



EU4Business



EASTERN EUROPE AND SOUTH CAUCASUS INITIATIVE

EU4Business: From Policies to Action

Designing & Costing Georgia's SME Strategy 2021-2025

First workshop

23 September 2020

OECD Eurasia Competitiveness Programme



Agenda

1. Project overview

- 2. State of the SME sector and impact of Covid-19
- 3. Initial priorities for the SME Strategy 2021-2025



Project objectives and expected results

Objectives	Description	Expected results
1 Support the preparation of the SME Development Strategy 2021-2025	<ul style="list-style-type: none"> • Provide recommendations on SME strategy priorities based on desk analysis, research and discussion with key stakeholders 	<ul style="list-style-type: none"> • Improved policy measures to address emerging policy priorities • List of KPIs to monitor and assess progress in Strategy implementation going forward
2 Assist MoESD in carrying out costing of a related Action Plan	<ul style="list-style-type: none"> • Provide guidance note on costing of SME Strategy and its Action Plan • Organise a capacity-building workshop for policy makers on costing of the SME Strategy 	<ul style="list-style-type: none"> • Improved costing of the SME Strategy based on international good practice • Increased capacity of MoESD staff to conduct costing
3 Strengthen public-private dialogue	<ul style="list-style-type: none"> • Organize public-private consultations to discuss the draft strategy with key SME stakeholders 	<ul style="list-style-type: none"> • Endorsement of the strategy by key stakeholders



Public-private consultation



MINISTRY OF ECONOMY
AND SUSTAINABLE DEVELOPMENT
OF GEORGIA



ENTERPRISE GEORGIA



giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Line ministries and
public institutions

Private sector



Public-Private Consultations



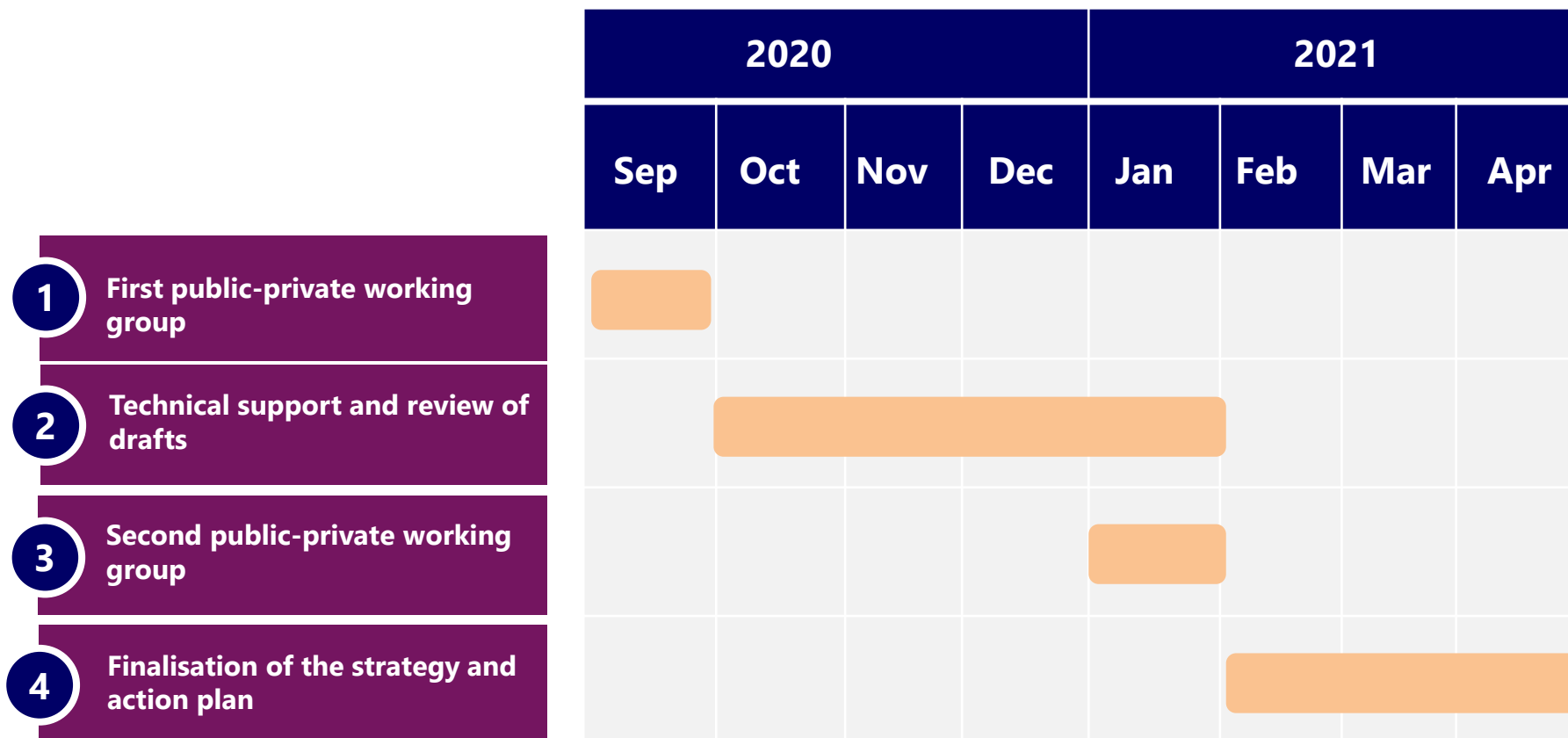
**Discuss and identify
priorities for SME Strategy
2021-2025**

