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საქართველოში რეფორმების განხორციელებაში დახმარება

PRIORITY INVESTMENT SECTORS IN GEORGIA

Executive Summary of the Final Report

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Contents

Executive Summary

Objectives, rationale and scope of the study

This project identifies sectors and subsectors of the Georgian economy which have a higher potential for growth and which the Georgian Government should prioritise when designing strategies to attract foreign investors and increase EU export levels post DCFTA. This project intends to help the Georgian Government foster higher rates of investment and job creation and to support the inclusive growth of the economy.

The objective of this study was to identify all sectors in which Georgian companies were or had the potential to be internationally successful. Study was prepared by using available statistical data, supplementary published sources and field interviews. We have analyzed all sectors in the Georgian economy including services, creative industries and start-ups due to their increasing prevalence and importance in the global economy. As data on services, creative industries and start-ups were not available we analyzed these sectors based on data collected during field interviews and fragmentary published sources that enabled us to create a more comprehensive profile of these sectors.

Foreign investment and trade are both integral to global strategies, and measures dealing with international success of Georgia must encompass both. In practice exports and foreign investment occur together.

There are several benefits of increased **export levels** for developing countries. Export can help boost the development and reduce poverty by generating growth through increased commercial opportunities and investment and can broaden the productive base via development of the private sector. Furthermore, it can enhance competitiveness by requiring developing countries to reduce the cost of inputs, acquire finance through investments and increase the value added of their products. Export diversification can be achieved through access of new markets and new materials that open up new production possibilities. Moreover, it also expands business opportunities for local companies by opening up new markets and removing unnecessary barriers and making it easier for them to export. Once as the country is more open to the external markets, improvement in quality of labour and environmental standards through increased competition can be expected as well as exchange of best practices between trade partners and building capacity in industry and product standards. Last but not least, increased exports created new employment opportunities by boosting economic sectors that create stable jobs and likely higher income levels.

Export market selection provides orientation toward the decisions in which markets should we compete. This selection includes required appraisals of the fit between a prospective market's requirements and a country's (company's) ability to meet those requirements. Furthermore, export market direction is important as well – should the country seek to build, hold, divest or abandon its position in a given foreign market. Moreover, country's initial entry into foreign markets as well as further expansion where already doing business in foreign markets is very important.

For both, market selection and market direction, the analysis should be focused on the targeted markets and should include analysis of the environment, psychic (geocultural) distance, market-based factors, competition & information and market knowledge.

It is equally important to know the resources of the country that can effectively support the existing business as well as added complexity of an international operation. Besides external analysis, internal analysis is also very relevant for the export market selection. It is important to know each internal analysis will always provide us with different results and every market should be dealt with differently. The country should look for ideas that could improve not only the potential for success in the new market(s) but also a solution that might bring an over-all improvement to the overall sectors.

Foreign direct investment (FDI) is critical for developing and emerging market countries as it represents one of the driving forces in the integration of these countries into the globalization process. These companies need funding of sophisticated investors and additional expertise to expand the international sales of products and services. Today's FDI is not only about capital but also (and sometimes more importantly) about technology and know-how, as it has become part of the process of international production, by which investors locate in one county to produce a good or a service that is part of a broader global value chain .

Smaller developing and transitional economies are faced with three main challenges with respect to attracting and benefiting from FDI. The first one is to overcome small domestic market and limited purchasing power that may discourage certain market-seeking FDI. Answer to this challenge could be to emphasizing other features of the economy, such as natural resources, human skills or geographic location. Market size could be further expanded through policies that seek to increase access to foreign export markets. The second challenge refers to supply side and significant pressures that are connected with significant FDI inflows into small markets. In order to establish and maintain investment attractiveness, labour, skills and infrastructure deficiencies must be addressed. The third challenge deals with designing policies that maximize the contributions of FDI to economic growth.

FDI brings benefits that include capital, employment and technology which most commonly leads to the introduction of new management practices, improvements and services quality, cost and innovation and can result to positive impacts on productivity and wage levels. Described benefits can be further divided to direct and indirect contributions. Direct contributions include FDI effects on:

- capital formation,
- trade and the balance of payments,
- employment and human resource development,
- technology and innovation, and
- market structure and expansion.

Nevertheless, it should be mentioned that dominant foreign companies could negatively affect smaller countries' balance of payments, crowd-out local firms or by engaging in anti-competitive behavior.

Direct contributions of a rapid build-up of FDI are immediately evident and can include high levels of capital formation and strong output growth, substantial job creation as well as export expansion and diversification.

Indirect contributions can be seen in the long run and be seen in the form of spillovers due to close interaction with the local economy. In order to increase, upgrade and diversify home operations, the host countries encourages foreign affiliates to be included in the local economy as much as possible. These contributions can be seen as through inducing greater competitiveness in local firms and by upgrading the business activities of foreign affiliates themselves.

Policies for attracting FDI are likely to generate certain direct contributions to economic development. Furthermore, in order to maximize the contributions from FDI also other dimensions of Government policy also have important role.

Smaller countries often have difficulties when competing with larger economies in the area of market-seeking or scale-oriented foreign investments. Consequently, these countries have to focus on expanding market size through regional and international arrangements and/or promoting location-specific advantages, such as natural resource, abundance or tourism assets or a set of fiscal incentives.

