

Georgia's Long-term Economic Development

Concept



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

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Working Group was established within Business Association of Georgia, which actively participated in the discussions around the concept. The working group was co-chaired by the representatives from BAG's member companies:

- **Gachechiladze Archil**, co-chair of the working group, Bank of Georgia;
- **Japaridze Badri**, co-chair of the working group, TBC Bank.

Authors of the concept:

- **George Asatiani**, CEO of BAG(2009-2014);
- **Irina Kvakhadze**, Deputy CEO of BAG;
- **Nana Tsertsvadze**, Head of Sector Development of BAG;
- **Nick Nanuashvili**, Lawyer of BAG;
- **Shota Komladze**, Tax and Customs Expert of BAG.

Members of the working Group:

- Abramishvili Nutsa, Schuchman Invest
- Akhaladze Lasha, RMG Gold and RMG Copper
- Chachanidze Zviad, Tegeta motors
- Dolidze Vakhtang, GPC
- Gvindadze Dimitri, Liberty Bank
- Kapanidze Irakli, Archi Group
- Kipshidze Otari, DLA Piper
- Kukava Aiet, Alliance Group Holding
- Lalazashvili Zurab, BDO
- Lominadze Merab, GAA Management
- Urumashvili Eprem, Nodia, Urumashvili and Partners

The list of the group members is given in alphabetic order.

Introduction

Strategy of economic development of Georgia covers years 2014-2020 and is directed to a rapid economic growth that is achieved through the strengthening of the country's competitiveness within the region.

It is our goal to become an upper-middle income nation by the end of 2020. In particular, by the end of 2020 GDP per capita in Georgia should constitute no less than USD 8500. In order to achieve such a result, it is necessary that over the coming 7 years Georgian economy on average grows twice as fast as the world economy and the average annual real economic growth rate constitutes 7%. According to 2012 data, GDP per capita of Georgia amounts to USD 3520, the index of distribution of economic wealth (Gini index) - 0.41.

The strategy serves the purpose of developing Georgia as a state that 1) is competitive in the region; 2) is oriented on export; 3) has an economy based on the principles of free market; 4) has a high quality education system and 5) adheres to European values.

For the purposes of the strategy, the region covers the geographic area, which, due to its size, is an attractive market for both, domestic and multinational investors. The region covers 13 countries of the Black Sea and Caspian Sea basins. These are the following countries: Azerbaijan, Bulgaria, Turkey, Turkmenistan, Iran, Moldova, Romania, Russia, Georgia, Armenia, Uzbekistan, Ukraine and Kazakhstan. Georgia will perform a function of **regional hub** and will intensify economic activity targeted in this direction.

Strengthening of country's competitiveness within the region can be achieved through accomplishment of five strategic objectives. These objectives are the following: 1) improvement of business environment 2) transition of Georgia into a regional hub 3) establishment and development of full-fledged labor market 4) improvement of innovation potential and 5) improvement of infrastructure.

The above five strategic objectives respond to the challenges that Georgia faces in terms of competitiveness according to 2012-2013 report of the World Economic Forum (please, see Georgia's rank in the world according to "Global Competitiveness Report of 2012-2013" in annexes N1 and N2).

This strategy represents a 7-year plan of economic development of the country and it outlines objectives that need to be met for the implementation of the economic vision. The strategy shall be reviewed annually in order to assess the relevance of the ways of translating these objectives into reality and, if appropriate, necessary amendments shall be made to the plan of a given year.

Chapter 1. Mission

Georgia - a country, which is: competitive in the region, oriented on export, has an economy based on the principles of free market, has a high-quality education system, and adheres to European values.

Chapter 2. Declaration

The main precondition for implementing the strategy shall be government's declaration of the fundamental principles that constitute the basis of the business environment and greatly determine the development of the private sector.

With this declaration, the society agrees on the guiding principles 1) based on which economic decisions are made 2) that are fully abided by, regardless of political and economic considerations of the executive or legislative branches of the government.

Each provision of the declaration is equally important. By adhering to these provisions, the country achieves a stable, predictable economic environment, in which long-term, growth-oriented investment decisions can be made.

E c o n o m i c D e c l a r a t i o n

1. Government ensures full protection of property rights;
2. Government guarantees the rule of law and the independence of the courts;
3. Government is guided by the principles of free market economy in taking economic decisions, even when it implements *industrial policies*;
4. Government strives to establish as competitive an environment as possible, within which only natural monopolies exist;
5. Government is guided by the principles of free market in tackling market failures and it focuses on performing the function of a coordinator in this process;
6. Government is guided by the "principles of a small state": it strives to gradually reduce the number of regulations to the necessary minimum level and rejects excessive bureaucracy;
7. Government makes state investments in the private sector, only: a) with the purpose to deal with market failures; b) in projects that cannot be financed through the private sector; c) based on the free market principles; d) within the limited timeframe; e) with terms and conditions that are clear and declared in advance; f) after clear mechanisms of withdrawal are in place;
8. Economic decisions made by the government are consistent, support stability and comply with the long-term decisions of the government and business sector;
9. Government maintains low-tax policy in the long-term perspective;
10. Government ensures stable and predictable investment policies, steady investment terms and conditions, and consistency of decisions made, regardless of the election cycle (and of the election outcomes);
11. Government applies predictable, transparent and stable regulatory policies toward the fields that are subject to regulations and ensures that regulatory bodies operate free of political considerations and are highly proficient;
12. Government guarantees the freedom of business, separates it from politics and considers business the main source of creating jobs.

Chapter 3. Economic Goals – Year 2020

This strategy of economic development is oriented on inclusive growth, in which all members of the society are equally involved.

The objective of the strategy is to reach GDP of more than USD **8500**¹ by the end of 2020. This indicator is characteristic to the nations of upper middle income (*according to World Bank's classification*). In order to reach such a result, the average annual real economic growth rate should constitute at least 7%. Index of distribution of income (Gini index) should not exceed – 0.4. The latter shall be reached by creating equal educational and professional opportunities for citizens.

Quantitative Goals for The End of Year 2020		
	2012	2020
GDP per capita	USD 3500	min. USD 8500
GDP growth rate	6.1%	min. 7%
Gini index	0.41	max. 0.4

Pic. 1. Georgia's quantitative economic goals for the end of year 2020

¹ GDP deflator and currency exchange rate changes are considered.

Chapter 4. Strategic Objectives and the Ways to Achieve Them

Execution of the economic mission of the country and achievement of its ultimate goal – increase of competitiveness – would require implementation of the following five strategic objectives:

Objective 1: Improvement of business environment

In order to achieve economic goals and improve investment climate in the country, the government shall create not only basic conditions for doing business, but also the environment that supports business development. For improvement of business environment, government shall ensure macroeconomic stability, support increase of private sector's productivity, ensure that regulations are clear and explicit, create effective mechanisms for resolving business disputes, and support increase of access to finance.

Objective 2: Transition of Georgia into a regional hub

This strategy envisages transition of Georgia into a regional hub. Being a regional hub means that Georgia is a country which 1) is considered by consumers, individuals and companies the best supplier of services and products; 2) is perceived by multinational companies a platform for distributing their services/products in the region and a venue for establishing their head quarters; 3) is considered by the leading intellectual labor force the best work place. Regional hub is a beneficial concept, since it creates possibility that both domestic and international investors perceive not only Georgia, but the whole region as a potential market. This will greatly increase attractiveness of the country to investors. In order to turn Georgia into a regional hub, the government of Georgia needs to make intensive efforts towards establishing and developing equal economic relations in the region, establishing a regional hub based on the characteristics of the regional markets and elaborating Country's promotion strategy targeted on the region and beyond.