**Collect inputs from public
and private stakeholders**

**Give feedback on the draft
documents prepared by the
MoESD and OECD**



Proposed project timeline



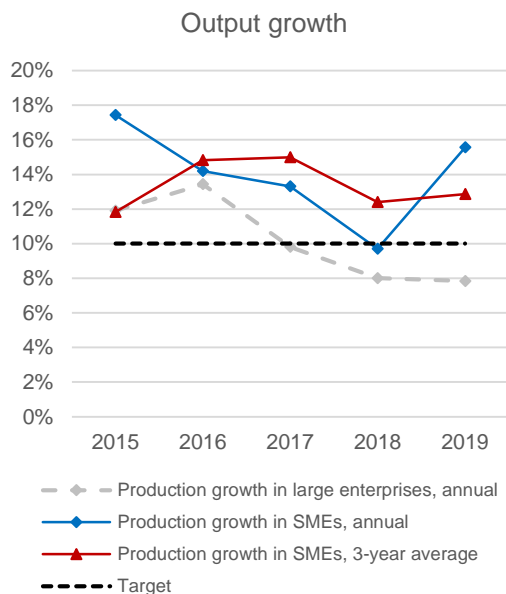
Agenda

1. Project overview
- 2. State of the SME sector and impact of Covid-19**
3. Initial priorities for the SME Strategy 2021-2025



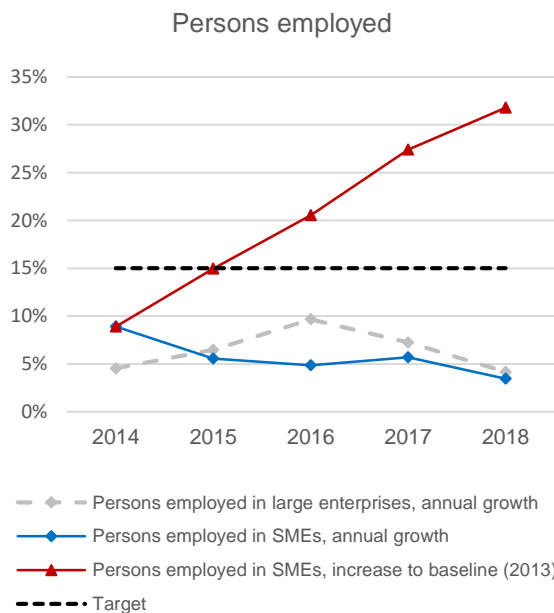
The SME sector in Georgia – where did the previous SME Strategy take us?

