

TAM/BAS BRIEF FOR GEORGIA 2009-2011

September 2009

This document provides recommendations for TAM/BAS intervention in Georgia in 2009-11. It is a product of staff of the European Bank for Reconstruction and Development (EBRD) working in the TAM/BAS Programme team and the Office of the Chief Economist. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Board of Directors of the EBRD or the governments they represent.

The EBRD does not guarantee the accuracy of the data included in this work.

This Report has been prepared by a core team led by Lise Bruynooghe (Office of the Chief Economist), Valeria Della Rosa (BAS Programme) and Caroline Bosa (TAM Programme). The team was assisted by Karin Becker (TAM Programme) and Caroline Van Coppenolle (BAS Programme).

The team also acknowledges the support from: the Adviser to Prime Minister of Georgia at the State Chancellery, Georgian Chamber of Commerce and Industry, Georgian Employers' Association, National Bank of Georgia, TBC Bank, Policy and Management Consulting (PMCG) – Consulting Companies including : JSC “Caucasus Energy & Infrastructure”, TBSC, IOLI LTD, GMCG, the EU Commission, GTZ, SIDA – Swedish International Development Agency, World Bank Group and IFC, USAID IFC / Business Enabling Environment (BEE) Project, AMCHAM & Eurasia Partnership Foundation.

Abbreviations

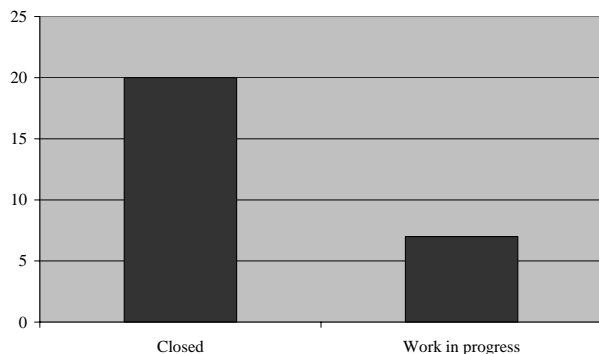
BAS	Business Advisory Services Programme
BEEPS	Business Environment and Enterprises Performance Survey
GGM	Grant Guideline Matrix
IFI	International Financial Institutions
LEF	Local Enterprise Facility
MSME	Micro, Small and Medium sized Enterprises
OCE	EBRD Office of the Chief Economist
TAM	TurnAround Management Programme

<p>Previous TAM/BAS experience in Georgia TAM</p>	<p>The TAM/BAS Programme supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises in the EBRD countries of operation.</p> <p><i>TAM supports the introduction of international best practice in small and medium sized enterprises with the potential of becoming future leaders in their market through the introduction of international advisors from developed countries with 15-20 years of professional experience in the relevant sector. TAM projects typically last around 18 months. The Programme also carries out seminars and training activities promoting international best practices by disseminating successful case-studies to entrepreneurs.</i></p>
<p>BAS</p>	<p>TAM has undertaken a total of 27 projects in Georgia, 20 of which have been completed and 7 of which are still in progress. TAM projects have a wide coverage across industry sectors, however, food manufacturing is the most common sector. TAM has worked with enterprises of varying size, although most have a turnover of below €10 million. There has been a geographic concentration of projects in the capital, Tbilisi. Of projects fully completed, 16 have been rated satisfactory or better. The high degree of willingness and eagerness of the staff of assisted enterprises to learn from the TAM team has been identified as a key factor for TAM project success.</p> <p><i>BAS acts as a facilitator for the use of local, private-sector consultants by MSMEs to obtain a diverse array of services. BAS works on the demand and the supply side. By assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback, it stimulates demand and the understanding of the potential benefits of using external consultants. It also directly increases the supply and quality of local advisory services, through targeted market development activities. BAS supported projects typically last around four months.</i></p>
<p>Linkages with banking</p>	<p>Since inception in June 2003, BAS has undertaken a total of 465 projects with MSMEs, engaging 176 consultants (of which 159 are local). A total of 336 projects have been internally evaluated in Georgia, with more than 96% rated as “successful”.</p> <p>The BAS Programme in Georgia has also undertaken a number of Market Development Activities aimed at development of sustainable infrastructure of local business advisory services. For example, custom tailored workshops were held for local consultants in order to help them broaden their supply of services or improve the quality increasing the awareness of local MSMEs on the availability and benefits of the new types of consultancy services. Moreover, in order to promote demand for existing consulting services, the BAS office held a Financial management training in a remote region to introduce firms to new tax and accounting regulations as well as International Financial Reporting System (IFRS). There has not been a significant shift in the industry spread of projects over time; Food/Beverages and Construction/ Engineering remain the most common sectors. In terms of types of projects supported, advice targeted at Computerised Financial and Management Information Systems as well as Market Analysis and Planning has been most popular throughout the period. The concentration of projects in Tbilisi has changed substantially over time, away from Tbilisi and towards other major cities. Moreover, the BAS office has increasingly been focusing on cross-cutting issues. In 2006, a Women in Business Initiative (WIB) with the purpose of facilitating creation and growth of enterprises owned and managed by women. After the success of the pilot, the BAS Programme launched a full scale WIB Programme in June 2008. Through this initiative, BAS has carried out 27 projects, tailored to women entrepreneurs in need of specialised advisory services and introduced specific market development activities aimed at building up skills and knowledge needed by women to obtain or keep their employment. Moreover, BAS has initiated a series of workshops on computer usage and basic PC skills; training on business start up and development.</p> <p>To date, 14 TAM/BAS assisted companies in Georgia have attracted 19 investments from the EBRD or EBRD related financial intermediaries mobilising a total project value of over €69 million.</p>