Objective 3: Establishment and development of a full-fledged labor market

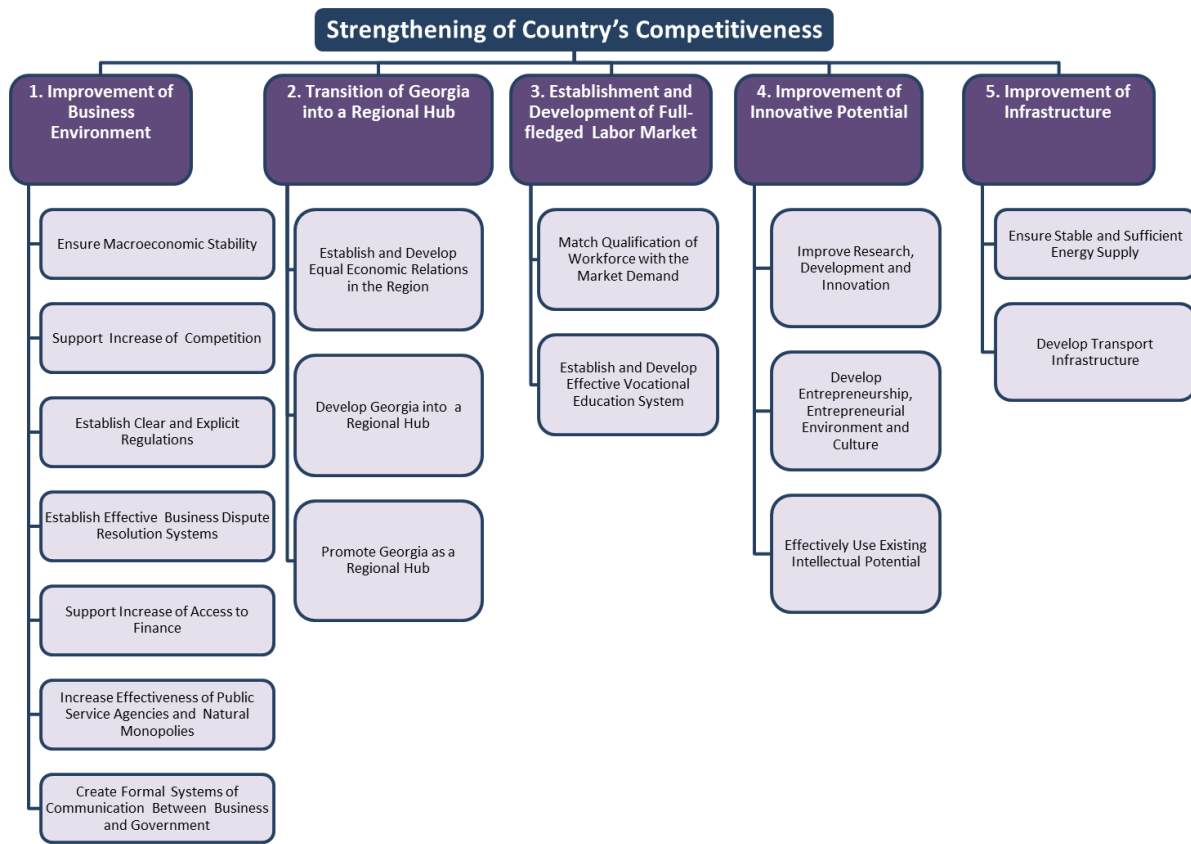
One of the significant factors that build country's capacity to constantly develop and increase its productivity is a competitive and effective labor force. Today one of the major problems Georgia faces is a mismatch between the quality of the existing labor force and the market requirements, which directly affects unemployment rate in the country. The mismatch is caused by the ineffective education system. Moreover, vocational training system requires considerable improvement. The government shall conduct an intensive work in both directions to create a full-fledged labor market. It should be noted that in this process Government shall not perform functions that can be implemented by private sector. In addition, government shall ensure equal conditions for private and state educational institutions and in no case put state institutions in a superior position.

Objective 4: Improvement of innovation potential

Innovativeness is one of the essential factors that significantly determine the competitive positions of a country in the era of contemporary, knowledge-based economies. Focus on innovation envisages a focus on the constant development and increase of productivity, and a shift of the vector from traditional fields of comparative advantage (natural resources, etc.) to intellectual and entrepreneurial potential. Georgia has an especially low rate of innovation. For its development and improvement, it is necessary to support research and development, innovations, entrepreneurial environment and culture, and also, make effective use of existing intellectual potential.

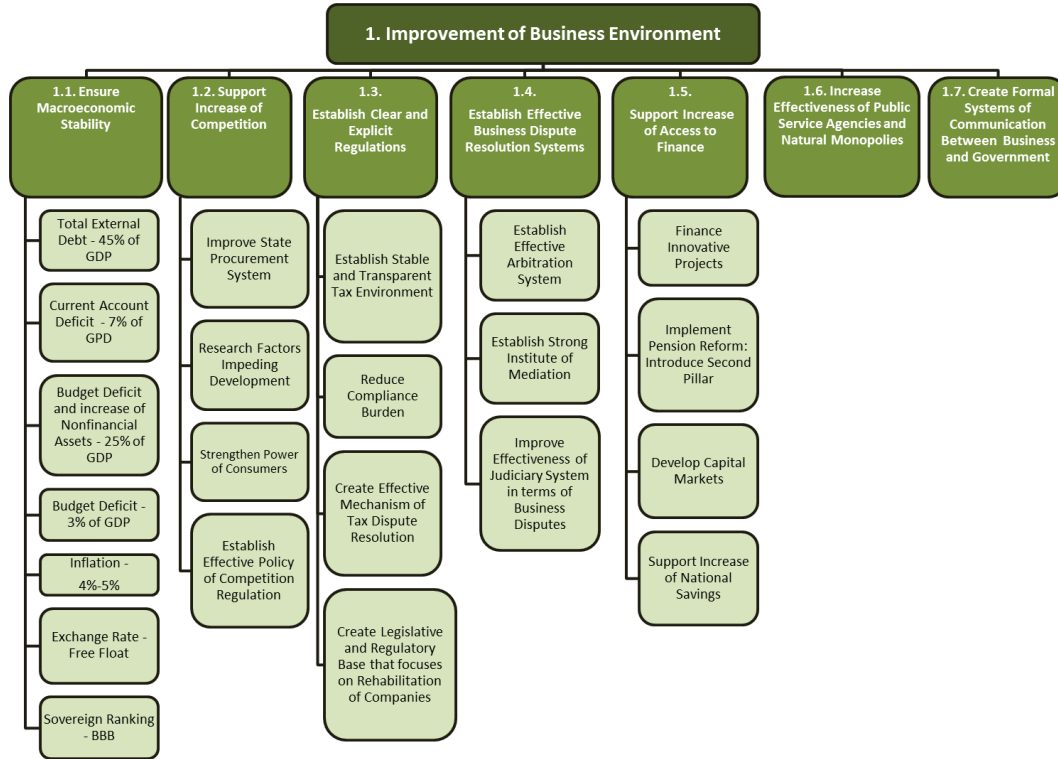
Objective 5: Improvement of infrastructure

Fifth objective is partially a supplementary objective, largely based on decisions taken in regards to the previous four objectives. Energy, transport, telecommunications and information technologies sectors, and municipal infrastructure shall be developed according to these decisions.



Pic. 2. Main Diagram of Georgia's Economic Strategy.

Objective 1. Improvement of Business Environment



Pic. 3. Diagram of first objective of Georgia's Economic Strategy.

Objective 1.1. Ensure Macroeconomic Stability

Macroeconomic stability is a foundation of achieving the economic goals envisaged in this strategy. It ensures building the trust among investors and population in the country's economy that is going to be duly reflected in the short and long-term business decisions, and eventually, in the increase of employment and economic growth rate.