Overall targets for the Strategy 2016-2020 have been achieved...(too soon?)



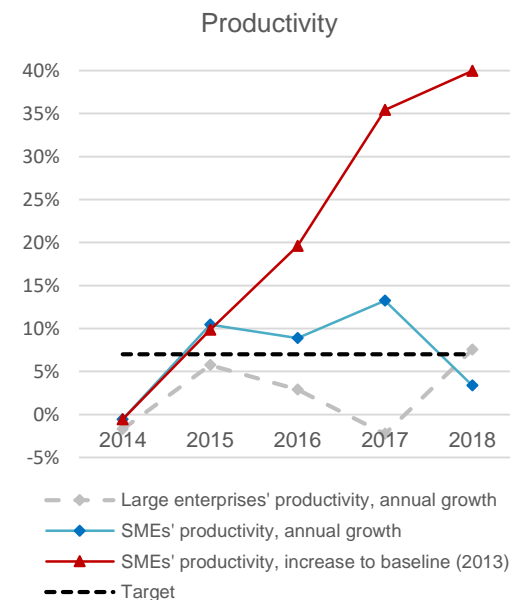
Target value: 10% (annual growth)
Current value: 12.9% (2017-19 avg.)

- SMEs' production increasing faster than of large enterprises
- The value of the indicator has been above the target over the entire period, suggesting that a higher target could be set



Target value: 15% increase to baseline
Current value: 31.8% (in 2018)

- The number of persons employed has been growing slightly faster in large enterprises than in SMEs
- The target was already reached in 2015. It could therefore have been more ambitious.



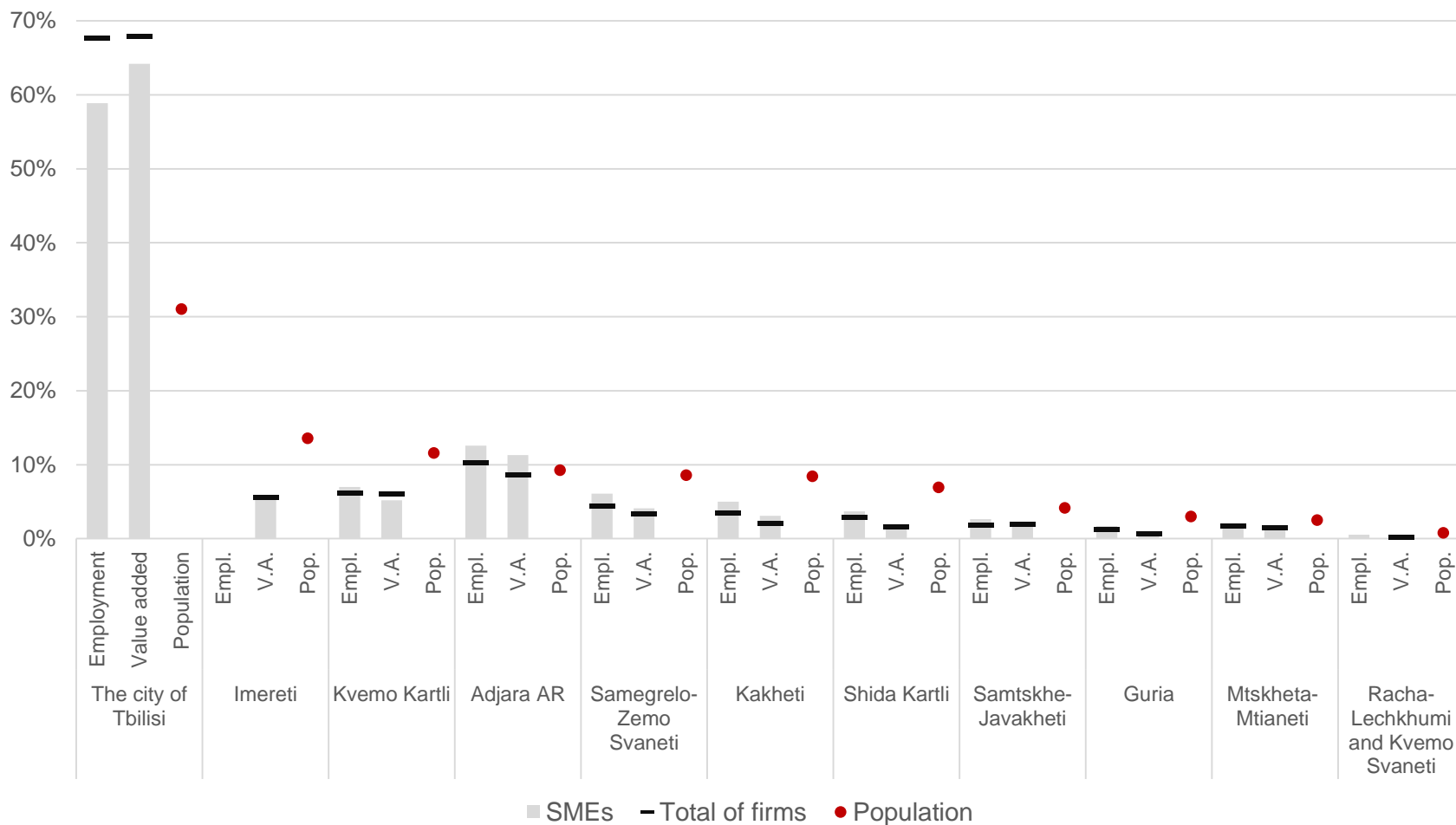
Target value: 7% increase to baseline
Current value: 40% (in 2018)