TAM in Georgia in charts

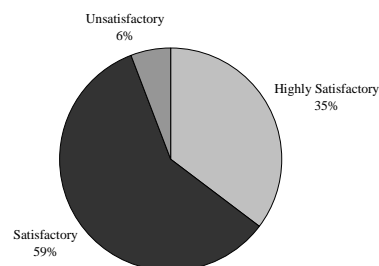
Out of the 27 TAM projects 20 have been completed and 7 are still in progress

Status of TAM projects in Georgia



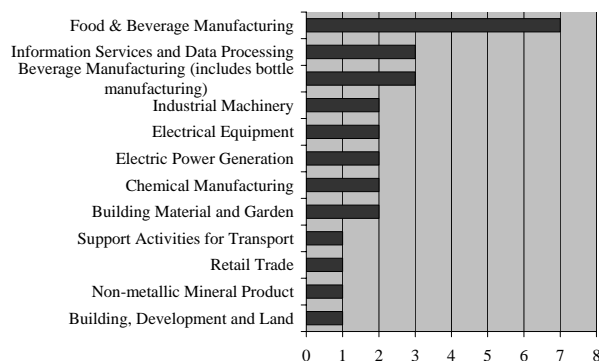
The vast majority of TAM projects have been evaluated as successful

Evaluation of completed TAM projects



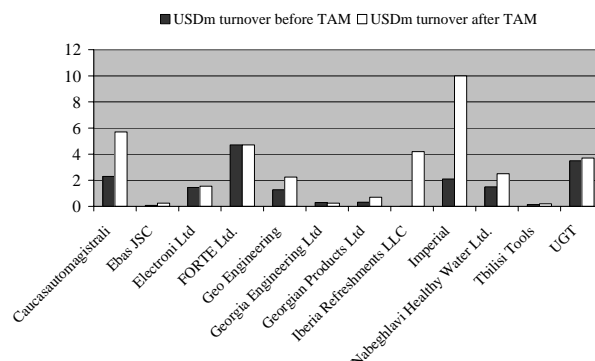
TAM projects have had a wide industry spread, with food manufacturing the most common sector

TAM projects by industry



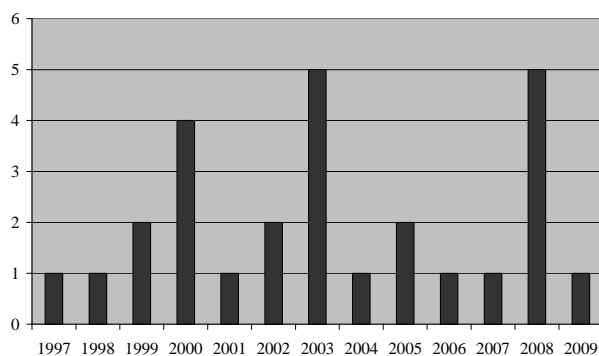
Projects have been dispersed throughout Georgia with a broad representation in all federal districts

TAM projects USDm turnover before and after*

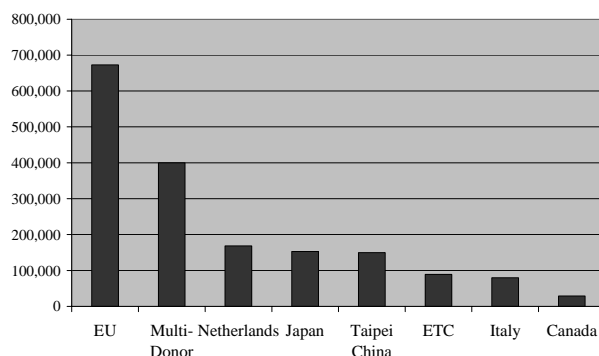


* For those companies where figures were available

TAM projects started over time



TAM Donors in Georgia since inception in €

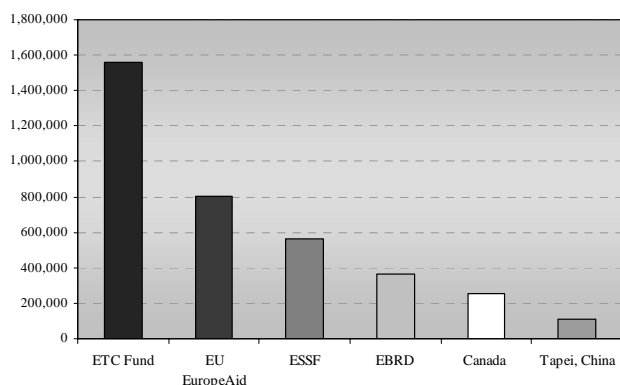


Source : TAM/BAS Programme

BAS in Georgia in charts

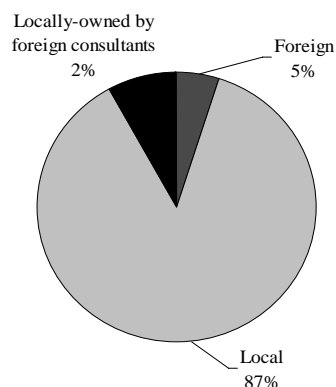
BAS in Georgia has benefited from funding from Canada, EBRD, ESSF, ETC Fund, EU and Taipei China.

Donor contributions to BAS Georgia



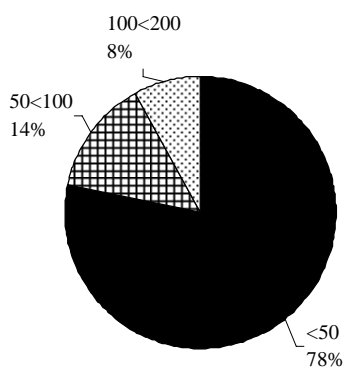
The overwhelming majority of BAS consultants is under local ownership.

BAS turnover by ownership



BAS has assisted enterprises of all sizes, but especially micro enterprises.