In order to ensure macroeconomic stability by 2020, the following parameters shall be fulfilled:

1.1.1. External Debt of Government shall not exceed 45% of GDP:

Following this parameter will make country less vulnerable to global risks. This, on its hand, will reduce country risk and will positively affect country's sovereign ranking. (According to National Bank of Georgia government's gross external debt amounted to 30.5% of GDP by 2020, of which government's external debt amounted to 26.8% of GDP and National Bank's debt – to 3.7% of GDP;)

1.1.2. Current Account Deficit shall not exceed 7% of GDP

This strategy aims at gradual reduction of the current accounts deficit through an export-oriented economic policy that is based on the principles of free market and not protectionism. The major objective of the government is to create free and equal market conditions for every player. (By 2012 current account deficit amounted to 11.5% of GDP according to National Bank of Georgia;)

1.1.3. Budget expenses and increase of nonfinancial assets shall not exceed 25% of GDP:

Georgia should gradually become a "small state" that applies minimum tax and bureaucratic pressures on the business environment and effectively utilizes administrative resources. As the country endeavors to strengthen its competitive positions in the region, ensure welfare of its citizens and achieve rapid economic growth, it is paramount to create an attractive business environment.

1.1.4. Budget Deficit shall not exceed 3% of GDP:

Sustaining the low level of budget deficit is important for maintaining investors' trust in the country's economy. It is necessary, that the budget deficit is managed from the outlook of economic development and the government continues investing in the infrastructure with the same pace. (In 2012 budget deficit amounted to 2.9% according to National Bank of Georgia;)

1.1.5. Inflation shall be maintained within 4-5%:

High inflation causes unpredictable environment, and population develops sense of mistrust towards the future and overall, it obviously negatively affects investments and economic growth. Therefore, maintaining a low level of inflation is essential for building a stable business environment that boosts

economic growth. (Annual inflation was 1.3% in July 2013 according to National Statistics Office of Georgia;)

1.1.6. Free-floating exchange rate shall be maintained:

Fixed exchange rate is less beneficial to the development of national economy as it makes Georgia more dependent on other countries' economies and increases risks of proliferation of external inflation to the country, decreases the capacity of conducting an effective and independent monetary policy. Free floating exchange rate creates possibilities to implement economic objectives envisaged by this strategy.

1.1.7. Sovereign ranking shall increase to investment grade (e.g. (BB-) to (BBB) of S&P):

Sovereign index of a country determines the value of national financial resources, as well as the trust of foreign investors towards the business climate in the country. Therefore, it is necessary that the government makes rigorous efforts to ensure that, by the end of 2020, the sovereign index of Georgia is upgraded to BBB.

Objective 1.2. Support Increase of Competition

Free market constitutes an important part of the national economic vision within which a healthy and intense competition is a precondition for developing the private sector. Government has a capacity to effectively encourage competition and thus facilitate increased productivity of private sector in a manner that does not violate the free market principles. Below are three ways through which government can carry out the above objective:

1.2.1. Improve state procurement system

State - the most important and potent consumer – is capable to facilitate and boost the inflow of new technologies into the country and encourage the use of innovative approaches by establishing certain criteria and by placing higher requirements on quality for state purchases. State is a large purchaser in the areas that possess large potential for development, for instance, in construction, information technologies, communications, etc. However, due to the market failure, these sectors fail to move to the next level of development, which has negative impact on the competitiveness of these sectors and their export potential, as well as the efficiency of the country. National procurement policy can play an important role in enhancing competition in such fields. In particular, there are two ways the government can strengthen competition through procurement:

- a. *Build a centralized national procurement system*** which will coordinate state procurement of all complex services and products. Creation of a centralized system will increase the competences in terms of procurement and hence, ensure establishment of high standards and improved participation of private sector in state tenders. It is essential that government does not become dependent on one

supplier as a result of the centralized procurement system. It should also be emphasized that procurement of commodities should be decentralized.

- b. *Government to introduce innovations:*** state can itself become consumer of innovative, advanced services/products and reflect this in the state procurement requirements. This way it will encourage private sector to introduce and develop innovations in products and services, as well as in processes. It is important that this demand for innovations be aimed at rational and consistent development of various fields, instead of procurement of most expensive, inefficient services/products.

1.2.2. Research factors impeding development

Many sectors in Georgia have export potential, however, these sectors fail to grow and develop due to weak competition among them and, therefore, low level of productivity. For increasing the efficiency of these sectors, it is necessary to conduct research that shall reveal factors impeding competition and export in the fields that have the export potential. The research will reveal those barriers that can be solved only by the government. Information obtained through this research will help the government reveal the problems these fields face and carry out measures to solve them.

1.2.3. Strengthen power of consumers

One of the prerequisites for the development of private sector is a well-informed, conscious and demanding consumer. In order to encourage the competition and increase the private sector's efficiency, the government can, on one hand, empower consumers and on the other hand, support diversity of choice on the market. Empowerment of consumers implies raising awareness among citizens on specific and complex products and services through various educational-information campaigns that will enable consumers to effectively apply their "power" in the future and independently replace suppliers based on their preferences.

1.2.4. Establish effective policy of competition regulation

Government faces significant challenges not to allow on the market policies and actions that restrict competition, on the one hand, and not to hinder the development of businesses or artificially obstruct the growth of companies by applying excessive regulations and bureaucracy, on the other hand.

Dealing with this challenge necessarily requires creation of competition policy so that it allows law-enforcers to effectively fight such serious competition-restrictive actions as cartel deals, on the one hand, and on the other hand, does not deter exclusion or expulsion of weaker competitors from the market in the process of healthy competition. During the policy implementation process, actions should not be taken against big players, due to the mere reason that they hold dominant positions in the market.

Furthermore, in taking into account economic and social factors, legal framework of the regulatory policy for competition should be as flexible as possible. In this way business initiatives that bring significant economic benefits will not be blocked due to formal regulations.

Objective 1.3. Establish clear and explicit regulations

Regulatory environment is one of the most important factors that determine country's attractiveness among domestic and international investors. In order for the country to become the regional hub in terms of doing business, the following objectives need to be met:

1.3.1. Establish stable and transparent tax environment

Stable and transparent tax environment is a fundamental issue. To achieve this, the following steps shall be undertaken:

- a. Maintain ceiling of existing taxes:* Georgia has a competitive position in the region in terms of the tax rates. In order to maintain existing positions and ensure the attractiveness, stability and predictability of investment environment, it is necessary that taxes do not exceed the established ceiling and flat tax policy is maintained.
- b. Reform of the investigation department of the Ministry of Finance:* Office of investigations, with existing functions, has an adverse effect on the business environment and creates a negative, police image for the Ministry of Finance. For the tax-collection purposes, it is appropriate to revise the functions of this department and to assign to it the investigation of only those crimes that are revealed during tax administration process.
- c. Improve the mechanism of tax inspection:* To ensure that business actors operate in an organized, predictable and transparent environment, it is necessary to refine the tax inspection mechanisms. Tax inspection should be improved through standardizing the methodology of inspection. Moreover, involving independent third parties in monitoring of the list of companies to be inspected and of the inspection criteria will have significant positive effect on objectivity of tax inspection.
- d. Partial decriminalization and differentiation of tax-related offences:* Due to the ambiguous nature of the existing Tax Code, businesses often interpret it according to their considerations when choosing the taxation regime. Such decisions are not always motivated by the desire to avoid taxes, but it serves the purpose of easing the burden of taxes under the existing legislation. Georgian legislation does not distinguish between Tax Avoidance and Tax Evasion, therefore, interpretation of the law leads to criminal responsibility or the risk of accusation for a crime. Such threats have negative implications on the development of entrepreneurship in the country and adversely affect investment environment.