- SMEs' productivity increasing fast since 2013
- Also catching up with that of large enterprises
- But remaining well below EU levels



Tbilisi's role in Georgia's economy confirmed by concentration of SMEs in the capital

Tbilisi represents 59% of SME employment and 64% of value added



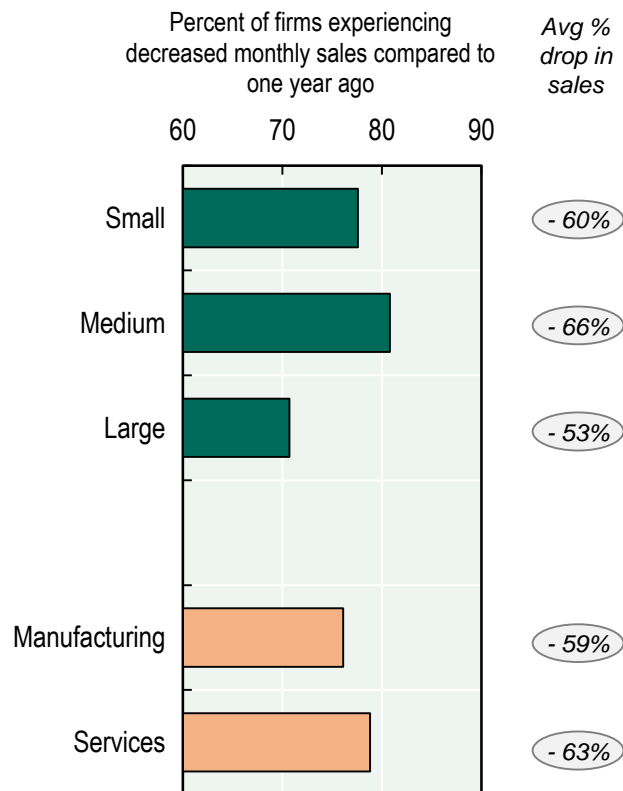
Notes: 2018 data. Employment corresponds to the average annual number of employees. Data unavailable for Abkhazia. Average annual number of employees unavailable for Imereti, and for the total of firms in Racha-Lechkhumi and Kvemo Svaneti.