BAS projects by enterprise size



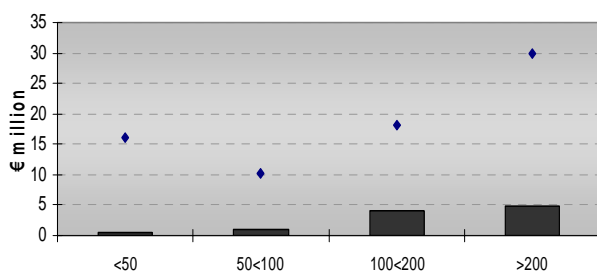
There has been a wide spread of projects, with Food/Beverages, and Construction/Engineering being the most common sectors.

% BAS projects by industry

Industry Type	% Projects
Food & Beverages	20
Construction/Engineering	15
Other	14
Wholesale/Retail Distribution	13
Travel/Tourism	9
Health	7
Media/Communication	4
Transport	3
Wood Processing/Furniture/Forestr	3
Chemical/Pharmaceutical	2
Electrical/Electronics/IT	2
Printing/Publishing	2
Textiles/Apparel/Footwear	2
Glass/Rubber/Plastic	2
Metals/Machinery/Equipment	1
Paper	1

BAS-assisted enterprises vary greatly in terms of turnover and employee number.

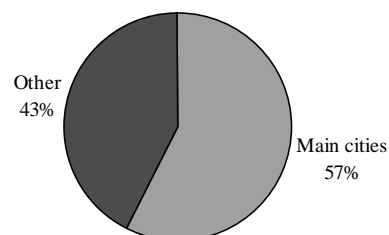
BAS turnover by enterprise size



Data is the enterprise turnover average; dots represent the maximum turnover for enterprises by employee number.

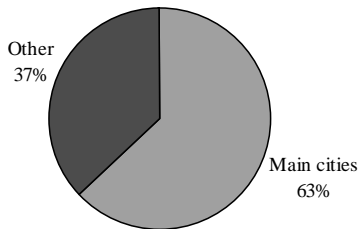
Since 2003, there has been a fairly even distribution of projects between the main cities and other areas.

BAS projects by location

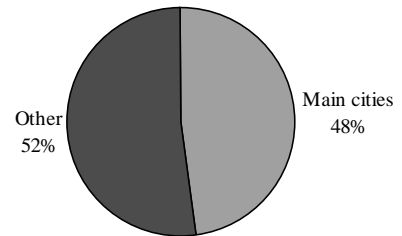


The distribution of projects between the main cities and more rural areas has been changing over time in favor of enterprises outside of the main cities.

BAS projects by location, 2003-06

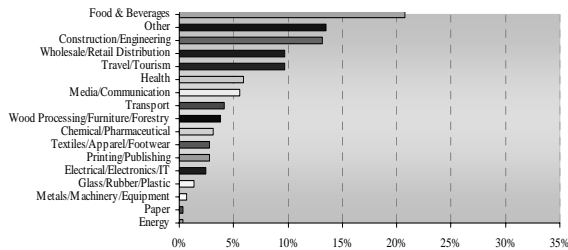


BAS projects by location, 2007-09

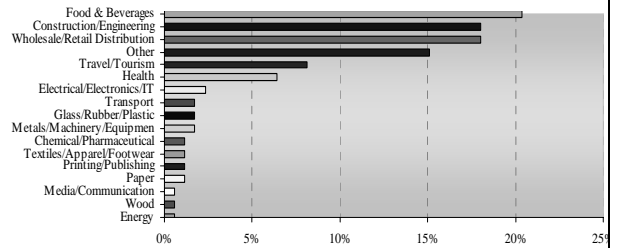


Food/Beverages, Construction/Engineering, and Wholesales/Distribution remain three industries where enterprises have accounted for a significantly larger share of the total of BAS projects since 2003.

BAS projects by industry, 2003-06

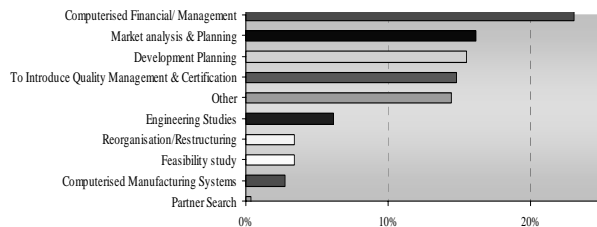


BAS projects by industry, 2007-09

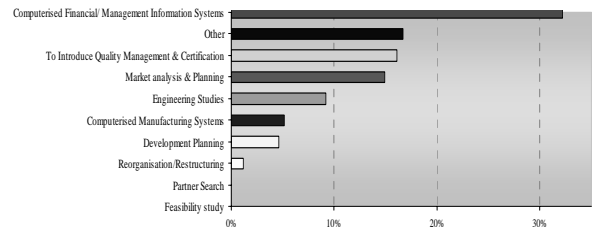


Computerised Financial and Management Information Systems as well as Market Analysis and Planning remain the most popular types of advisory services throughout the period; the demand for advice targeted at introducing Quality Management Certification increased after 2006.