1.3.2. Reduce compliance burden

“Compliance burden” refers to all the expenditures that private sector has to undertake indirectly (for example, overtime hours) in order to meet the regulation requirements. These indirect costs can be easily reduced by the government. Decreasing of the compliance burden down to a minimum level will reduce

the costs related to doing business and will improve the investment environment. For decreasing the burden of compliance, the following steps should be taken:

- a. ***Reduce ambiguity in the Tax Code and normative acts:*** vague and ambiguous clauses of the Code make compliance with the law more difficult and expensive for both, the private sector and the representatives of the regulatory bodies. Therefore, it is necessary that the Code becomes clear and explicit to read. One of the most effective ways to solve this problem is to conduct constant analysis of the Code based on practices, identify systemic errors and make relevant amendments to the Code.
- b. ***With the purpose to simplify tax administration cancel profit tax by increasing dividend tax rate:*** Currently, the challenge of tax administration is largely related to accounting for the purpose of income tax calculation. Cancelling of profit tax and raising of the dividend tax rate (by 20%) will a) simplify accounting for the private sector (in particular, for small and medium-size businesses that constitute the main source of creating new jobs worldwide), b) create opportunities to reinvest or use for business expansion the financial resources freed from taxation. All of the above will have positive effect on the creation of new jobs and on economic growth.

1.3.3. Create effective mechanism of tax dispute resolution

Objective, competent and timely review of tax disputes will have a significant impact on the efficiency of the business sector. Therefore, by 2020 this economic strategy envisages establishment of a specialized tax court (judges) within the unified court system on the basis of the Council of Tax Appeals operating under the Ministry of Finance. To achieve this goal, it is necessary to primarily compose the Council of Appeals with specialists who enjoy high authority and have comprehensive experience, and increase their degree of independence. It should gradually be integrated into a unified court system, as a special tax court (judges), along with the accumulation of experiences and increase of competence.

1.3.4. Create legislative and regulatory base that focuses on rehabilitation of companies

One of the important aspects of the country's investment climate is the procedures that regulate company bankruptcy and/or rehabilitation process.

Legislation and regulations currently in force in Georgia are not directed towards creating conditions for rehabilitation of distressed companies. This has negative impact on the entrepreneurship, as well as on employment and overall economy: disappearance of companies from the market becomes the reason for the loss of jobs of company employees, suppliers lose their buyer, and this negative effect has implications for the overall chain. However, it should be noted, that such an outcome would occur only as a result of bankruptcy of companies that have a rehabilitation potential. For the existing bankruptcy and rehabilitation procedures to become more oriented towards remedying businesses with potential, it is necessary to fulfill the following objectives:

- a. ***Maintain balance between the interests of creditor and debtor companies:*** government shall ensure through its legislative instruments that, in making a decision on the bankruptcy or rehabilitation of a

company, the balance between the interests of debtor and creditor companies is protected, and, in case of existence of objective conditions for rehabilitation, artificial bankruptcy of companies is not caused.

- b. *Reduce timespan of bankruptcy process:*** One of the major problems related to bankruptcy is the length of the bankruptcy process. It is preferable that the bankruptcy process (sale of assets and serving of creditors) of distressed companies that have no potential of rehabilitation takes optimal time. This will, on one hand, ensure rapid disappearance from market of bankrupted companies and on other hand, enable companies to have their demands satisfied in a timely manner.
- c. *Limit the costs of bankruptcy/rehabilitation process:*** Bankruptcy/rehabilitation is an expensive process and often major part of the distressed company's resources are spent on it. The costs related to bankruptcy include judiciary, as well as process-related (trustees, rehabilitation/bankruptcy manager) expenses.
- d. *Reform the institution of bankruptcy/rehabilitation manager:*** in order to make environment more business-oriented, it is important that bankruptcy/rehabilitation processes is managed by professionals and specialists of bankruptcy/rehabilitation, instead of employees of the National Bureau of Enforcement or any other state agency. Moreover, executive officials of bankruptcy-rehabilitation shall not be encouraged by the responsibilities vested on them by the law to concentrate on rapid liquidation of company assets, instead of company rehabilitation (if the company possesses such a potential).

Objective 1.4. Establish effective business dispute resolution systems

Establishment of an effective system of resolution of business disputes is one of the significant factors that make business environment attractive to the private sector.

1.4.1. Establish effective arbitration system

Strong and solid institution of private arbitration is an essential and leading component of business dispute resolution system. In any country a well-developed private arbitration is a subject of special interest in the process of making decisions related to international investments. Therefore, facilitating the development of private arbitration in Georgia is one of the important objectives. Furthermore, development of arbitration is consistent with the concept of turning Georgia into a regional hub: attractiveness of the business environment increases for any international investor if credible and effective mechanisms of dispute resolution are in place. The following measures shall be undertaken for the development of arbitration in the country:

- a. *With the purpose of ensuring independence of arbitration,*** competitive approach of the court system towards arbitration shall be replaced by partnership approach. This should be guaranteed by a firm decision of the government, which should be clear and explicit for the courts. It is significant that recognition and enforcement of arbitration decisions are conducted through the mechanisms

presently practiced in many developed countries. Moreover, it is important that the guarantees for protection of professional activities of arbitrators are declared and fully implemented.

- b. *To encourage high level of proficiency and professionalism of arbitrators***, government can facilitate establishment of self-regulatory mechanisms. (For example, Professional Ethics Commission). State can play an equally important role in terms of providing continuous upgrading of education and skills of arbitrators. This will require the study and analysis of mediation and arbitration, and later, trainings for mediators and judges elaborated based on this analysis. Government can also establish an analogue of special vocational schools for arbitration and mediation that are recognized worldwide. Government shall participate in coordination of the process, as well as in co-funding.
- c. *Attractiveness of arbitration shall be increased*** through limiting the fees imposed on notifications of arbitration decisions and enforcement, and also by reducing the timeframes for arbitration decisions, notification and enforcement.

1.4.2. Establish strong institute of mediation

Strong institute of mediation is an important part of dispute resolution system. In order to introduce commercial mediation, amendments need to be made to the respective legislature, and moreover, the institute of mediation shall be legally regulated.

1.4.3. Improve effectiveness of judiciary system in terms of business disputes

Although the existence of well-developed private arbitration and mediation in itself ensures resolution of majority of main business-related disputes, highly efficient courts that handle business disputes are undoubtedly essential.

- a. *In order to ensure high professionalism of judges*** in business dispute resolution, certain standards of knowledge and qualification shall be introduced: government can coordinate with domestic and international experts and elaborate training programs that will ensure constant and continuous upgrade of qualifications. In addition, it is important to elaborate and introduce court practice generalization and analysis system.
- b. *In order to establish an effective and flexible proceedings mechanisms*** one of the main decisions should be the limitation of proceedings' timeframes. Moreover, it is important to have a simplified system of court-related information flow and sharing.

Objective 1.5. Support increase of access to finance

Currently there are only two sources of funding the private initiatives in the country: private capital and bank loan. This scarcity significantly limits the development of private sector. To support business growth and development, it is important to find alternative sources for financing private initiatives. To achieve this objective, measures need to be taken in the following directions:

1.5.1. Through public-private partnership funds ensure access to finance for innovative projects that support development of industry

Innovative projects the funding of which is beyond the capacity of private sector actors and that are important for the national economy and for development of one of its sectors, can be financed through the **public-private partnership funds (PPP)**. To make sure that private-public partnership fund does not have a negative effect on the competitive environment, the following conditions need to be met:

- The structure and policy of public-private partnership funds shall be consistent with the regional and sectorial analysis conducted for the economic development of the country;
- Decisions made by public-private partnership funds on their participation in investment projects shall be based on free market principles and these principles shall be fully observed. Projects financed by PPP funds should not benefit from administrative resources or any other kind of privilege.