Source: OECD analysis based on Geostat

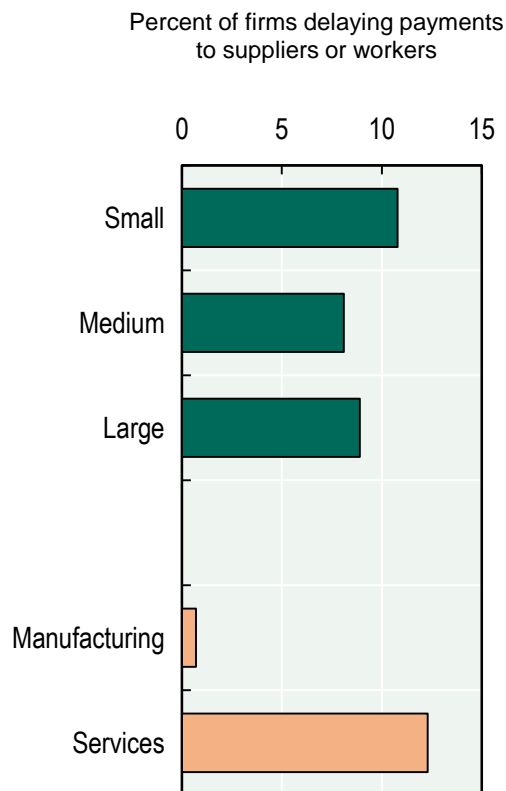


Fresh survey data reveals impact of lockdowns on real economy since beginning of Covid-19 outbreak

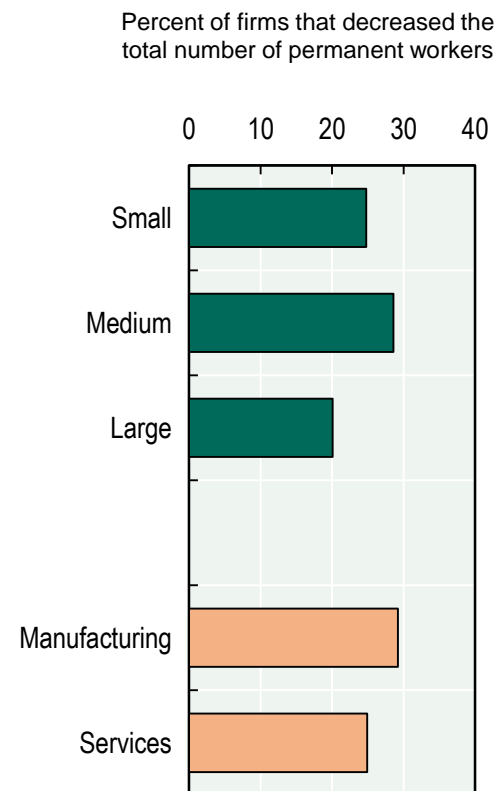
On sales...



...liquidity...