BAS projects by type of advice 2003-06



BAS projects by type of advice, 2007-09



<p>The MSME sector and infrastructure of business advisory services</p>	<p>This section lays out some of the main challenges and transition obstacles for the MSME sector in Georgia. It provides insight into the level of entrepreneurial activity, the business environment, challenges faced by the MSME sector, and the supply of business support services.</p>
<p>Georgia is deeply affected by the crisis</p>	<p>With the double impact of the armed conflict with Russia in August 2008 and the global crisis, GDP contracted in the second half of 2008, resulting in real growth of 2% for the year as a whole, down from 12.5% in 2007. 2009 will be a difficult year for Georgia as the full impact of the global recession on domestic activity and financing conditions unfolds. Unemployment has increased with significant lay-offs reported in the construction, financial, and retail sectors, and poverty remains widespread. Consumption is likely to fall due to higher unemployment, lower wages. Remittances, and private investment will shrink, in particular in residential real estate, transport and manufacturing. The tightening of credit conditions and weakening of the real economy have furthermore exposed vulnerabilities in the banking sector. The authorities are determined to support economic activity through a donor-financed fiscal stimulus, but they are faced with risks associated with the needed exchange rate adjustment and current and potential financial sector vulnerabilities. Tense external and domestic political conditions and the challenging global outlook could further damage investor confidence, reduce private capital inflows, and negatively affect trade, investment, remittances, and donor support.</p>
<p>A growing MSME sector with economic potential</p>	<p>According to Georgian legislation, small enterprises do not exceed an average number of 20 employees and a turnover of GEL 500,000 per annum, while medium enterprises do not exceed 100 employees and a turnover of GEL 1,500,000 per annum. The Georgian government does not track the contribution of small and medium-sized enterprises to the country's economic growth or the total number of enterprises. A 2005 USAID survey states that the MSME sector contributes to 25% of total enterprises and 10% of GDP. The sector has been growing since 2005, as small and medium sized businesses make up the majority of new registered businesses. However, regional economic development is highly disproportionate with more than half of the businesses concentrated in the capital Tbilisi. Finally, the large difference between MSMEs contribution to turnover (17%) and employment (40%) shows that there is scope to improve the businesses' productivity and competitiveness on the local and international market.</p>
<p>working in an improving business environment</p>	<p>Georgia has made significant progress towards improving the business climate as indicated in subsequent World Bank "Doing Business" rankings. In 2009, it ranked 1th out of 181 countries. However, this ranking appears less compelling in light of other rankings such as Transparency International's Corruption Perception Index, in which Georgia ranked 67th out of 180 countries in 2008 and the World Economic Forum's Global Competitiveness Index, in which Georgia ranked 90th out of 134 countries in 2008. Notable competitive advantages are on the Institutions indicator (wastefulness of government spending, threat of terrorism, government compliance), Health and primary education as well as tertiary enrolment rates and labour market regulation. Judicial inefficiency remains one of the country's main problems as its judiciary is not free from political influence. Also, the legal framework for private businesses to settle disputes and challenge the legality of government actions and or regulations is not well developed. Georgia's business environment continues to be hampered by poor ethical behaviour of firms, weak enforcement of property rights and frequent power outages.</p>
<p>Access to finance is a major constraint with a poor regulatory and legal environment</p>	<p>Very few financial intermediaries have yet engaged in sustainable and profitable MSME lending, forcing MSMEs to rely on the capital of their owners and retained earnings. Since 2005, following a USAID programme, microfinance institutions have operated under clear guidelines to lend and greater access to commercial credit. As</p>

donor funding comes to an end, MFIs need to look to private investors to fund their long term-growth. Institutionally stronger rural MFIs offer a greater diversity of products and services: In the Akhalkalaki region two international microfinance institutions helped pave the way for Tao Bank and Bank of Georgia in providing credit to SMEs. The legal framework for private business to raise money by issuing shares is still a problem as the local stock market is not developed.

Since implementation of simpler tax procedures in 2006, the number of total registrations of businesses has almost doubled. Tax payments can now be made at the bank by showing ID cards and transferring funds to the Tax Department.

Georgia's labour regulations are excellent; they hold the first place in the world according to the Labour Freedom indicator of the Heritage Foundation Index and the 6th place according to the Employing Workers indicator of the Doing Business Index. In spite of good literacy and enrolment rates, enterprises struggle to find and retain qualified staff outside of the capital Tbilisi. Local availability of research and training services is a problem. Total spending on education and R&D remains low. Enhanced ICT penetration (information technology, systems and software) and internet uptake are needed to support new business growth and Georgia's development towards sectors with higher value-added.

Training relies heavily on donor support, resulting in an added risk to sustainability upon withdrawal of donor interest. The infant development of associations purporting to improve consultancy skills and business training has ensured that donors have played an active role in market development. Donor-funded operations in this sphere are likely to remain important until local organisations mature.

Strong need for TAM/BAS

A change in attitudes and business orientation is required for Georgian businesses to become more competitive. Training is particularly important in the areas of basic business skills (such as business plan preparation and loan application), market analysis, accounting and financial reporting, development planning, marketing and human resources.

Although there are various professional organisations, which are working to improve training outcomes in these areas, there is a need to increase their outreach and the participation of senior managers of Georgian businesses in their activities. There is also a widespread view among stakeholder that the crisis has exposed the managerial weaknesses of many companies in Georgia.

A present yet heterogeneous infrastructure of business support

The private consultancy market is growing from a weak base. Improvements are needed with respect to provision of information, quality assurance, pricing and availability of an appropriate range of services. Business support infrastructure is fragmented and relies heavily on donor support.

On the demand-side, many private consultancies ascribe the state of the consultancy market to the weak financial resources of local companies. From a supply-side perspective, consultancies highlight difficulties in finding and retaining qualified workers.

USAID's Business Climate Reform Programme helps the Georgian government in pursuing a broad reform agenda across multiple fronts to create the conditions for economic growth and job creation. The Programme intends to enhance the breadth, depth, and pace of the Government of Georgia's reform efforts and is working in the areas of regulatory streamlining, fiscal reform, and commercial law to strengthen the business environment in Georgia. Agricultural policy in Georgia is burdensome for the economy and competition in the local market is limited.