Our understanding of the current situation – the state of Georgia's foreign direct investment and foreign trade

Foreign direct investment and foreign trade are both integral to countries' strategies for improving their economies. Both are included in performance measures for international rankings which monitor the global success of Georgia. Furthermore in practice foreign trade, in the form of exports, and foreign investment are closely related and an increase in one encourages an increase in the other.

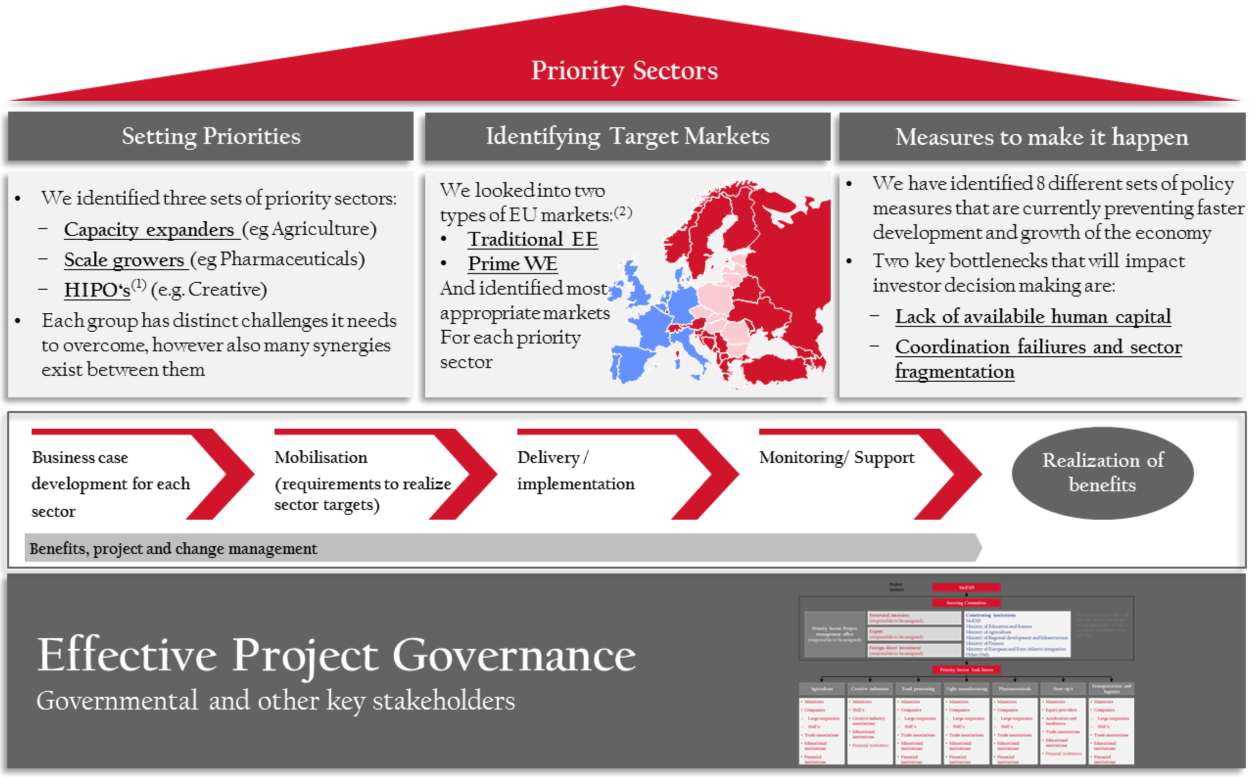
Over the last few years the Georgian economy has grown substantially. The compound annual GDP growth rate between 2011 and 2014, amounted to 5.4%, but it has dropped to 2.8% in 2015 and it is expected to remain low in 2016 before recovering in 2017. This drop can be attributed to weak external environment of Georgia's main trading partners, particularly Russia and Greece, which curbed investment, exports, and remittances in Georgia. The tradable sector suffered the most, with industrial production contracting by one percent in 2015. Despite the overall slowdown, growth was supported by growth of non-tradable sectors.

In order to stimulate the economy, Georgia has adopted several measures, which helped to create a favorable business environment that is attractive for foreign investors. Today, stable economic development, liberal and free market oriented economic policy, only 6 flat taxes and reduced tax rates, significantly decreased number of licenses and permissions, simplified administrative procedures and low level of corruption present a solid ground for successful business environment in Georgia.

Besides the favorable business environment Georgia has a number of trade agreements with its main trade partners including a new DCFTA with the EU that will contribute to strengthening and deepening of trade relations with the EU in the future.

Key Findings of the study

We have identified 6 priority sectors in the Georgian economy that would represent the cornerstones of future economic growth in Georgia. In order for these sectors to prosper a similar situation has to be avoided that occurred with the GSP plus program, therefore we have looked at key lessons learned from the past and tried to implement them in the priority sectors. There are two key bottlenecks in the economy today that are determine to investor decision making when considering investment opportunities in Georgia; (1) coordination failure, where the investors are faced with a fragmented and uncoordinated situation in the market (no clusters), (2) deficits in human capital in most sectors require a change in the skill set of the workforce that will meet investor needs.



Priority sectors

We have identified the following priority sectors; Agriculture, food processing, transportation and logistics, creative industries, pharmaceuticals and start-ups. The sectors have been divided into three strategic groups (capacity expanders, scale growers and HIPO's) and have many synergies and cluster building potential between them. The identified priority sectors will not exceed current export expectations unless there is a clearly aligned implementation plan in place that will work towards the maximization of the priority sector competitiveness.

