



# Inclusive Growth in Georgia: Focus on the Private Sector

Dialogue on Inclusive Growth  
May 23, 2014

**ISET** MA Program in Economics  
Policy Institute

International School of Economics at Tbilisi State University



Schweizerische Eidgenossenschaft  
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**Swiss Agency for Development and Cooperation SDC**

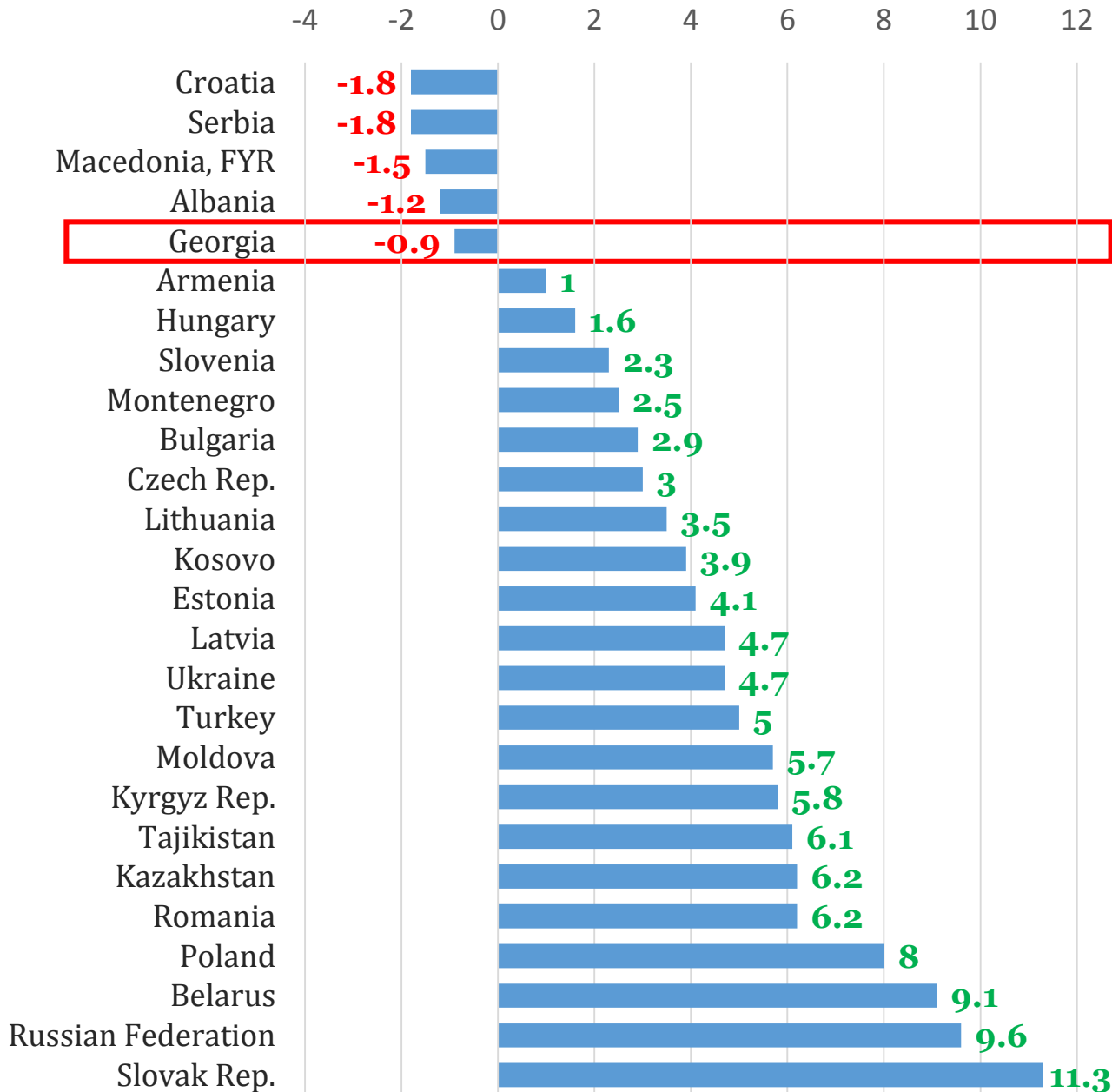
**State Secretariat for Economic Affairs SECO**

# Dialogue Series on Inclusive Growth

The purpose of this dialogue series is to have critical discussions about various policies, projects, and programs aimed at promoting inclusive growth in Georgia.