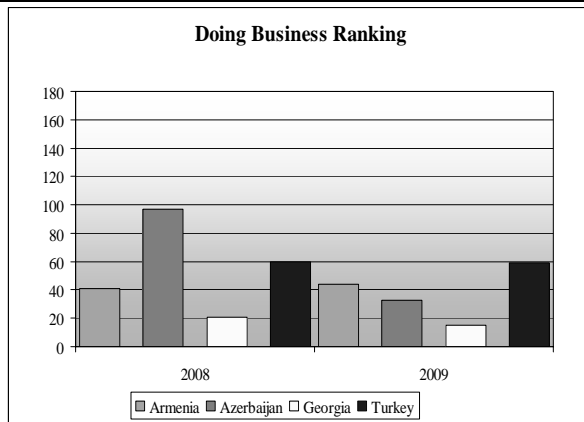
Numerous international donor programmes

Various international donors provide support for pilot projects aimed at MSME sector development and improvement of the country's competitiveness and employment rate. Numerous programmes provide specific credit lines for enterprise development or specifically target unemployed persons by helping them setting up a start-up. Other donors act on the policy side and assist the government in its effort to foster a more business friendly environment. A detailed summary can be found in the table provided in the Annex.

The overwhelming majority of stakeholders see a strong need for international donors to facilitate the development of the MSME sector and the management and technical skills of companies. Accordingly, the local MSME market is far from being perceived as sufficiently mature to make a case for donor withdrawal. Local organisations and institutions are simply not prepared to fill the gaps in the MSME sector to the same extent as the international donor community.

Business environment in charts

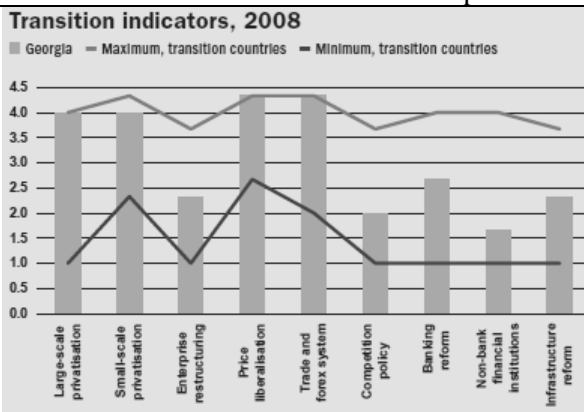
The business environment is very good by regional standards and continues to improve.



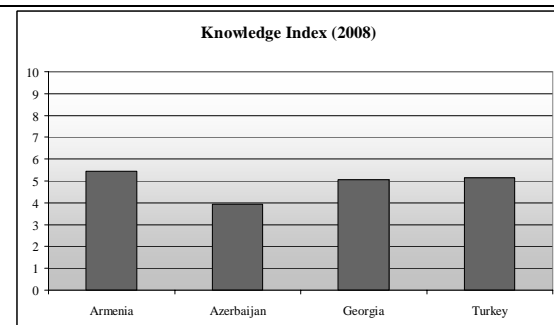
Paying taxes, closing a business and trading across borders are major impediments to doing business.



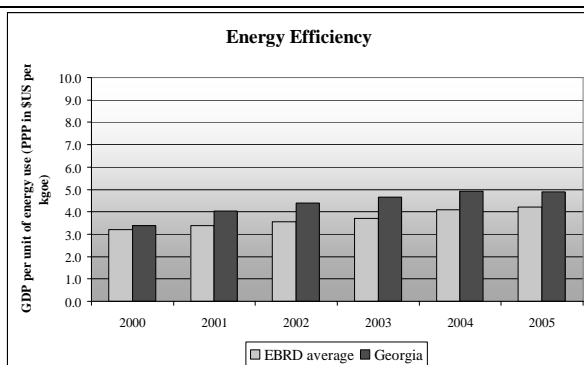
Reform of financial institutions has slightly lagged behind other areas and overall infrastructure reform can still be improved.



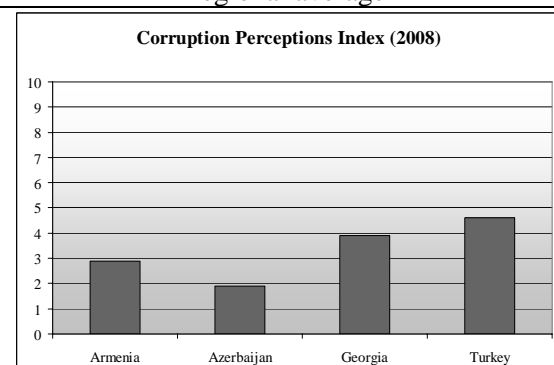
Georgia's Knowledge Index is in line with the regional average.



Energy efficiency is high by regional standards.



Perceived corruption is high, but below regional average



Source: EBRD, World Bank, Transparency International.

**Recommendations for
future TAM/BAS
interventions
Continuation of TAM**

Stakeholder interviews in June 2009 confirmed the great need for TAM/BAS interventions to address the identified gaps and challenges.

This Brief finds strong support among interviewed stakeholders for TAM to continue operating in Georgia in 2009-2011. The main impediments faced by Georgian MSMEs, which could be addressed by TAM Programme assistance, relate to poor organisational and management skills, business planning, accounting and financial reporting, marketing skills and a lack of exposure to international best practices.

TAM should particularly target the tourism, manufacturing, food processing, transport and logistics as well as the ICT sectors that were identified as key industries with high growth potential on the basis of export performance and contribution to GDP.

and BAS

The main impediments faced by Georgian MSMEs, which could be addressed by BAS Programme assistance, relate to poor basic business skills (business planning, accounting and financial reporting, loan applications), management culture (need for HR management, consulting in reorganization and restructuring, introduction of general corporate governance and integrated management systems), partner search, foreign investment consulting, marketing, and strategic planning.