Target markets

Export initiatives take time and usually come at a high cost. Therefore based on the analysis of the EU markets and other Georgian existing and potential trade partners we have identified two types of target markets; Traditional EE markets (where Georgian reputation is built on tradition and historical ties along with tourism) and Prime EU markets that offer a lot of export potential but are more demanding in terms of type products and quality they are looking for. The DCFTA has a limited impact on the priority sectors the main beneficiaries of the agreement in terms of the priority sectors are agriculture and food processing. The pharmaceutical industry that could also be a beneficiary seem unrealistic as most of the Georgian pharmaceutical producers do not have EU as one of their target markets due to the time consuming and rigorous clinical testing procedures. The analyzed trade flows have shown that there should be no obstacles in matching the demand of the target markets with the structure of Georgian exports of priority sectors. Besides this analysis we have for each priority sector identified its target markets, type of investor to target and sub-sectors that have the highest potential to achieve sustainable export results or attract FDI to Georgia.

Policy measures

The implementation of these measures across sectors is vital for the priority sector competitiveness as these have been identified as the main areas where the Georgian priority sectors are lacking competitiveness vs. their international counterparts. These policy measures also mirror main areas that investors include in their decision making process when making decisions on whether to invest in a new market or not. Besides a robust business case an investor friendly environment with a low risk profile is key in the final „go“ or „no-go“ decision. It is also that the two main bottlenecks are addressed under Prio 1 (coordination failures across sectors and human capital deficiencies) as they are major triggers that prevent higher levels of investment.

Lessons learned from other countries implementing priority sectors

Georgia is currently at the point where Bulgaria was 6 years ago. The challenges Bulgaria was facing in 2010 almost mirror those that Georgia is facing today. Bulgaria identified 8 priority sectors that were very similar to the priority sectors in Georgia. In addition it was able to clearly identify areas that were deterring investors from coming to the country and address them with strategic policy objectives. The main lessons learned from the Bulgarian case is to have a clear strategy in place and follow it through in a structured manner, results do not come overnight.

Implementation of priority sectors

Implementation and realization of objectives for priority sectors requires strong governance and a structured and consistent approach. This is especially important to understand as structural change does not happen overnight (see Bulgarian experience). Developing sound objectives and following through will create most benefits in the long term.

Priority sectors – Methodological approach for the selection of the priority sector

The present report follows the specific methodology taking into account the specifics of Georgia - the market conditions of Georgia and the experience with Exports and FDI in the country. However, it has to be noted that this methodology will be used as a road map in order to achieve the expected result.

The methodology follows the Porter's Competitive Advantage of Nations – Determinants of National Advantage. The analysis of the sectors with the potential competitive advantage is analyzed through four elements[1]:

1. *Current sector conditions.* Georgia's current position in the sector and the availability of key factors, such as skilled labor or infrastructure, necessary to compete in the sector. These are necessary inputs to compete in any industry.
2. *Existing market Demand.* Domestic and international demand for the sector's product or services and expected growth trends.
3. *Related or supporting industries.* The presence or absence in Georgia's of supplier industries and related sectors that are internally competitive or complementary.
4. *Existing competition and competitiveness.* The competitive conditions in individual sectors.

The determinants create the context in which a nation's firms are born and compete through the availability of resources and skills necessary for competitive advantage in an industry, the information that shapes what opportunities are perceived and the directions in which resources and skills are deployed, the goals of the owners, managers, and employees that are involved in or carry out competitions and most importantly, the pressures on firms to invest and innovate.

Export and FDI potential were defined through Georgia's sectors that possess a competitive advantage in target export markets relative to their main regional and global competitors. It has to be noted that neither the size of the sector, existence of exports or domestic profitability can be used as a completely reliable indicator of sectors export and FDI competitiveness. Measuring the competitiveness of these two dimensions is a statistically challenging proposition, therefore the report not only relies on quantitative sector and sub-sector assessments but also on qualitative assessments.

The research conducted was founded on best measures of current and future sector competitiveness and has shown the presence of substantial and sustainable exports (rather one-offs) to a wide array of trade partners from different regions and/ or significant inbound investments in Georgia that are based on skills and assets that are being created in Georgia.

[1] Please note that for certain sectors some data was not available.

For the purpose of quality analysis and development of recommendations we performed interviews with the relevant stakeholders from the following sectors (in alphabetical order):

• Aerospace and Defense	• Light manufacturing
• Agriculture	• Livestock (i.e. animal breeding)
• Creative (music, fashion, art)	• Mining
• Energy and utilities	• Pharmaceuticals
• Fertilizers/ Chemicals	• Services
• Financial services	• Start-ups
• Food processing	• Textiles & apparel
• Healthcare	• Tourism
• Industrial manufacturing	• Transportation & Logistics
• Infrastructure	

Priority sectors deep dive

Based on the four dimensions, available market data and intelligence gathered from the interviews the priority sectors, as shown in the table below were identified.