Investment policy of these funds shall be clear and declared in advance; business sector should take active part in its elaboration; it is important to identify and consequently strictly abide to the following components of the policy:

- a. Criteria for project financing:* the fund shall finance projects which 1) create additional value, 2) are innovative (in the context of process, sector, product) 3) cannot be financed only through the private sector 4) are beneficial to other related sectors too.
- b. Participation of the funds in investment projects and the form of exiting the project:* PPP fund should finance private initiatives through the participation in private equity. The mechanism for exiting the private initiative shall be sale of shares. Shares can be sold in the following manner: other shareholders should enjoy the advantage of buying shares first. If they will not/cannot buy out the shares, the shares will be sold to external shareholders. If within the established timeframe shares cannot be sold due to their volume, they will be sold by placing a public offer, and the shares will be put out on the stock market.
- c. Timeframe for participation of funds in specific investment projects:* the duration of participation of the PPP fund in a private initiative shall be no more than ten years. Ten years is a reasonable period of time for the projects to deliver outcomes and continue its operations independently.
- d. Identification of the criteria for success of a project and establishment of monitoring mechanisms:* PPP fund is aimed at facilitation of development of certain sectors, products or services, at supporting the innovative high-tech businesses to jump-start operations. In order for the efforts undertaken by the fund to achieve its goals, each financed project shall have clearly defined results and the timeframes within which it is going to achieve these results. Besides identification of the results, it is essential that an effective, non-bureaucratic monitoring of mechanisms is in place.

- e. *Participation in management:*** To make sure that initiatives funded by the PPP fund are not allowed to abuse administrative resources and thus get involved in an unhealthy competition with other businesses, the government shall not participate in the management of the financed projects. Instead, it should have the mechanism in place to conduct monitoring of the outcomes of the project within the pre-defined intervals. In case of failure to meet the set results, PPP fund should have a mechanism to exit the project in an effective manner with minor expenses.

1.5.2. Implement pension reform: introduce second pillar

The pension system currently operating in Georgia is based on the so called “Pillar III” model that is practiced internationally, which is fully voluntary, does not include any encouraging mechanisms and is relatively deregulated. This model, on the one hand, is less popular among the population, since it does not imply any type of tax incentives, while on the other hand, due to the relatively weak regulations, it is accompanied by high risks for those possessing savings. Therefore, this model fails to provide for accumulation of long-term and more affordable financial resources.

This strategy envisages elaboration of a new private pension system in accordance with the “Pillar II” model. Within this model:

- Certain percentage of income taxes paid by citizens will be transferred to private pension funds so that the overall tax burden of citizens does not increase;
- Government will introduce additional taxation mechanisms, thus creating incentives for citizens to transfer additional funds from their income to these funds;
- Funds and asset management companies shall be separated and activities of each of them - closely regulated, limits of risks and authorities of respective entities – defined;
- It is appropriate, particularly at the initial stage, to establish limitations based on which investment of the fund assets would be possible only in Georgia. This will ensure that mobilized financial resources stay inside the country and stimulate the economy.

1.5.3. Develop capital markets

For the emergence of alternative financial resources, capital markets should develop consistently. Through the capital markets available resources will be effectively channeled to efficient enterprises. It also stimulates savings and promotes investments, since the funding of initiatives is conducted in a more organized and credible manner. The following steps need to be undertaken to create a foundation for the proper functioning of capital markets in the country:

- a. *Encourage transparency in companies:*** Government should encourage companies willing to participate in the capital markets to make their financial records available for public. This will significantly increase trust of investors and potential investors toward companies.

- b. *Encourage improvement of corporate management in private sector:*** proper corporate management is a pre-requisite for the development of capital markets. The way rights and responsibilities are distributed within the company, how the decisions are made, which rights does the majority and minority shareholders enjoy, define the willingness of an investor to buy shares of a company through capital markets. In developing capital markets, it is necessary for the government to encourage companies in a way that supports improvement of their management.
- c. *Attract ranking agencies:*** It is critical for the development of the capital markets to have a system of evaluation of securities. It is the role of the government to coordinate entrance of international ranking companies in Georgia on the basis of domestic companies or in a direct manner.
- d. *Development of stock exchange*** stock exchange is an instrument necessary for the functioning of capital markets. It provides an organized trade with public securities. For its development there is a primary need for creating legislative and regulatory base that will provide conditions for the companies to trade securities on the stock exchange.

1.5.4. Support increase of national saving

National savings of Georgia constitute 16% of the GDP (2012, *National Bank of Georgia*). This figure is significantly lower than that of similar economies. Low rate of national savings negatively affects the availability of financial resources. Increase of national savings rate is particularly important at this stage of development, when economic growth requires significant investments in different directions. The following objectives have to be accomplished to increase national savings:

- a. *Increase the level of financial literacy of population:*** it is necessary that state increases level of population's financial education so that they can better manage their finances and therefore have a better understanding of the importance of saving. To this end, the following short-term and long-term plans shall be implemented:
 - Short-term program: state should conduct an extensive information campaign that encourages population to save and which clearly outlines the benefits of saving. Moreover, within the program the types of savings currently available on the market and their best uses will be explained to the audience;
 - Long-term program: government should ensure that basics of financial education are integrated in the primary education syllabus. By applying such an approach, citizens will develop basic economic skills from an early age and it will be easier for them to use various financial instruments.
- b. *Replacement of cash with electronic money:*** one of the effective methods of increasing national savings is to replace existing cash in circulation with electronic money. This will ensure transfer of population's savings from cash to electronic money and these funds will be accumulated in financial institutions. To achieve this it is necessary to:

- (a) Conduct an extensive information campaign which will encourage both, consumers and suppliers of products/services to use electronic money;
- (b) Create a mechanism that will encourage employers to distribute salaries electronically, e.g. electronic distribution of salaries can become less costly than distribution in cash.

Objective 1.6. Increase effectiveness of public service agencies and natural monopolies

Business environment of a country is largely defined by the effectiveness and proper functioning of such public services as border crossing points, public registry, customs checkpoints, tax service, etc. It is critical that consumers receive high quality services. High quality service implies service plus², as well as necessary competences.

Besides public services, it is important that natural monopolies improve the quality of services for entrepreneurs and in providing services significantly reduce the level of bureaucratic barriers to investors; particular attention should be diverted to controlling the quality of services.

The quality of services is largely improved by the transition to electronic systems. Therefore, it is necessary to continue and complete the process of transition to electronic systems in public services by 2020. This process shall involve not only public offices but natural monopolies as well.

This is especially important when the national economic strategy envisages transition of the country into a regional hub. Therefore, in every public office or natural monopoly which business entities and investors deal with, quality should be placed under particular control.

Objective 1.7. Create formal systems of communication between business and government

Businesses and government need to have a systematized, formalized communication. This mechanism will channel the feedback on economic issues from the business and ensure its involvement in economic decision-making.

Below are ways of formalizing and systematizing the communication:

- a. *Encourage development of associations:*** by strengthening sectorial and cluster associations, government will create conditions for developing a strong institutional foundation for the development of the private sector. Strong business association will be able to help companies in their cooperation with government agencies, studying of export markets and in solving general business-administrative or developmental problems. With the purpose of strengthening associations, state can 1) introduce vocational training programs through which local business association representatives will go through the internships in the similar associations of successful countries. Internship programs should last for a certain period of time, such as five years, to make sure associations do not become

² *In service plus we mean customer service standard: politeness, friendly attitude, helpfulness, fast and nonbureaucratic service.*

dependent on the support of government, but instead turn into a self-sufficient organizations (2) provide technical support for the associations in conducting studies on developing sectorial and other businesses (3) give a formal shape to the engagement of associations in developing sectorial strategies.