The BAS grant should remain a key component of BAS assistance, thus helping financially constrained enterprises to assess consultancy services. However, targeted market development activities should be a big component of BAS assistance in Georgia.

A Grant Guideline Matrix is proposed in order to prioritise intervention to avoid duplication of efforts from international donors. Higher grants should be given to:

- Enterprises outside the capital city.
- Projects aiming to improve environmental management and energy efficiency.
- Projects aimed at promoting women in business: under the WIB Programme, smaller companies owned/managed by female(s) can benefit from higher subsidy rates.

**in addition to targeted
market development
activities**

It is recommended to complement TAM/BAS assistance at the enterprise level with the following market development activities in order to maximise the Programme's transition impact in Georgia:

-Visibility and dissemination: The TAM/BAS Programme will take steps to promote the use of business advisory services for example by engaging a PR Agency to promote the objectives and outcomes of the TAM/BAS activities; Disseminating information on business advisory services and best practices via booklets and other publications; Participate in trade fairs and exhibitions. TAM should organise more seminars and trainings related to international best practices.

-MSME and consultancy training: The TAM/BAS Programme will continue to support the development of a high quality, diverse and competitive business advisory services market. BAS will develop specific training courses and workshops that will reinforce the provision of existing services, while also encouraging the delivery of new advisory service products, promoting best service delivery practice, and building sustainable provider capacity. Capacity reinforcement will include strengthening both soft advisory skills (e.g. project management, business diagnostics, client needs analysis, marketing, including pricing and new market entry, and managing client relations) and thematic advisory skills (including specific subject areas under management, finance, quality control and certification, IT, etc.).

-Support to and development of existing relevant local institutions – particularly in relation to the market for local business advisory services. TAM/BAS will increase

efforts to transfer its project development skills to relevant local institutions that have the ability, or the potential, to support the development of the MSME sector and of the local consultancy market. These institutions in Georgia include the Georgian Employers Association and the Chamber of Commerce and Industry. BAS will explore facilitating the grassroots establishment of the professional association of consulting companies.

with a strengthened focus on addressing cross-cutting issues

In order to address cross-cutting issues that are pertinent to Georgia's MSME sector's development, the TAM/BAS Programme should promote measures to increase energy efficiency in production and reduce environmental pollution. However, such measures will only be successful if entrepreneurs start understanding the potential future payback for their enterprise and do not only act under donor pressure. TAM/BAS should also devote efforts to supporting women entrepreneurs and encouraging women's access to middle management and executive positions primarily by the continuation of targeted initiatives, such as the ongoing BAS Women in Business Programme. Reaching areas outside of the capital should remain a high priority for TAM/BAS.

This Brief as contribution to EBRD's policy dialogue

By thoroughly analysing the business environment and clearly identifying the challenges faced by the MSME sector, this Brief further strengthens the EBRD's policy dialogue toolkit. Future challenges for the government (among others) are identified as improving judicial efficiency, enforcement of property rights, ICT penetration, local availability of research and training services, MSMEs' access to finance and the corporate governance standards of firms. There is also a need to facilitate the introduction of a business culture in which senior managers are able and willing to use consultancy services to address organisational weaknesses.

An input for enhancing linkages with banking

In line with TAM/BAS Strategic Plan 2008-2010, TAM/BAS should continue to assist the Bank to meet its objective of generating a commercially viable project pipeline for the Bank's direct investments by:

- Identifying potential pipeline (pre-investment).
- Providing "consulting and business" services for the preparation and support of Bank private enterprise financing projects and for the enterprises themselves.
- Providing candidates for non-executive board member positions.

In addition, the Programme should link MSMEs in need of finance with local financial institutions supported by EBRD, such as the Regional Direct Lending Facility (DLF), the Direct Investment Facility (DIF) and the Medium-Sized Loan Co-Financing Facility (MCFF). This will strengthen the Bank's impact in the enterprise sector and in the financial sector, as outlined in the EBRD Country Strategy for Georgia.

Annexes

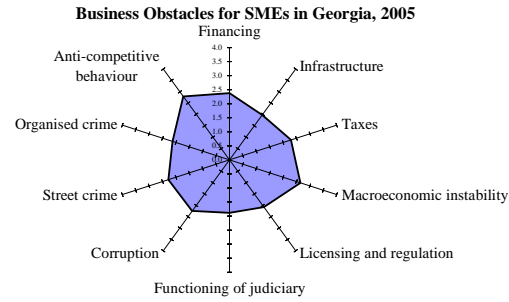
1. Georgia MSME Factsheet

Georgia MSME Country Brief

Key MSME Sector Challenges

- Business environment for MSMEs has improved significantly in the past 2-3 years. The level of corruption has decreased dramatically, tax and customs legislation and administration have improved, and business licensing and registration has been simplified. Also, the legal framework for investor protection has recently improved.
- However, there is a need of raising awareness of MSMEs about the rapid reform progress and improving implementation capacity of the public administration. Access to and quality of financial services for MSMEs has improved significantly but remain important challenges in remote rural areas. Despite recent improvements, there is a general distrust of the judiciary which lacks competence, remains inefficient and partial.