This platform provides an opportunity for private and public actors to come together to learn about various opportunities and constraints related to inclusive growth.

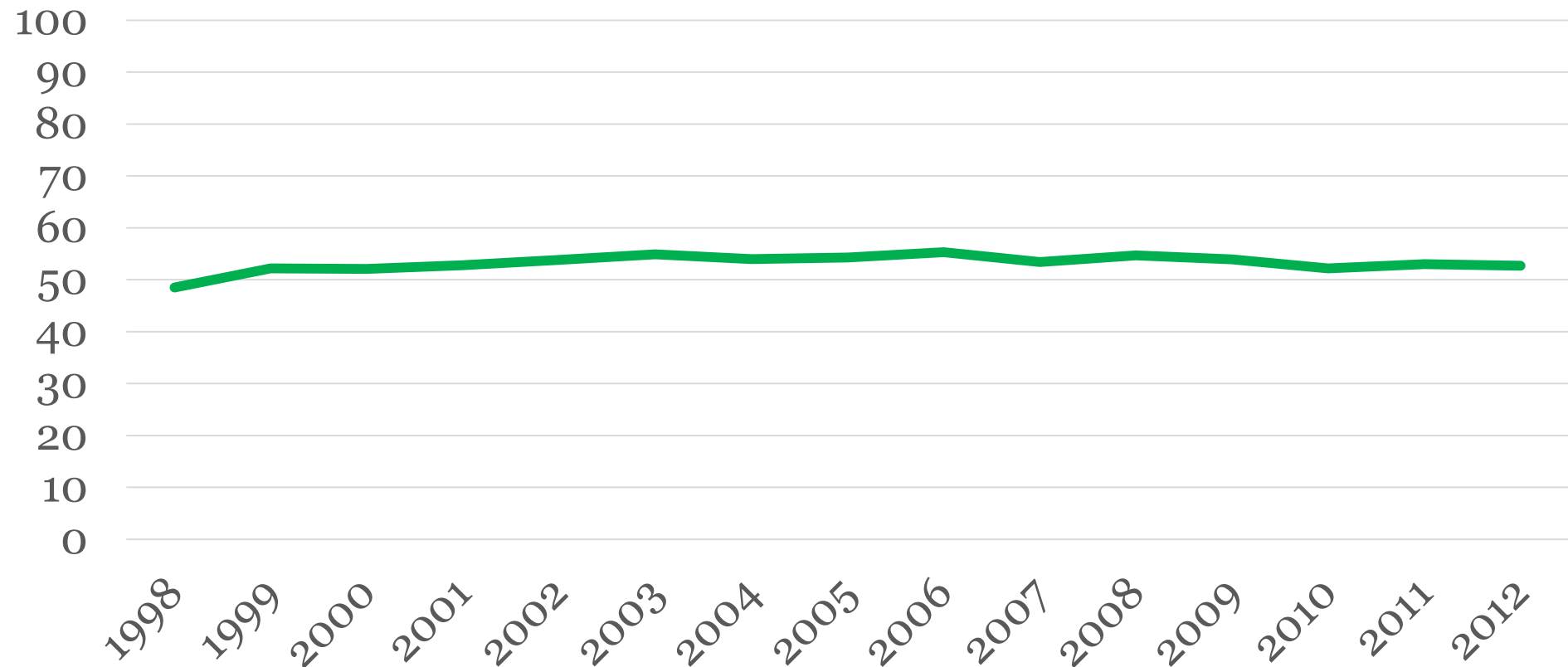
# Average annualized per capita income growth of the bottom 40% of the income distribution (2005-2010)



Source: Maurizio Bussolo and Luis F. Lopez-Calva (2014). *Shared Prosperity: Paving the Way in Europe and Central Asia*. The World Bank.