Factor conditions	Sector	Demand	Industry	Competition
Aerospace and Defense	★★	★★	★	★★
Agriculture	★★★★	★★★★★	★★★★	★★★★
Creative (music, fashion, art)	★★	★★★★★	★★	★★★
Energy and utilities	★★★	★★★★	★★	★★
Fertilizers/ Chemicals	★★★	★★★★	★★	★★
Financial services	★★	★★	★★	★★★
Food processing	★★★★	★★★★★	★★★★	★★★
Healthcare	★★	★★★★	★★	★★
Industrial manufacturing	★★	★★★★	★★	★★
Infrastructure	★★★	★★★	★★	★★★
Light manufacturing	★★★	★★★	★★★	★★★★
Livestock (i.e. animal breeding)	★★	★★★★	★★★	★★
Mining	★★★★★	★★★	★★	★
Pharmaceuticals	★★★	★★★★★	★★	★★★
Services	★★	★★★★	★★	★★
Start-ups	★★	★★★★	★★★	★★★
Textiles & apparel	★★★	★★★★	★★	★★
Tourism	★★★	★★★★	★	★★★
Transportation & Logistics	★★★	★★★★★	★★★	★★★

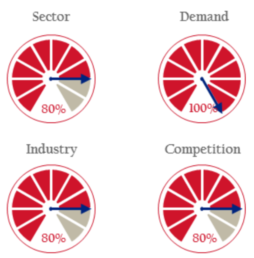
The table identifies and describes the main important characteristics of the priority sectors. The scoring for the individual sectors is presented in the chapter 6.

Please note that Textile and Tourism were initially also identified as priority sectors, but MoESD commented initial findings on 9th of July and ask to remove those two sectors from the priority list. There was no need to conduct further research on these sectors.

Priority sector: Agriculture and Food Processing
Sector strategy: Capacity expansion

Sector snapshot

Presence of key factors



Cons

- Fragmented and inefficient agricultural production dominated by smallholders who lack skills and capital
- Raw materials base inadequate for modern food processing industry
- Exports concentrated on traditional products and markets; a handful of niche products developing very recently
- Labor cheap but not qualified

Pros

- Great potential for import substitution
- Fragmentation makes it easy for new investors to capture the domestic market
- Climate, soil conditions suitable for exportable niche products
- Social impact (jobs, income) is unparalleled.
- Efficiency gains easy to achieve (many "low hanging fruits")

DCFTA impact

- Will need support as it bears the brunt of approximation costs and will face greater competition
- Will require coordination to take advantage of new export opportunities to the EU and other non-traditional markets

Things to-do

- Align public-private interests, coordinate investment and capacity building decisions
- Work with sub-sector champions to develop skills, supply base and services for relevant value chains
- Establish quality certification, export facilitation and promotion mechanisms.

Potential impact

- Import substitution and (limited) exports
- Income and employment for less skilled labor outside Tbilisi
- Synergies with hospitality industry (traditional landscapes, food production, arts and crafts)
- Regional development to prevent uncontrolled outmigration

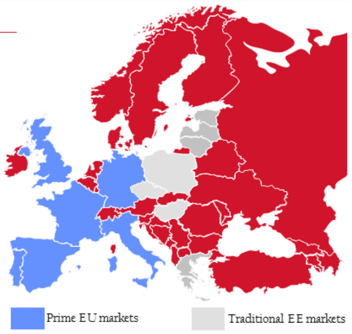
Investment Opportunities in the Sector and Priority markets

Investment Opportunities

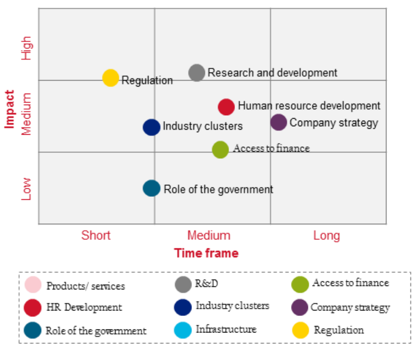
- Easy to capture domestic market for basic foods and commodities (meat, dairy, greenhouse vegetable production)
- Good geographical, soil and climate conditions for exportable niche products (hazelnuts, kiwi, etc.), including organic
- Traditional products that enjoy strong brand recognition in former USSR and parts of Eastern Europe (wine, mineral water, tea)
- Win-win opportunities to integrate smallholders in supply chains

Target markets

- International companies sourcing raw materials (Ferrero)
- Countries:
- Eurasia (former USSR, China)
- EU:
  Traditional: Hungary, Poland, Czech Republic, Baltics, Greece
  Prime: Germany, Italy, France, Portugal, UK, Spain,
- Non-EU: Israel, US, Turkey, Middle East



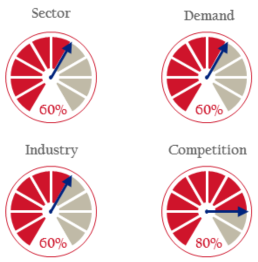
Priority Sector Action Plan



Priority sector: Light manufacturing
Sector strategy: Capacity expansion

Sector snapshot

Presence of key factors



Cons
- Lack of qualified labor, particularly engineers and technicians, but also factory workers
- Weak supply base (have to import tools, inputs) and services (e.g. maintenance)

Pros
- Labor intensive, low capital requirements
- Agricultural workers can be redeployed with minimal training
- Products not bulky, easy to export
- Existing capacity in electrical cables, textiles, household chemicals, etc.
- Presence of Turkish investors

DCFTA impact
- Lower tariff in some products relative to major exporters into the EU (China, India Japan, USA, Canada, Malaysia, Thailand, Singapore, Australia,)
- Possibility of diagonal cumulation with Turkey

Things to-do
- Align public-private interests, coordinate investment and capacity building decisions within clusters
- Work with industry champions to develop skills, supply base and services
- Establish quality certification, export facilitation and promotion mechanisms.