Source: EBRD



Country Data

Series Name	2002	2003	2004	2005	2006	2007	2008
GDP per capita, PPP (constant 2005 international \$)*	2649	2974	3181	3520	3885	4403	4526
Unemployment, total (% of total labor force)*	13	12	13	14	..	13	..
Unemployment, female (% of female labor force)*	11	12	12	13	..	13	..
Rural population (% of total population)*	47	47	47	48	47	47	..
Total businesses registered (number)	30106	32971	36811	42495	51242	59641	..
Enterprise Restructuring (EBRD transition indicator)**	2	2	2	2.33	2.33	2.33	2.33
Competition Policy (EBRD transition indicator)**	2	2	2	2	2	2	2

Source: *WDI (2007) and **EBRD

BEEPS (2005)

Change in Performance in Last 36 Months	Small Companies		Medium Companies	
	Small Companies	Medium Companies	Small Companies	Medium Companies
Sales % change	3.1	31.6		
Exports % change	1.2	10.7		
Fixed assets % change	2.7	21.3		
Material inputs % change	11.4	30.4		
Employment % change	9.8	33.1		
% of companies adopted new technology	30.6	44.1		
% of companies changed organisational structure	23.8	61.8		
% change in capacity utilisation	13.7	14.7		

Initiatives Undertaken in Last 36 Months	Small Companies		Medium Companies	
	Small Companies	Medium Companies	Small Companies	Medium Companies
Developed successfully a major new product line/service	22.8	45.7		
Upgraded an existing product line/service	32.9	68.6		
Discontinued at least one product (not production) line/service	11.4	14.3		
Agreed to a new joint venture with foreign partner	0.0	8.6		
Obtained a new product licensing agreement	6.0	20.0		
Outsourced a major production activity/service that was previously conducted in-house	4.0	22.9		
Brought in-house of a major production activity/service that was previously outsourced	6.7	25.7		
Obtained a new quality accreditation (ISO 9000, 9002 or 14,000, AGCCP, etc)	6.7	25.7		

Source: BEEPS (2005)

Source: BEEPS (2005)

Global Competitiveness Report (2009-2010)

	Rank (out of 134)	Score(out of 7)
Global Competitiveness	90	3.81
Higher Education and training	84	3.7
Extent of staff training	82	3.68
Goods Market Efficiency	74	4.1
Brain Drain	88	2.91
Technological readiness	100	2.92
FDI and technology transfer	79	4.66
Firm-level technology absorption	115	4.01
Personal computers	82	5.41
Business sophistication	113	3.33
Strength of auditing and accountin	93	4.2
Burden of government regulation	3	4.84

Source: WEF The Global Competitiveness Report (2009-2010)

Doing Business (2008-2009)

Ease of...	Global Rank (out of 181 in '08 and out of 183 in '09)		Transition Country Rank (out of 28)		Change in Transition country rank
	2008	2009	2008	2009	
Doing business	18	16	2	1	1
Starting a business	10	5	1	1	0
Dealing with licences	11	9	1	1	0
Employing workers	4	10	1	1	0
Registering property	11	2	4	1	3
Getting credit	48	27	12	8	4
Protecting investors	33	38	4	7	-3
Paying taxes	102	112	10	12	-2
Trading across borders	64	85	10	14	-4
Enforcing contracts	42	42	14	13	1
Closing a business	105	95	21	19	2

Source: World Bank Doing Business Survey (2008, 2009) and EBRD

2. Overview of the key governmental and non-governmental MSME stakeholders

Governmental MSME Stakeholders		
Ministry of Economic Development		
Export Promotion Department	Tbilisi City Hall	Georgian National Investment Agency (GNIA)
<i>SME Development</i>	<i>SME Support</i>	<i>Policy Support/Investment promotion and facilitation</i>
<p>The mission of the Ministry of Economic Development of Georgia is to provide stable and high tempo of economic growth by working up and implementation of an effective economic policy. The main aim of the Georgian Government economic policy is to ensure sustainable economic development based on stable macroeconomic policy and private entrepreneurship development. The current economic reforms are targeted at liberalization of entrepreneurship activity, creation of transparent legislation for private entrepreneurship and attractive business and investment climate, development of tourism and support to growth of export potential.</p> <p>Export promotion is one of the government priorities that is under the responsibility of the Export Promotion Department of the Ministry of Economic Development. The Ministry of Economic Development launched the special programme “The Cheap Credit” aiming at developing newly established businesses and supporting the SME sector in Georgia.</p>	<p>Tbilisi City hall with the project “start Business with the help of the City Hall” supports the people to acquire the necessary habits for conducting business, helps them in starting the business and in funding for the development of the small and average scale business and provides for them the business consultations. The candidates are allowed to participate who want to start their own business or to develop an already existing business.</p> <p>The commercially profitable projects are also funded that support: Creation of new workplaces; establishment of the technological novelties; development of tourism and industry,</p> <p>The applications are considered by the partner bank JSC “Bank of Georgia” that issues the low interest rate loan.</p>	<p>Georgian National Investment Agency (GNIA) – An agency under the Ministry of Economic Development of Georgia was established in 2002. It is the only Government agency responsible for investment promotion and facilitation. It is designed to act as a “one-stop-shop” for comprehensive information about investment opportunities in Georgia.</p> <p>The main objective of the GNIA is to foster public-private dialogue in order to build a better and more prosperous environment for private sector development and economic growth.</p> <p>The National Investment Agency organizes <i>Invest in Georgia</i> business forums, meetings, conferences and workshops, researches investment opportunities and informs potential investors about investment advantages in Georgia.</p> <p>Cooperating with the different business sectors and companies the Agency provides up-to-date information to potential investors about setting-up business operations in Georgia as well as other required information necessary for making investment decisions.</p>
Non- Governmental MSME Stakeholders		
Georgian Chamber of Commerce and Industry	Georgian Employers’ Association (GEA)	Procredit bank
<i>Interest Group/ Lobbying</i>	<i>Lobbying/ Provision of legal support to members/Consultancy Services</i>	<i>Business Loans</i>
<p>The Chamber of Commerce and Industry of Georgia follows and participates in the economic processes taking place in the country. It is the biggest business institution in Georgia and unites six regional chambers, up to a thousand of associations, companies, banks etc. The principal object of the Chamber is presentation and protection of interests of its members in</p>	<p>Funded in 2000, the Georgian Employers’ Association is actively involved in tripartite dialog with trade unions and government. At present, the membership of Georgian Employers’ Association is composed of more than 500 enterprises from throughout the country representing all sectors of economic activity. GEA cooperates with different</p>	<p>Pro credit Bank is the first micro finance bank in Georgia, which has a good experience of working with small business.</p> <p>Pro Credit Bank cooperates with the SMEs looking for finances to broaden their activities and gives business</p>