# Low Productivity Employment and Limited Structural Change

Percent of Employment in Agriculture



Data source: National Statistics Office of Georgia (Geostat); World Bank WDI

# This Dialogue: Focus on the Private Sector

It is often argued that small- and medium-sized enterprises (SMEs) can serve as an engine for inclusive economic growth.

Yet the SME sector currently exhibits relatively low labor productivity, especially among the smallest firms.

What are the limits of SME-based inclusive economic growth? What are the binding constraints on such growth?

# SMEs in Georgia

As defined by the National Statistics Office of Georgia (Geostat):

- Small-size enterprise:
  - The average annual number of employees doesn't exceed 20 persons and average annual turnover doesn't exceed 500,000 GEL
- Medium-size enterprise:
  - The average annual number of employees ranges from 20 to 100 persons and has an average annual turnover from 500,000 to 1.5 million GEL

# SMEs in Georgia

In 2012, the share of SMEs in total turnover in the business sector was only about 17%.

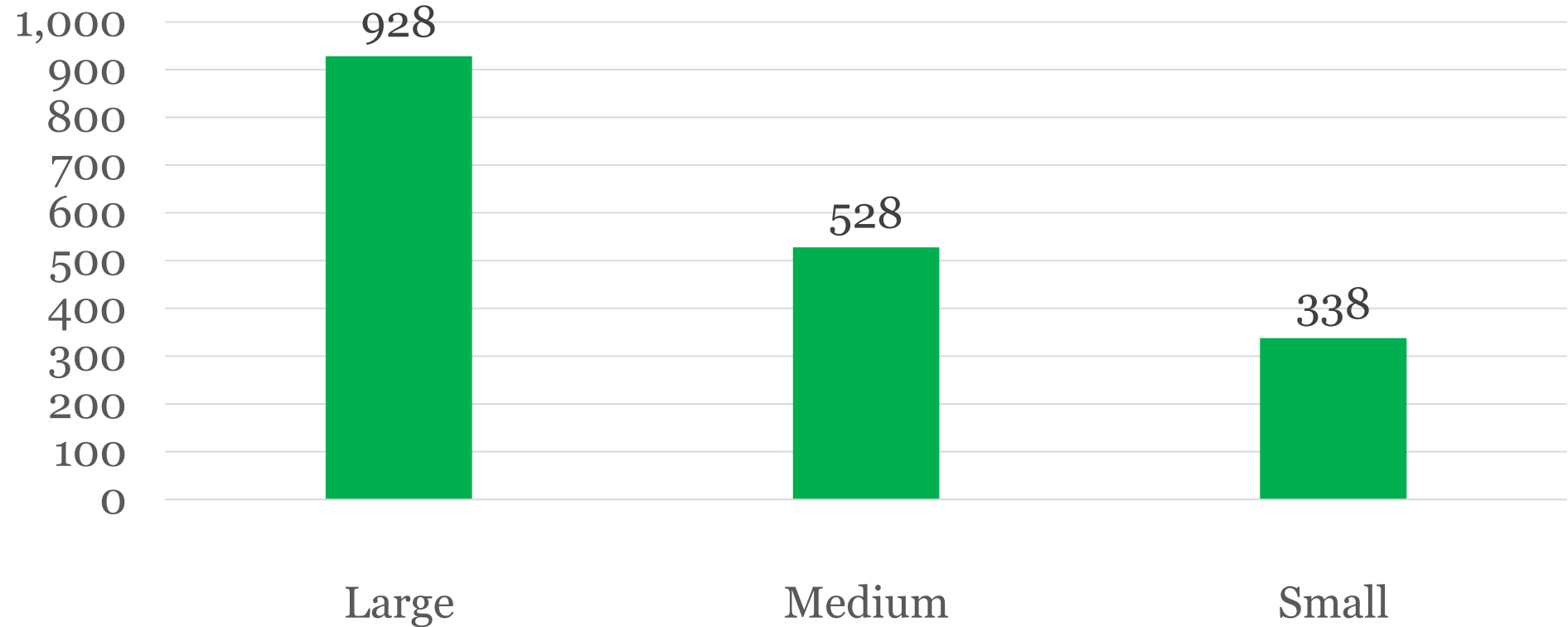
The share of SMEs in total production value in the business sector was only slightly higher, at about 18%.