...and employment

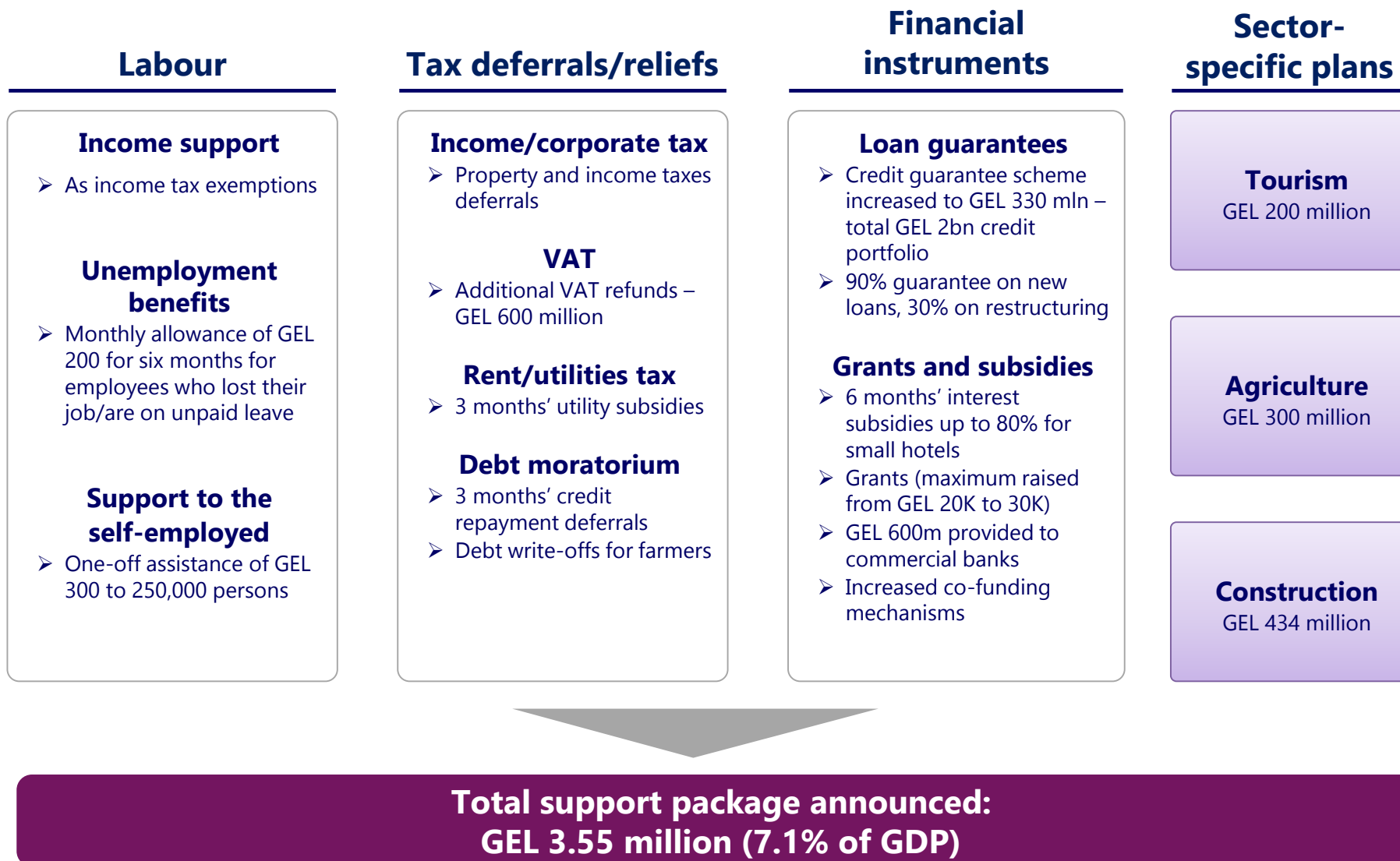


However, firms are adapting to the new environment, with 27% of businesses starting or increasing online business activity

Source: BEEPS Enterprise survey follow-up (June 2020). N= 614. Manufacturing include ISIC Rev. 3.1 groups D (Manufacturing) and Services include groups G and H (Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods).



The government supported SMEs with specific measures in response to the Covid-19 pandemic



Note: Size of announced stimulus as of 11 September 2020. It does not include emergency spending on healthcare.

Sources: Government website and Geostat.



Guidelines for post-lockdown policy design

Exit-from-lockdown policy should be based on principles

- Promote reopening / jobs
- Balance protection and reallocation
- Prevent avoidable bankruptcies

Governments need to adjust incentives, shifting from preservation to reopening

- Instinct may be to “just” make support measures less generous as economy rebounds
- However, risk of high unemployment if job search takes place in context of uncertainty

Measures for workers should continue, to protect from unemployment and support incomes

- Focus on sectors most affected by government lockdowns (e.g. hotels, restaurants, retail)
- Progressive reduction of generosity, contingent on state of economy

Measures for firms (loan guarantees) to continue, but gradually reduced coverage/generosity

- Viable and solvent firms → continue guarantees (as uncertainty makes banks more risk-averse)
- Viable but insolvent (because of temporary spike in debt / loss of revenues) → restructure

Let restructuring decision be taken by banks

- If decision to close firm, state acts as creditor (e.g. taxes)
- If decision to restructure, state accepts higher-than-bank haircut on its claims to avoid bankruptcy