Potential Impacts
- Non agricultural jobs, income for rural dwellers
- Exports to the EU

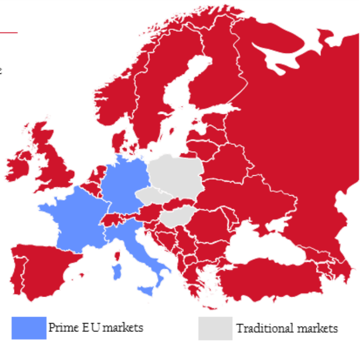
Investment Opportunities in the Sector and Priority markets

Investment Opportunities
- Sub/sectors:
  Export of apparel,
  electric cables and cable harnesses,
  furniture, ceramics,
  glass,
  household chemicals,
  essential oils

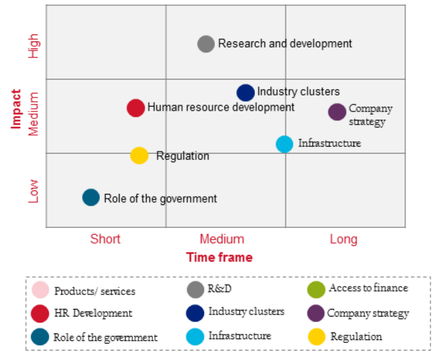
Target markets

Private fund investors and/or bigger companies with established brands on the market
International companies with indication for production outsourcing and M&A readiness

- EU markets that import similar products from countries that don't have an FTA with the EU
- *Traditional*: Hungary, Poland, Czech Republic, etc.
  Prime: Germany, Italy, France
- Non-EU: Middle East



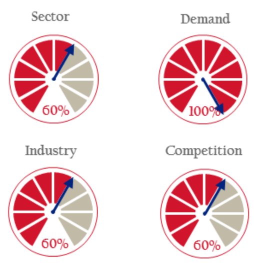
Priority Sector Action Plan



Priority sector: Transportation and logistics
Sector strategy: Scale Grower

Sector snapshot

Presence of key factors



Cons
- Performing the transit function implies little value added for the Georgian economy.
- Rail handling costs are very high; Poti port unable to serve large vessels; air transport is a bottleneck for tourism and ag exports.
- monopoly-type situations in many segments

Pros
- Strategic location at a North-South, East-West crossroad
- Opportunity to develop value adding services (storage, next-day-delivery distribution hub for the region)
- Opportunities to reduce the cost of exporting bulky products (fertilizer, ferroalloys rebars)

DCFTA impact
- Better and cheaper transport linkages will help position Georgia as an export platform to the EU (by allowing to import inputs and export the final products)

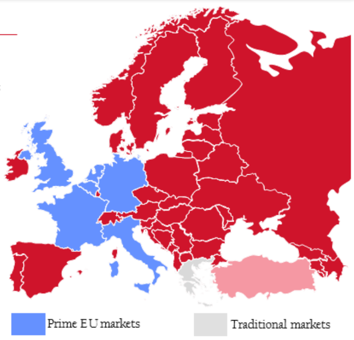
Things to-do
- Improve coordination along the Silk Road by developing specific action plans with partner countries
- Reduce rail, sea, and air transport costs
- Accelerate investment in East-West and North-South road infrastructure

Potential impact
- High potential impact for productivity improvements and export.
- Possibility to attract other industries, highly reliable on fast and reliable Transport & Logistics services
- Possibility to employ a combination of high skilled logistics experts and low skilled labor in the transportation and processing activities

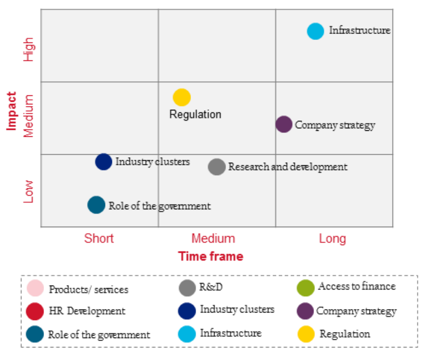
Investment Opportunities in the Sector and Priority markets

Investment Opportunities
- **Sub/sectors:**
  Storage and distribution companies
  Transport and logistics
  Main road network
  Seaports
  Railway network
  Air transport

Target markets
- Major logistics and transportation companies
- Countries along the Silk Road trade route (China, Central Asian countries, Azerbaijan, Turkey):
- Countries along the North-South trade corridor: Russia, Turkey and Armenia



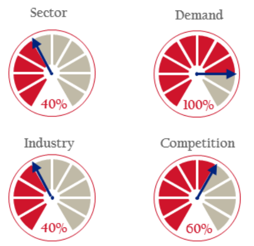
Priority Sector Action Plan



Priority sector: Creative Industries
Sector strategy: HIPO

Sector snapshot

Presence of key factors



Cons

- There is competition in the creative services sector however it is very fragmented and niche oriented.
- The lack of appropriate integration into the industrial processes

Pros

- Creative industry can generate global demand with its accessibility and reach through digital channels. Online demand for high quality affordable creative services is growing very rapidly.