Lastly, the share of SMEs in total value added in the business sector was about 20%.

So, at the moment, SMEs are relatively small players in the Georgian economy, even though their numbers are large.

Compensation is relatively lower in SMEs than in large enterprises, owing to productivity differences...

Average Monthly Remuneration of Employed Persons by Enterprise Size (2012)

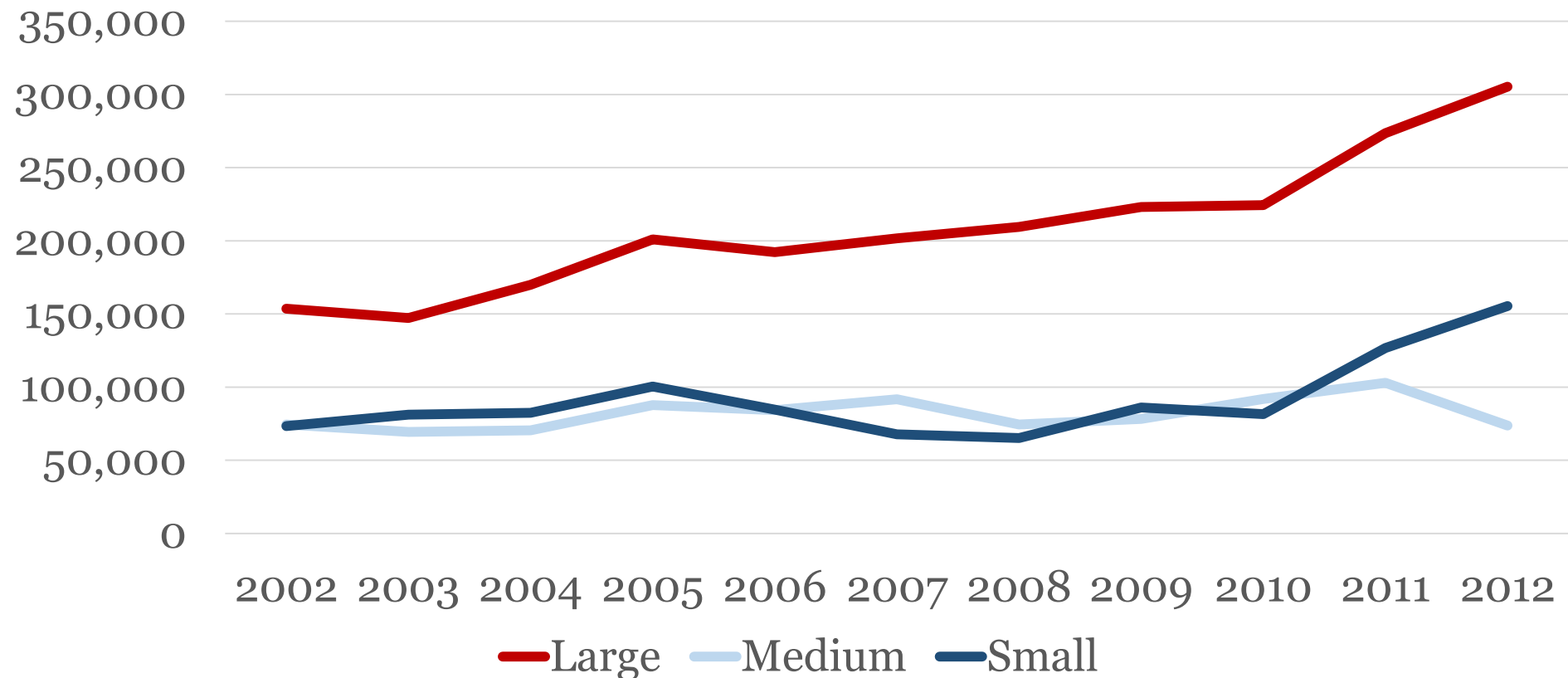


Data source: National Statistics Office of Georgia (Geostat)



# And employment growth in SMEs has been lackluster (at least relative to that in large firms)

## Employed Persons by Enterprise Size



Data source: National Statistics Office of Georgia (Geostat)

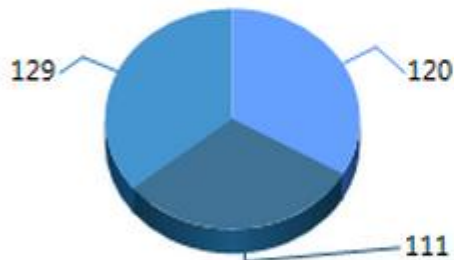
# Taking a look at the constraints faced by firms in Georgia...

Business owners and top managers in 360 firms were interviewed from July 2012 through December 2013.

NUMBER OF FIRMS SURVEYED  
**360**

## Characteristics of Firms Surveyed

### Business Sector



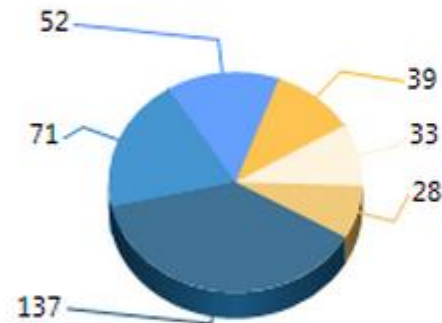
- Manufacturing
- Retail
- Other Services

### Firm Size



- Small (5-19)
- Medium (20-99)
- Large (100+)