- b. *Ensure by legislation engagement of businesses in the process of making economic decisions:*** business sector in the form of business community shall be a member of a commission or a working group that deals with the development of economic policies.
- c. *Constant communication between the government and businesses:*** the government and businesses should lay out issues important to business sector and elaborate ways to solve these issues in the form of annual working conferences. Furthermore, they should summarize the previous year and evaluate the outcomes of their mutual cooperation.

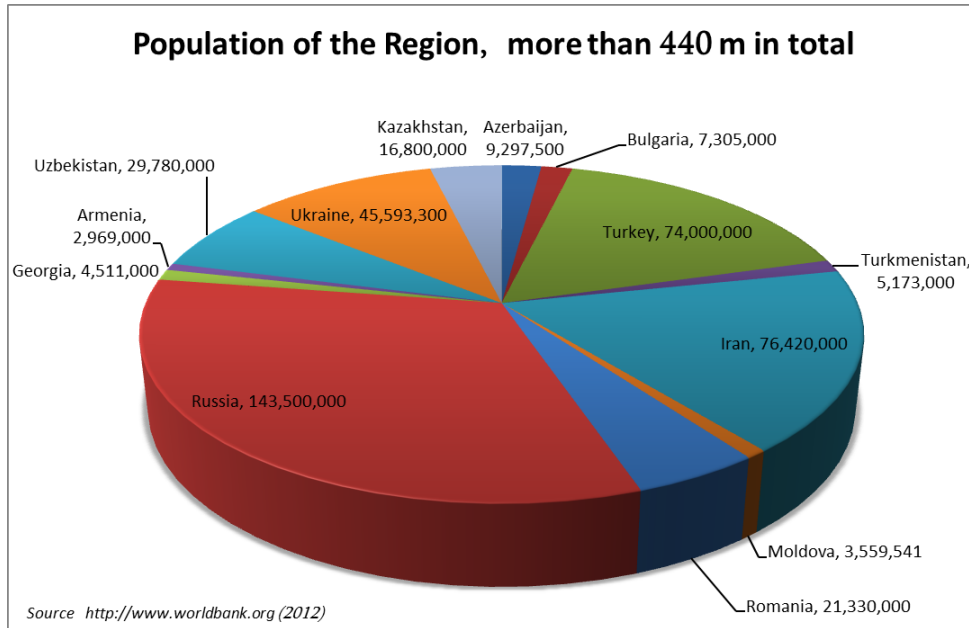
Formalizing and organizing the channel of communication will ensure that government takes informed decisions. This, on its part, will have positive implications on the quality of decisions and overall economic development.

Objective 2. Transition of Georgia into a Regional Hub

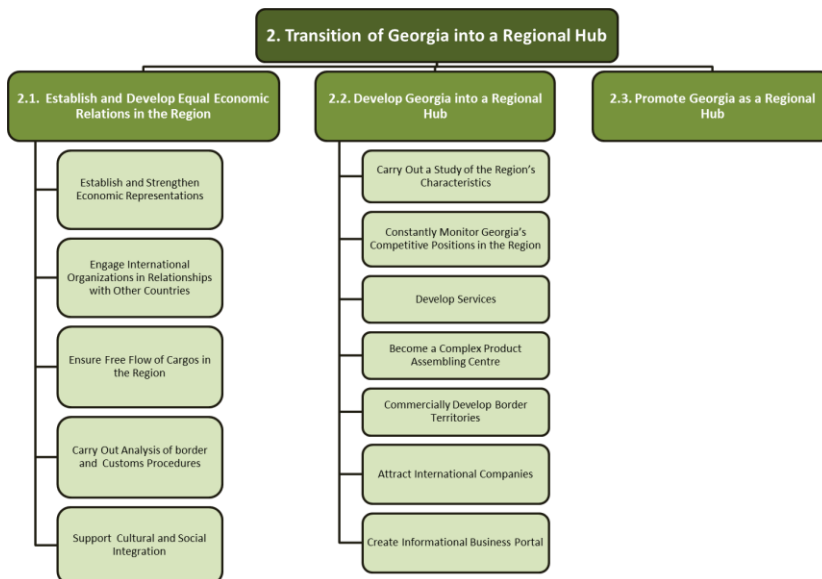
In order to analyze Georgia's role of a regional center, it is vital to have a full picture of the region. Region implies geographic area, which, by its size, represents an attractive market for investments. Region, apart from Georgia, includes 12 countries from the Black Sea and Caspian Sea basins: Armenia, Azerbaijan, Bulgaria, Iran, Kazakhstan, Moldova, Romania, Russia, Turkey, Turkmenistan, Ukraine, and Uzbekistan. Total number of population of these countries, including Georgia, amounts to more than 440 million, that, obviously, represents rather an attractive amount for any local or international company focused on export and development (*economic indicators of the countries of the region are provided in the appendices: 3, 4 and 5*). In the course of any political or economic activities, Georgia should bear in mind the characteristics and requirements of these markets and perform the function of the regional hub.



Pic. 4. Map of the region.



Pic. 5. The structure of the region's market according to the countries



Pic. 6. The diagram of the second objective of Georgia's Economic Strategy

Objective 2.1. Establish and develop equal economic relations in the region

Development of economic relations with the countries in the region should be high on the political agenda. It is essential that the modes of cooperation are continuously discussed with the countries of the region in order to establish equal, partnership relations in the region. In addition to the diplomatic efforts, it is necessary to resolve the following issues for improving and enhancing economic cooperation:

2.1.1 Establish and strengthen economic representations

In each country of the region it is significant to have an official representation of Georgia, which will actively work towards establishment and strengthening of economic relations in the said country.

2.1.2 Engage international organizations in relationships with countries of the region

In order to increase efforts to address economic issues in the region, it is necessary that Georgian authorities engage in this process such influential international institutions as the World Bank, International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD), World Trade Organization (WTO) and International Finance Corporation (IFC).

2.1.3 Ensure free flow of cargos in the region

Economic team of the government and the Ministry of Foreign Affairs of Georgia shall coordinate and stimulate their work in order to identify and resolve such problems that pose a threat to the free movement of goods between the countries of the region and diminish Georgia's competitiveness with respect to other routes. Free movement of goods in the region, and especially in the neighboring countries, shall be ensured within the shortest period possible. For this purposes, the government shall intensively and proactively cooperate with the relevant state agencies of the neighboring counties.

2.1.4 Carry out analysis of border and customs procedures

It is essential to analyze in detail the border and customs processes and procedures. Based on these studies, border-customs checkpoints with neighboring countries shall be arranged in a way that significantly increases their traffic capacity in Georgia, as well as in the border checkpoints of the neighboring countries.

2.1.5 Support cultural and social integration:

In order to turn Georgia into a regional hub, social, cultural and intellectual integration with the countries of the region is of paramount significance. Integration will be fostered by elaborating and introducing various cultural and educational exchange programs. Through these programs, these countries' citizens, who possess outstanding intellectual or cultural potential will be able to visit Georgia for sharing academic, as well as professional experience and gaining knowledge.

Objective 2.2. Develop Georgia into a regional hub while considering characteristics of the markets of the region

In order for Georgia to perform the role of the regional hub, it is essential that economic decisions made at any governmental level are consistent with this strategy. The following steps shall be taken for these purposes:

2.2.1 Carry out a study of the region's characteristics

First and foremost, government shall conduct a research of the markets of the region. The research shall identify those products/services that enjoy the largest demand in the countries and that are mostly imported. Based on the characteristics of the region, it is important to identify relevant sectors the development of which entails high export potential and to create sectorial development plans.

2.2.2 Constantly monitor Georgia's competitive positions in the region

In order to develop the concept of regional hub, it is of vital significance that Georgia becomes the most attractive place to do business in the region. For these purposes, the government authorities should be aware of the advantages and disadvantages Georgia possesses in comparison with other countries in the region with respect to such issues, as tax environment, regulations, well-functioning of institutions, etc. This information will assist the state in maintaining competitive advantage and eliminate the shortcomings.