DCFTA Impact

- DCFTA has no impact on the creative sector

Things-to-do

- Georgia has been developing the supporting environment for creative services, however further investments will be required to develop a platform that will be able to launch Georgian creative services into an international arena. Also other industries that would support the development of creative industries would need to be upgraded as well (e.g.. Cinema)

Potential impact

- Possibility to upgrade to higher value-added activities or attract higher-skill sectors
- Know-how attraction , productivity and quality improvement of the whole industry

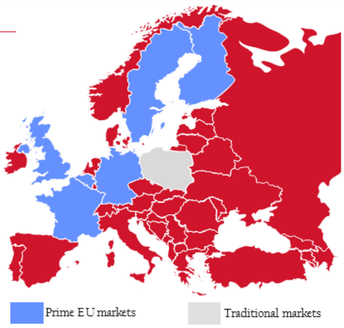
Investment Opportunities in the Sector and Priority markets

Investment Opportunities

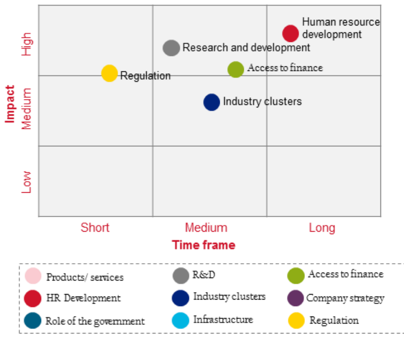
- **Sub/sectors:**
  Movies
  Advertising
  Gaming Industry
  Publishing
  Music
  Design

Target markets

- Who to target:
  Players in the fashion industry, cinematic production studios, graphic studios, publising, music production, advertising agencies, architectural and visual arts
- Countries:
- EU:
  Traditional: Poland
  Prime: UK, Germany, France, Belgium, Netherlands , Sweden, Finland
  Non-EU: USA,



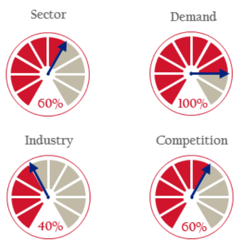
Priority Sector Action Plan



Priority sector: Pharmaceuticals
Sector strategy: Scale Grower

Sector snapshot

Presence of key factors



Cons

- Currently, the competition in the market isn't high.

Pros

- There is high demand for pharmaceuticals both domestically and globally.
- Georgian pharmaceutical industry is well developed in terms of production and packaging of pharmaceutical products. There is also high potential in the area of primary research that needs to be further developed

DCFTA Impact

- This sector could be one of the beneficiaries of the DCFTA, however the demanding nature of clinical testing procedures in the EU make a short, mid-term impact or even market entry possibility highly unlikely.

Things-to-do

- There are two main competitors in the sector with several smaller competitors operating in the market. The smaller competitors would require further stimulation for growth and development beyond current size.

Potential impact

- High potential impact for productivity improvements and export.
- Key enabling technologies for other sectors development
- New technologies open new perspectives for applications in the pharmaceutical, food and environmental markets.

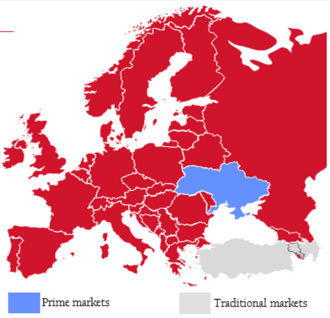
Investment Opportunities in the Sector and Priority markets

Investment Opportunities

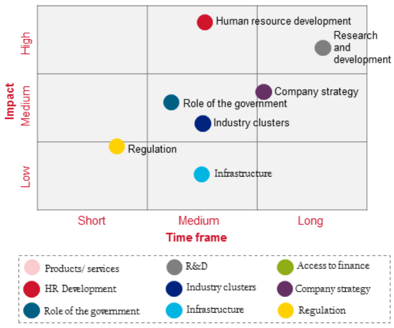
- **Sub/sectors:**
  MRO
  Production of pharmaceuticals
  Packaging
  Manufacturing of pharmaceuticals production equipment

Target markets

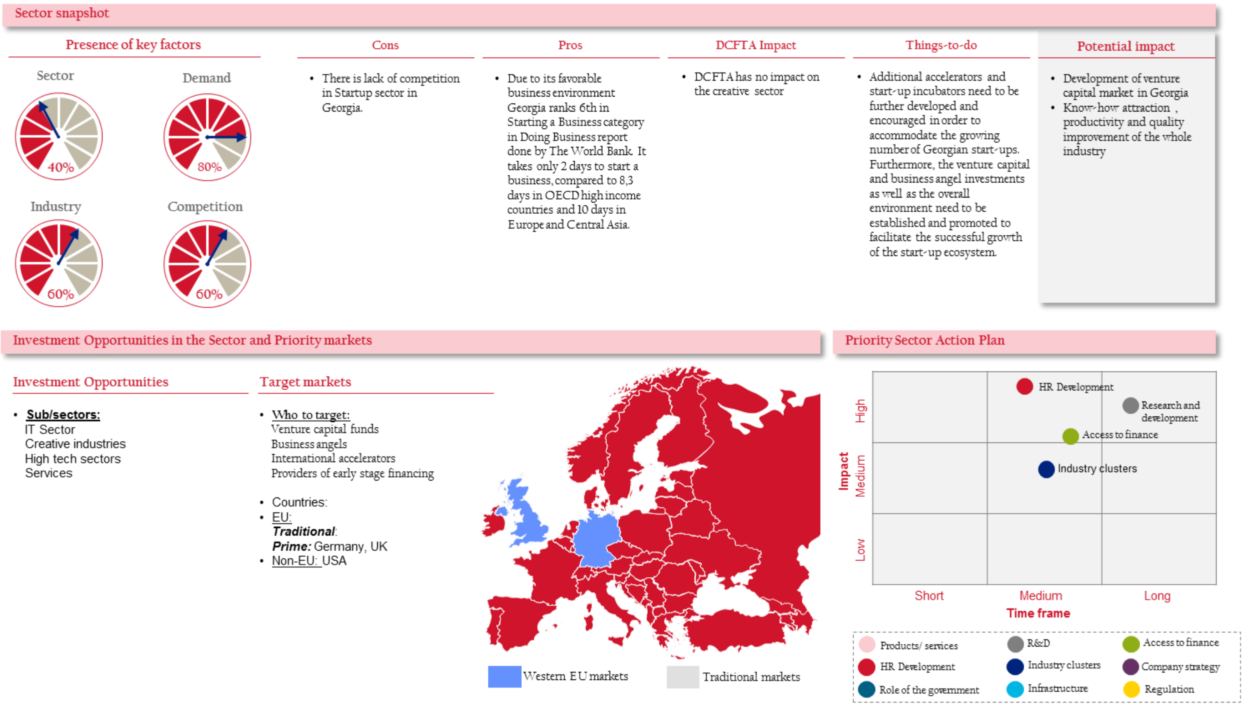
- Who to target:
  Multinational pharmaceutical producers originators and generics
- Countries:
- Non-EU: Middle East, Ukraine, Asia, Turkey, CIS, Selected asian countries