### Location

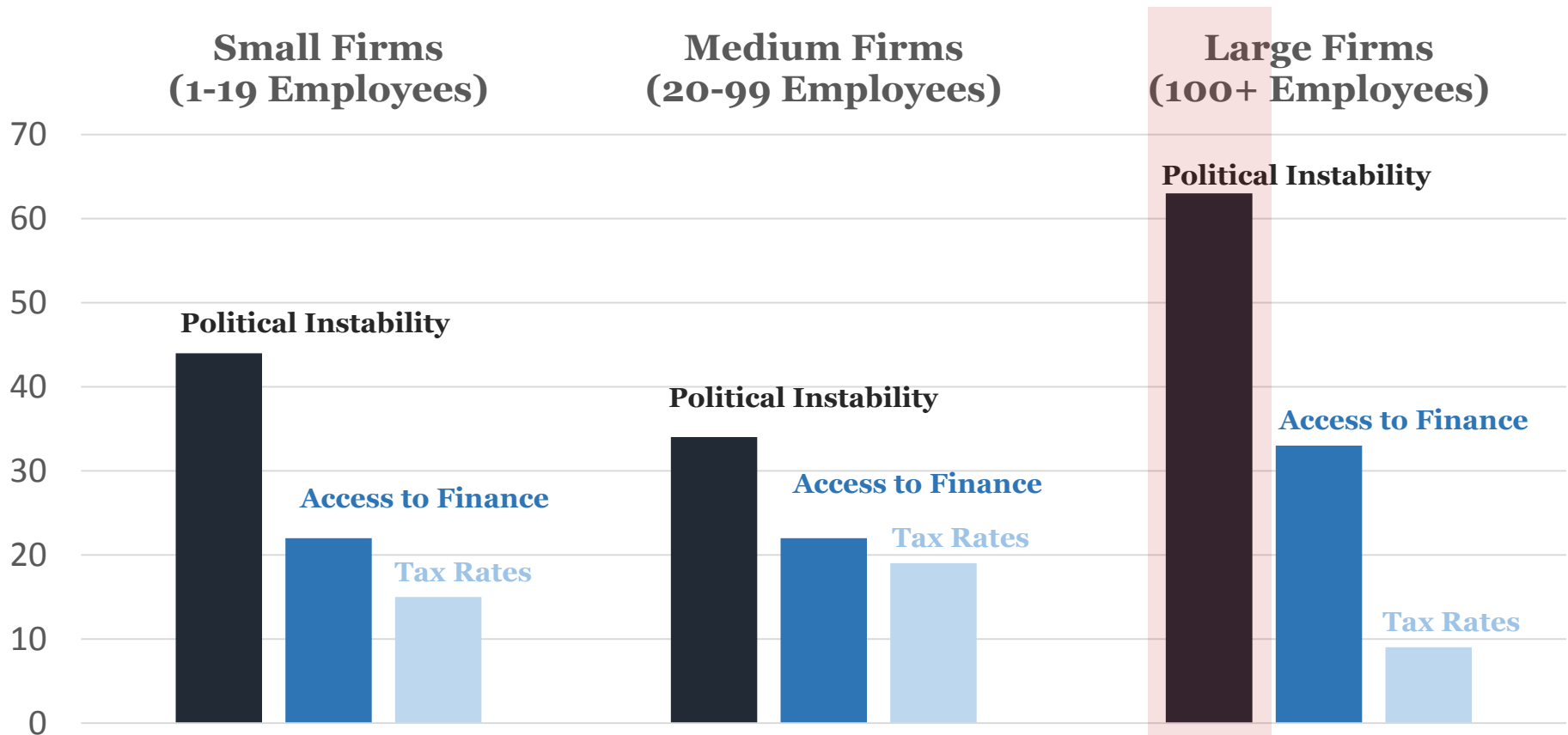


- Tbilisi
- Adjara\_ Guria And Samegrelo-Zemo...
- Imereti & Racha-Lechkhumi And Kvemo Svaneti & Samt
- Kvemo Kartli

World Bank Enterprise Survey:  
Georgia 2013 Results

Political instability during 2012-2013 was especially challenging for large firms, though SMEs were also affected.

**PERCENT OF FIRMS IDENTIFYING THE PROBLEM AS THE MAIN OBSTACLE**



Source: World Bank Enterprise Survey – Georgia 2013.

# SMEs: Constraints

- According to these survey results, other constraints (practices of the informal sector, transportation, tax administration, access to electricity, the education level of the workforce, customs and trade regulations, and corruption) were not so important.
- **Political instability**—lacking a stable and predictable set of rules (following the parliamentary and presidential elections of 2012 and 2013, respectively)
- **Tax system** – what are the specific problems with the tax system that hinder SME growth/development; taxes might be providing a disincentive for business expansion?
- **Access to finance?** What are the major challenges here? When might it be a constraint? (e.g., access to working capital?)

# Incubating SMEs

- What aspects of the business environment are currently enabling/constraining further growth?
- How can SMEs be incubated to ensure further growth and productive employment generation?

# Panel Discussants

**Giorgi Arveladze**

*Bank of Georgia*

**Kakha Kokhreidze**

*SME Association*

**Archil Bakuradze**

*Association of Microfinance Organizations*

**Giorgi Tsikolia**

*Enterprise Development Agency*

**Giorgi Darchia**

*Economic Prosperity Initiative*

**Keti Vashakidze**

*Chirina*

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*Introductory and framing remarks*

**Adam Pellillo**

*ISET / ISET-PI*

*Moderation*

**Giorgi Bakradze**

*ISET-PI*