<p>Georgia and beyond its limits. It takes part in the development of economic drafts, legislative and other acts.</p> <p>Implementing its infra-structural function, the Chamber renders active service to business. It confirms the certificates of origin of goods, carries out quantity and quality expertise of goods, and contributes to the development of professional education in the sphere of entrepreneurship. Among the services offered by the Chamber of Commerce and Industry is the assistance to SMEs that need adequate consultancy and business information.</p>	<p>international organizations (ILO, IOE and etc.) and employers' organizations. The Association is a voice of Georgian employers concerned mostly with the small and medium enterprises (SMEs) in Georgia and outside the country. Georgian Employers' Association cooperates with the relevant organizations of South Caucasian countries and takes part in joint programs for developing enterprises in the South Caucasus region. The association provides the organizations and companies with qualified personnel and supports individuals in employment.</p>	<p>loans quickly and easily with best terms and conditions. The bank already has more than 30,000 business clients in Georgia.</p>
---	---	--

3. Background information on MSME stakeholder interviews in Tbilisi

In June 2009, 16 interviews with major stakeholders in the MSME sector and the consultancy market were conducted. This annex provides a list of the interview partners and the questionnaire used.

Organisation	Name, Position
JSC “Caucasus Energy & Infrastructure”	Archil Mamatelashvili, CEO
TBSC – Consulting Company	Paul Clark, Partner, Nino Vashakidze, Partner
IOLI LTD – Consulting Company	Iliia Kantaria, Director
GMCG – Consulting Company	Alexander Burchuladze, Partner; Nikoloz Markozashvili, Partner
GTZ	Giorgi Grdzlishvili, Private Sector Development / Caucasus
Policy and Management Consulting (PMCG) – Consulting Company	Aleksi Aleksishvili, founder and CEO
SIDA – Swedish International Development Agency	Kakha Khimshiashvili, National Programme Officer for South Caucasus
EU Commission	Marria Iarrera
Georgian Chamber of Commerce and Industry	Giorgi Kakabadze, Executive Director
TBC Bank	Nino Masurashvili, Retail Banking and SME Director
Georgian Employers’ Association & Georgian Plan	Elguja Meladze, President; George Gogvadze, Member of the Parliament of Georgia
USAID	Rezo Ormotsadze, David Tsiklauri, David Gosney
IFC / Business Enabling Environment (BEE) Project	Irina Kokaia, Project Manager
State Chancellery	Vakhtang Lezhava, Adviser to Prime Minister of Georgia
National Bank of Georgia	David Amaglobeli, Vice-President
AMCHAM & Eurasia Partnership Foundation	Amy Denman, Executive Director; EPF Regional Director

4. BAS Grant Guideline Matrix

BAS applies a graduation policy for grants which is reviewed annually to reflect the local business advisory services' market conditions. As the intervention's additionality in a specific market segment decreases, BAS will phase out by lowering the grant amount and eventually exiting. For Georgia, the grant percentage varies depending on assessments of the overall additionality:

- **Geographic location:** *Higher grants should be given to enterprises outside the capital city and particularly companies in the regions directly impacted by military occupation.* While companies in these regions tend to need the most help, they often find it difficult to access appropriate business advisory services and do not have the necessary financial resources to pay for them.
- **Type of advisory service:** *Higher grants should be given to support projects aiming to improve market performance and to improve environmental management.* Generally, many entrepreneurs manage their business without proper attention to long-term strategic planning. Also, a significant potential exists for support in the areas of energy efficiency and environmental management; however, many enterprises consider such an intervention to be more of a cost factor than an opportunity and financial help through programmes like BAS might be necessary to change this attitude. Lower grants will be given to projects introducing Quality Management & Certification both Implementation of ISO 9000 Series and Certification and Implementation of Other QMS (22000, 27000, etc). Although, of those two, even lower grants should be given to projects focussing on ISO 9000 due to the high proportion of such projects in the past

Location/ Size		Type of Advisory Service					
		to improve market performance (Market analysis & planning, Development planning, Feasibility studies, Partner Search)	to improve management effectiveness (Reorganisation/restructuring, Computerised financial/management Information Systems, websites, web portals)	to reduce costs (Computerised Manufacturing Systems, Engineering Studies)	to introduce Quality Management & Certification		to improve environmental management (Energy efficiency, Environment)
					Implementation of ISO 9000 Series and Certification	Implementation of Other QMS (22000, 27000, etc)	
Capital	< 50	70%	70%	70%	50%	60%	70%
	50 ≤ 99	70%	70%	70%	50%	60%	70%
	100 ≤ 199	70%	70%	70%	50%	60%	70%
	≥ 200	70%	70%	70%	50%	60%	70%
Regions	< 50	90%	90%	90%	70%	80%	90%
	50 ≤ 99	90%	90%	90%	70%	80%	90%
	100 ≤ 199	90%	90%	90%	70%	80%	90%
	≥ 200	90%	90%	90%	70%	80%	90%

5. References

European Commission, “Georgia 2008 Progress Report”, November 2008.

World Bank (2008), “Doing Business 2009 –Georgia”, World Bank Group, Washington D.C., USA.

World Bank/EBRD (2005), “Business Environment and Enterprise Performance Survey (BEEPS) 2005 – Georgia”

The World Economic Forum (2008), “The Global Competitiveness Report 2008-2009”, WEF, Geneva, Switzerland.