explicit focus on the youth. The programme prioritizes business ideas from women.
Other EG programmes	The Create in Georgia programme assists innovative, tech-oriented ideas; Produce for Better Future aims at enhancing business activities in Georgia's occupied territories of Abkhazia and South Ossetia by providing entrepreneurs with small grants; the access to finance and technical assistance components of the industrial division of EG, etc.	Supports the establishment of new enterprises or expansion/refurbishment of existing ones without explicit focus on the youth.
The business accelerator Spark	Promoting employment, enhances the capacity of Georgian entrepreneurs and SMEs, as well as facilitates the implementation of innovative business ideas.	No explicit focus on the youth. It targets beginner or existing businesses.

Programme	Description	Target/Youth Orientation
Donor Funded Programmes and Private Sector Initiatives		
USAID YES-Georgia	Supporting youth and entrepreneurship	Explicit focus on youth. Programme expands its focus on empowering women entrepreneurs.
Young Entrepreneur	<p>Creating models of financing adapted to young people that enable them to start a business activity and realize their own plans;</p> <p>The rendering of adequate technical support prior to financing and in the financing process to guarantee the right formation of plans;</p> <p>Post-financing support to overcome all challenges generated in the implementation of plans.</p>	<p>Explicit youth focus.</p> <p>Eligible applicants are young residents of Georgia, aged between 18-35 and 18-40 for women.</p>
USAID ZRDA	Financing innovative businesses operating in tourism or agricultural development to support sustainable and inclusive economic growth in Georgia, specifically along the administrative borderlines of the occupied territories of the country.	<p>No explicit focus on the youth.</p> <p>New enterprises in the villages along the administrative borderlines of Georgian occupied territories.</p>
EU4Youth – SAY YES Skills for Jobs	The project contributes to the (self)-employability of young women and men, aged between the ages of 15 and 35, in Armenia and Georgia; particularly those with fewer opportunities and from vulnerable groups.	Explicit focus on youth.
EU4Youth – Social Entrepreneurship in Armenia and Georgia (SEAG)	Promoting youth employability and societal change through encouraging youth social entrepreneurship in the bordering regions of Georgia and Armenia.	Explicit focus on youth.
Improving Rural Development in Georgia – ENPARD Phase 3	Enhancing developmental capacities of rural areas of Georgia through organizing entrepreneurship boot camps as one core activity of the programme.	No explicit focus on youth. The programme targets beneficiaries from all regions of Georgia.
Crystal School of Young Entrepreneurs	Promoting youth self-employment and the development of entrepreneurial skills in employment.	<p>Explicit Focus on Youth.</p> <p>Target group: young people aged between 16-28.</p>
TBC Stratuper	<p>Supporting the development of startups;</p> <p>The programme includes financial (loans) and non-financial support for startups (media support, training, individual consultations, etc.)</p>	<p>No explicit focus on the youth, though the design and the scope of the support programmes mostly encourages youth participation.</p> <p>Target group: Startups, which are in the growth phase (maximum of two years).</p>

Programme	Description	Target/Youth Orientation
500 Startups	<p>An early-stage venture fund and seed accelerator, accelerating startups with global and investment potential.</p> <p>Operating in Georgia since 2020, in partnership with the Bank of Georgia and GITA.</p>	<p>No explicit focus on the youth, though the design and the scope of the support programmes mostly encourages youth participation.</p> <p>Target group: Startups which are innovative, technological, and highly scalable.</p>
Startup Grind	Facilitating networking through local events, flagship conferences, startup programmes, and partnerships.	<p>No explicit focus on youth.</p> <p>Target group: Startups.</p>
Entrepreneur Magazine Georgia	Facilitating networking and supporting startup promotion.	<p>No explicit focus on youth.</p> <p>Target group: Startups.</p>

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