2.2.3 Develop services based on the results of the research of region's characteristics

Services constitute such a direction that ensures both employment and economic growth. The diagram below illustrates that between the manufacturing and services, the latter better achieves both goals - employment and economic growth. Therefore, the present Economic Strategy shall foster development of such services that meet the needs of the region and bear high added value.

Figure 3.3: Georgia: Sectoral Employment and Productivity, 2004-09

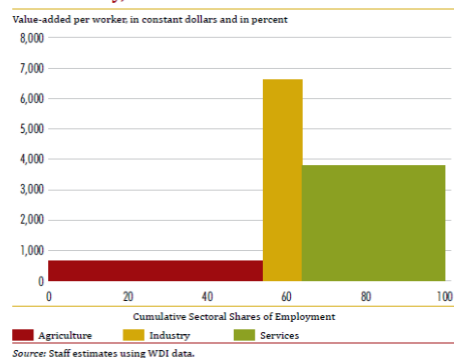
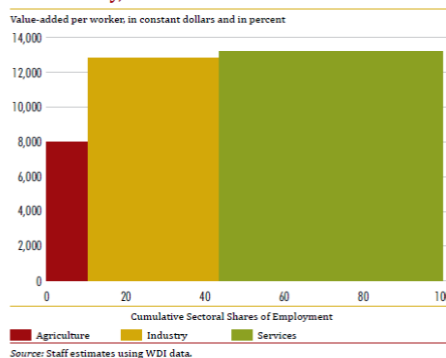


Figure 3.4: EU10: Sectoral Employment and Productivity, 2004-09



Pic. 7. World Bank, Country Economic Memorandum, July 2013.

2.2.4 Become a complex product assembling Centre

Georgian government shall promote the development of assembly of those products that:

- (1) meet the requirements of the region, based on the research of regional characteristics (*See, objective 2.2.1*);
- (2) are deemed innovative, technological products and their assembly in Georgia will trigger the development of high-tech skills in local workers;
- (3) have the so-called cluster development potential that, along with the assembly of the products, implies development of local manufacturing of some of their components.

2.2.5 Commercially develop border territories

The government shall support and coordinate development of such commercial facilities around the border check-points that will provide population of the neighboring countries with necessary/desired services and products. In this process government shall fulfill the function of a facilitator and provide necessary infrastructure on these territories for its commercial advancement.

2.2.6 Attract international companies

Economic team of the Government shall make significant effort to attract foreign international companies to set up regional representative offices in Georgia. Proactive work of the government in this direction is a key factor. Economic team shall hold regular meetings with leading international companies and inquire from international companies what conditions are necessary for them to consider Georgia a regional center and to establish their representations in the country.

2.2.7 Create informational business portal

In order to simplify the procedures for the investors in terms of conducting their activities and dealing with bureaucratic processes, significant emphasis shall be made on the establishment of a unified business portal that delivers information on Georgia and its economy to relevant stakeholders. Most importantly, the portal shall serve as a practical guideline whereby the entrepreneur can obtain information regarding the place, period and the price of the public services they need.

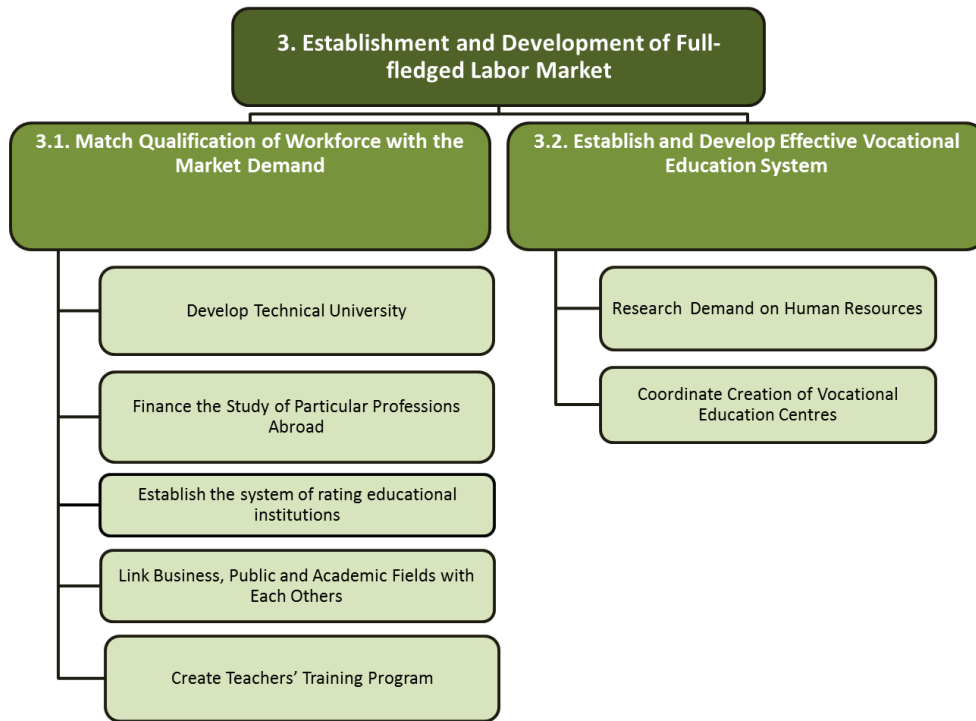
Objective 2.3. Promote Georgia as a regional hub

One of the indispensable means for turning Georgia into the regional hub is the relevant branding and positioning of the country. Enormous efforts are yet to be made by Georgia to be able to form and establish an image of a regional center.

It is of vital significance that the country's promotion strategy comes into full compliance with the regional hub strategy. Under the present strategy, efforts shall be made with several target groups to portray Georgia as the most attractive country in the region in terms of doing business and purchasing services and products. These target groups are:

- a.* Regional investors;
- b.* Consumers of the region;
- c.* International companies;
- d.* Organizations that work on economic and financial policies (World Bank, International Monetary Fund, International Finance Corporation, European Bank for Reconstruction and Development).

Objective 3. Establishment and Development of Full-fledged Labor Market



Pic. 8. The diagram of the third objective of Georgia's Economic Development Strategy

Currently, one of the critical challenges for Georgia is to improve the labor market. Supply in labor market does not meet market demands. This not only significantly diminishes the country's productivity, but also boosts the costs incurred for human resources (frequently the necessity arises to invite foreign professionals, which entails heavy expenses). All said above are negatively reflected on the competitiveness of Georgia both on international, as well as on the regional scale. In order to eliminate labor market shortcomings, the following objectives shall be met:

Objective 3.1. Match qualification of work force with the market demand

One of the deficiencies of a labor market is that the workforce skills are not in line with the market demand. It implies several triggering factors and one of them is the inefficiency of an educational system. Ways to achieve the objective 3.1 are illustrated below:

3.1.1. Develop technical university (based on existing or new institute)

For the country to obtain and maintain competitive position in the era of knowledge-based economies, teaching of technical and natural sciences with a proper quality is essential. For these purposes technical university shall be established in Georgia in partnership with the leading international universities. Cooperation with the leading international universities will create an opportunity to transfer international knowledge and practices to Georgia in a timely manner. It is also necessary to solve the problem of abundant supply of institutes.

3.1.2. Finance study of particular professions abroad

Government shall determine professions that are deficient in the market and research the degree of demand on these professions. Thereafter, based on these data, government shall finance studying of deficient professions abroad. It is essential that the mechanism is formed, which guarantees the return and employment of persons acquiring profession, otherwise these projects will foster brain drain from the country and the real economic result will not be achieved. In addition, students financed by the state shall be given a choice to return to Georgia or pay back the scholarship in certain period of time.