Agenda

1. Project overview
2. State of the SME sector and impact of Covid-19
- 3. Initial priorities for the SME Strategy 2021-2025**



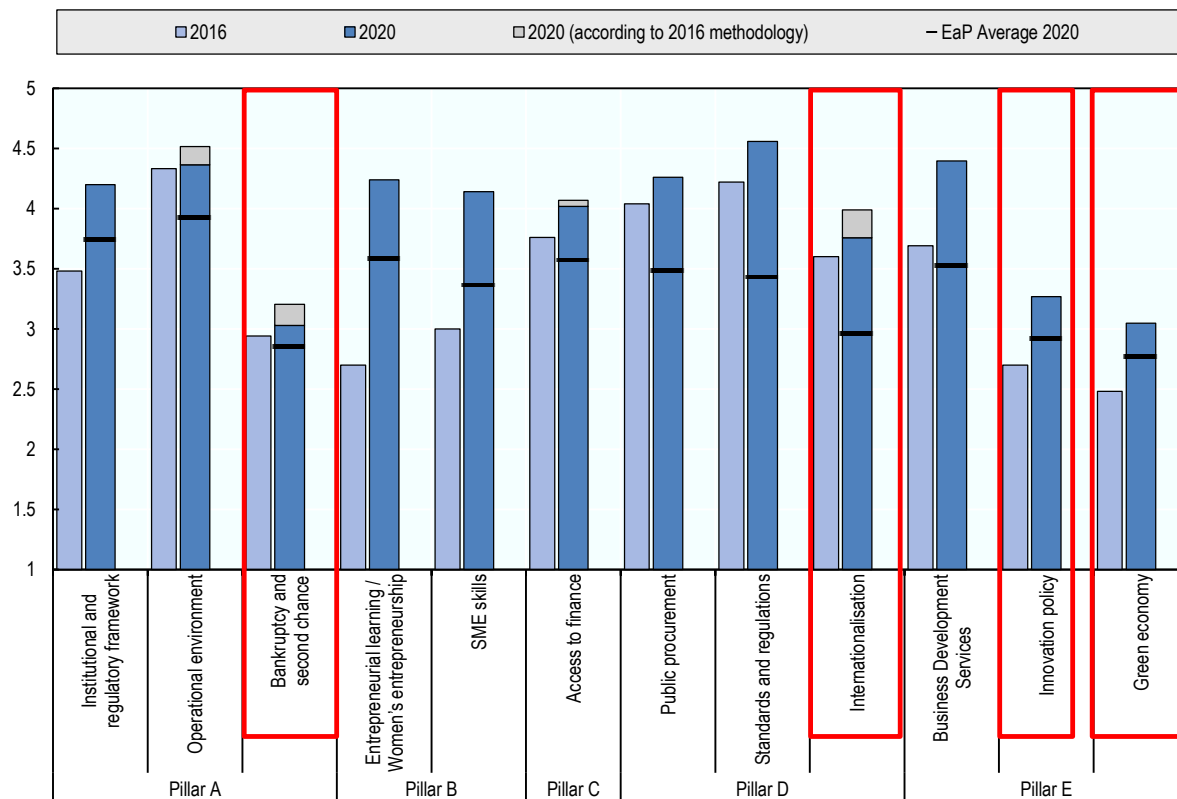
SME Development Strategy 2016-2020 improved the SME policy framework along five dimensions

Strategic dimension	Selected achievements
1 Institutional and operational framework	<ul style="list-style-type: none"> Created the Private Sector Development Advisory Council Increased the provision of e-government services (up to 500 services available) Adopted a result-oriented monitoring system for SME Strategy Amended the Law on Insolvency Proceedings, increasing unsecured creditors' role
2 Access to finance	<ul style="list-style-type: none"> Aligned capital requirement regulation with Basel III Designed and made available credit guarantee schemes and subsidized loans Adopted a National Strategy for Financial Literacy Introduced mandatory compliance with IFRS for SMEs in 2017
3 SME Skills and entrepreneurial learning	<ul style="list-style-type: none"> Created a labour market information system and sector-specific reviews Launched non-formal learning initiatives to foster entrepreneurship (e.g. Fablab) Established a sub-committee on women's entrepreneurship Developed a wide range of training and advisory support (e.g. on e-commerce)
4 Export promotion and Internationalisation	<ul style="list-style-type: none"> Established clusters in three key sectors and laid a groundwork for two others Set up DCFTA information centers offering training on EU standards Developed an 'export readiness' tool Launched project on linking domestic SMEs with MNEs in the hospitality sector
5 Innovation and R&D	<ul style="list-style-type: none"> "Law on Innovation" on innovation financing, infrastructure and commercialization Introduced a diversified set of financial instruments to support innovative businesses Established 28 "fab-labs" and three techno-parks