Priority Sector Action Plan



Priority sector: Start-Up‘s
Sector strategy: HIPO



Recommendations to support priority sectors

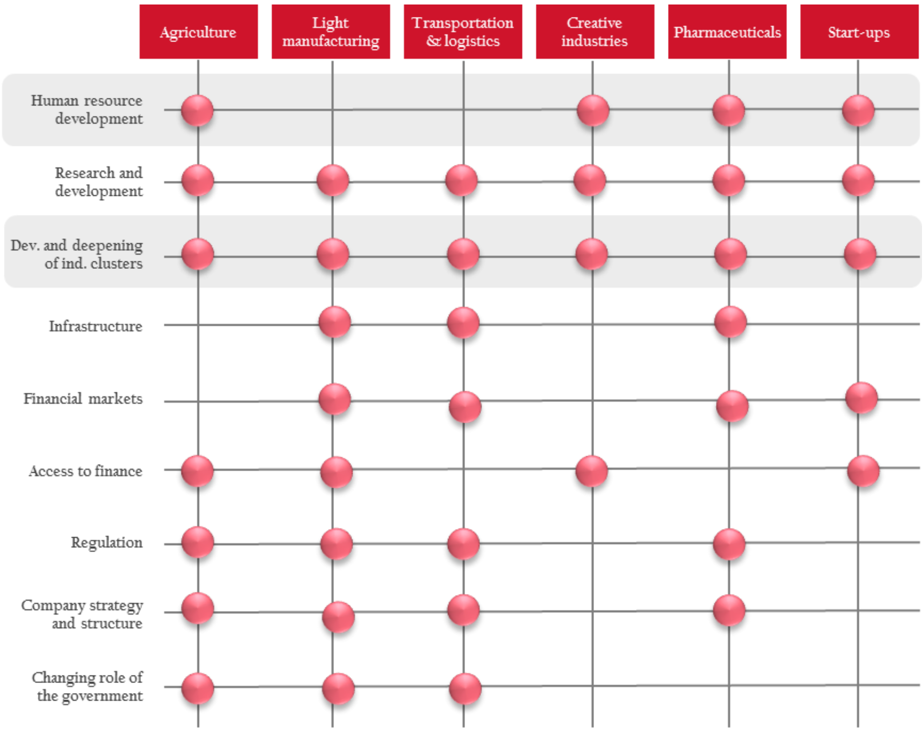
In order for the sectors to achieve their export and FDI potential we have identified certain areas that need to be upgraded or eliminated to ensure that Georgia can meet its full potential. This includes continuous development and growth of the priority sectors in terms of technology, capabilities and strategies if they want to become or remain competitive against other international competitors.

Georgia can improve its economic prosperity by impacting the constraints to upgrading their industry. The process of upgrading requires the continuous development and growth of key Georgian sectors and subsectors in terms of technology, capabilities and strategies if they want to become or remain competitive against the ever improving international competitors.

The role of the Georgian government is to develop the policies that will provide the foundation of human resources, science and technology and infrastructure that will allow for this upgrading to happen. It is also important for the government to encourage, challenge and even pressure its firms to advance, but not do the work instead of them.

The measures developed in this chapter will have two objectives; supporting export efforts of Georgian companies and attracting new FDI’s. These measures will fall in two main categories;

- Cross-cutting measures
- Targeting specific sectors or industries.



Human resource development

Recommendation:

Continued progress of the Georgian priority sectors will require a major commitment to upgrading the Georgian public education. The educational system has much opportunity for improvement at the university and postgraduate levels. Georgian companies must take a greater role in investing and supporting the improvement of public and private education.

Research and development

Recommendation:

The Georgian economy will be better served by increasing the overall level of technological capacity in all industries and sectors. A larger focus should be placed on applied and advanced manufacturing technologies. Active university programs in such areas will also stimulate entrepreneurship as students and faculties are given the knowledge to form new companies. A Georgian research strategy will also contribute most to industrial upgrading if it places central emphasis on technologies relevant to priority clusters of that drive or will be driving Georgian development. Companies must create more formal internal research programs complemented by research institutes that are sponsored by industry associations and research contracts with universities. Barriers that limit the development of relationships between university research institutes and industry should be removed.

Development and deepening of industry clusters

Recommendation:

Success of companies that are part of industry clusters will depend on the adoption and implementation of new and advanced manufacturing technologies as well as the establishment of vertical relationships between Georgian firms that are as yet unformed and untested. Policy makers should support the identification of these clusters in the economy and encourage/ coordinate their establishment.

Infrastructure

Recommendation:

Georgia has a strategic geographic location and the country must make the most of this competitive advantage for future development. Policy makers must support any domestic and foreign investments into the existing transport and energy infrastructure and support the development of the new one, which will in turn lead to greater competitiveness in many sectors.

Financial markets and access to finance

Recommendation:

Georgia will have difficulty in further developments unless its financial markets develop further. Enterprises' access to capital and finance needs to be expanded further.

Policymakers must support better access to finance for SMEs as they have the potential to become one of the driving forces in Georgian economy.

Regulation

Recommendation:

Georgian regulation will be more effective if it shifts to the implementation of standards as set forth by the DCFTA that will create incentives for corporate compliance, moving away from direct intrusion into corporate behaviour. Implementation of regulations that will stimulate innovation and competition instead of protecting existing products and producers will have the greatest benefits.

Company strategy and structure

(Re-orientation of companies' competitive strategy)

Recommendation:

Georgian firms must upgrade their competitive advantage by learning to compete on value differentiation instead of exclusively on costs. This demands innovation instead of imitation of international competitor's business models, products and processes. Georgian firms must also learn to distinguish themselves and their strategies from those of other Georgian and international competitors.

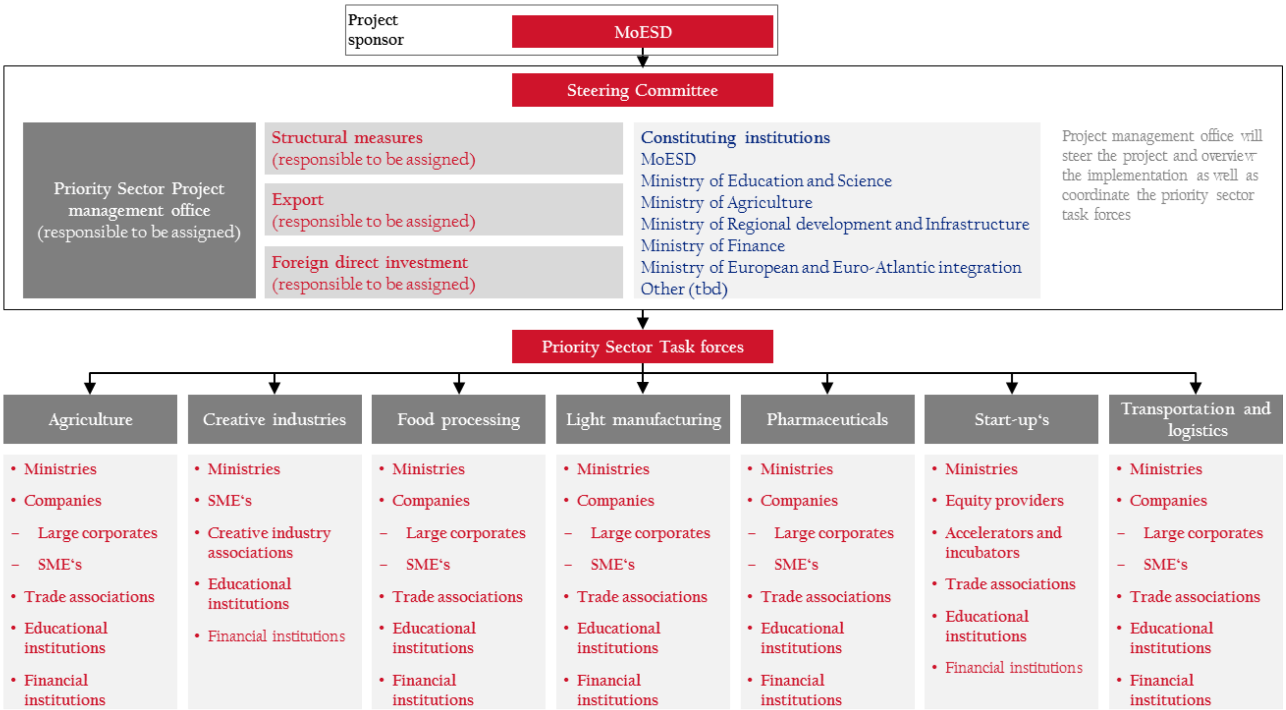
Changing role of the government

Recommendation:

Economic decision making should be decentralized into a growing number of private sector initiatives. The primary role of the government should shift from direct intervention to providing the resource foundation for upgrading the environment in which Georgian firms compete. This includes rule setting, efforts to stimulate investments in advanced and specialized factors, implementation of world class product and environmental standards, stimulation competition and rivalry.

Proposed implementation structure and approach

We propose a classic organizational structure with the MoESD acting as the project sponsor with other relevant ministries included as well. Priority sector task forces will be operational bodies made from all relevant stakeholders that impact various aspects of the sector. Their task will be to coordinate actions and priorities that need to be addressed in order to make the sector more competitive.



Implementation of measures should follow a standard structured approach

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