SME Policy Index 2020 showed progress and highlighted gaps

SME Policy Index scores for Georgia



Georgia has made **significant progress overall**, and confirmed itself as the top performer in the EaP region.

Good performance on:

- Operational environment
- Standards and regulations
- Business development services

Further room for advancement:

- Second chance policies
- SME Internationalisation
- Innovation policy
- Green economy

Country scores by dimension, 2020 vs. 2016



1

Legislative, institutional framework and operational environment

Opportunities and trends

Second chance policies

Value for money

Government digitalisation



Policy options

Complement recent improvements in the insolvency regime with a plan to promote second-chance, to face likely spike in financially distressed companies in coming year

Apply **RIA/ SME test**, monitor the impact of programmes to **promote value for money**, systematically perform **costing of action plans**

Strengthen e-government services, notably at the local level to reduce the digital divide

2

Access to finance

Opportunities and trends

Digitalisation of finance

Intangible assets

Venture capital

Financial inclusion



Policy options

Amend and adopt regulations that **support a wider range of new financing instruments** (e.g. fintech, blockchain, crowdfunding)

Develop regulatory framework to account for intangible assets value and ease access to debt financing

Monitor efforts to **increase financial literacy** of Georgian population and of dedicated programmes targeted at small entrepreneurs



3

SME skills and entrepreneurial culture

Opportunities

Women entrepreneurs

Youth entrepreneurship

Demand for digital skills

Future of work

Policy options

Provide tailored BDS to women, especially in rural areas where women's entrepreneurship is not developed

Strengthen the online infrastructure to deliver training, mentoring and networking opportunities across the country

Focus trainings on digital roles / services (data protection, e-sales)

Consider participation in international mobility programs targeted at young entrepreneurs

4

SME internationalization

Opportunities

Trade digitalisation

EU and regional integration

Leveraging FDIs

Trade financing

Policy options

Ensure full adaptation of regulatory frameworks to the terms of DCFTA and their implementation

Foster FDI-SMEs linkages and further support **cluster development** (e.g. targeted support programmes)

Expand trade financing options for SMEs (e.g. trade insurance)



5

Innovation and R&D

Opportunities

Business digitalisation

Innovation infrastructure

Industry 4.0



Policy options

Promote channels for science-industry interactions by strengthening linkages between businesses and research

Increase demand-side policies to incentivise diffusion and adoption of digital technologies and innovative products and services by firms

Consider incentives for investment in digital technologies and monitor impact of financial instruments introduced, in particular on SMEs

6

Green economy

Opportunities

New economic opportunities

Circular economy

Green growth

Healthier environment



Policy options

Promote green financing of SMEs by improving the availability and terms of green finance

Raise SMEs' awareness of the benefits and opportunities of circular economy, e.g. through trainings

Make financial instruments conditional on green objectives



Topics for discussion

- What is the current status and intended timeline for the SME Development Strategy 2021-2025?
- What are the draft/preliminary priorities of the Strategy?
- In which of the policy areas would you benefit the most from OECD assistance?



Contact details

Daniel QUADBECK

Senior Policy Analyst

OECD Global Relations

daniel.quadbeck@oecd.org

Salomé WILL

Policy Analyst

OECD Global Relations

salome.will@oecd.org

Francesco ALFONSO

Policy Analyst

OECD Global Relations

francesco.alfonso@oecd.org