3.1.3. Establish system of rating educational institutions

The existence of rating system that will rank educational institutions will support the improvement of their quality. Such ranking systems are widely used in the advanced countries of the world. The rankings enable potential students to compare various educational institutions according to the quality of teaching, curricula, and employment perspectives. Rankings, on one hand, make potential students more informed and on the other hand, encourage sound competition among the institutions. Due to these reasons the government should support the creation of such system in the country.

3.1.4. Link business, public and academic fields with each other

Setting up of this system is crucial in terms of bringing the county's education policy in line with the economic strategy of Georgia. The system shall ensure that:

- (1) the academic sector is aware of private sector's requirements and the criteria the graduates shall meet for the employment;
- (2) government is aware of the existing business development trends and plans accordingly how to make the educational system consistent with these trends.

3.1.5. Create teachers' training program

In order to solve educational problems in timely and optimal manner in terms of expenses, teachers'/professors' training program shall be introduced, which shall aim at amplifying the number of highly skilled teachers/professors in the country. The following measures shall be taken in this respect:

- Initially send selected teachers/professors abroad (in the leading universities) for them to obtain Masters or Ph.D. Degrees in priority sectors;
- After obtaining degrees abroad, teachers/professors shall share acquired knowledge with professors of various educational institutions in order to accumulate a solid number of skilled professors in the country within a short period of time.

Objective 3.2. Establish and develop effective vocational education system

For the training system to be effective, particular steps shall be taken towards both market demand and supply. Furthermore, such decisions shall be informed, i.e. they shall be based on already conducted researches. The following objectives shall be met for creation of an effective system of vocational training:

3.2.1. Research of demand on human resources

It should be identified what type of universal skills and specific knowledge the workforce is lacking (e.g.: English language, services, etc.).

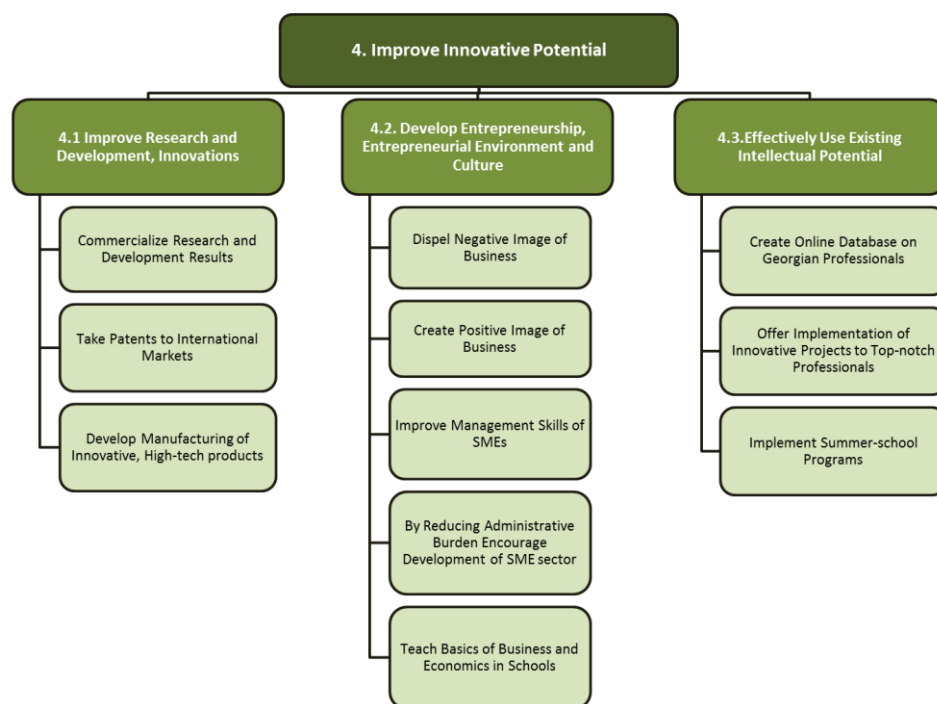
3.2.2. Coordinate creation of vocational education centers

Government shall play a role of a coordinator in this process. For the effective functioning of vocational training centers, they shall be operated by the private sector. For the purpose of efficiency of vocational training centers, the following measures shall be taken:

- The center shall meet the teaching standards recognized by the employers;

- The center shall accept students based solely on the standardized test. An exam shall be competitive and be held by such center as the National Examinations Center;
- Universal skills (e.g.: English language, service plus) and special skills shall be taught in the center. Special skills shall be taught based on specific order;
- Students' tuition fee in the center shall only partly be funded by the state. A private company shall co-fund the tuition fee if special skills are the subject of teaching, or tuition fee should be co-paid by students in case they study universal skills. Standardized test scores shall determine the amount of the funding allocated by the state.
- The center shall train such amount of people that is relevant to the market needs, so that the graduates are actually employed. Providing excessive number of specialists to the market will result into the concussion of image of the center and loosing of trust in the training institutions.
- The center shall deliver to the “students” only such skills and knowledge which the market needs.
- Center curriculum shall include theoretical and practical parts. It is crucial that the practical part be taught in real and operational companies (enterprises, factories) for the students to actually work and gain knowledge on the ground. The state shall stimulate the private companies to participate in such a program.
- Promotion of the training center shall be carried out among potential students. For these purposes, it is necessary to: a) advertise success stories; and b) increase the prestige of the center by means of changing its name and introducing certification system, in order to avoid its association with professional-technical educational institutions (the so-called “Technicums”). Acceptance in the institutions shall be conducted based on the competition. In case of impartial competition, the “students”, as well as the employers will have an increased trust in the center.

Objective 4. Improve innovation potential



Pic. 9. Diagram of the fourth objective of Georgia's Economic Development Strategy

Development and perfection of innovation potential shall be one of the cornerstones of a long-term, sustainable and fast economic growth. Role of the state in this direction is of paramount importance. The government is able to considerably encourage development and use of innovations via applying various instruments available to the government in the private sector. For instance, the state can encourage investments in innovations by applying taxation tools.

Objective 4.1. Improve research and development, innovations

In order for the country to transform to a knowledge-based economy and create a high value-added services or products, it is essential to foster research and development. Works are to be done in several directions:

4.1.1. Commercialize R&D results

Government shall perform a function of a coordinator between the business and universities/institutes, so that the business is able to deliver its requirements to the research organizations, and the science field can

match its products with the business requirements and present their work to business sector. Moreover, in order to encourage research and development and application of their results in business, on an initial stage, state's financial support is essential. R&D project shall receive state funding only in the occasion when the business itself is interested in the project and is ready to co-finance the part of the research.

4.1.2. Take patents to international market

With the state effort, Georgian patent database shall be linked to the international database. This shall facilitate bringing of Georgian patents to the international market.

4.1.3. Develop manufacturing of innovative, high-tech products

In order to create a solid platform for the development of innovations in the country, in the course of initial 5-7 years, patents of innovations shall be purchased throughout the world, modified and further commercialized. Through this practice, the country will be able to collect some knowledge and create commercial innovations itself in a certain period of time.

Objective 4.2. Develop entrepreneurship, entrepreneurial environment and culture

Current attitude of the society towards entrepreneurs is in no way relevant to the country with market-based economy. To resolve this problem, proper work shall be carried out with different circles of society.

4.2.1. Dispel negative image of the business in the society

It is fundamental to change an attitude of policy-makers, media and the broader society towards business. Business shall be considered by the society the primary source of jobs.

4.2.2. Create positive image of business

Government shall make efforts and plan special advertising-information campaigns aimed mainly at improving the image of an entrepreneur and businessman in the society.

4.2.3. Improve management skills of small and medium entrepreneurs

Business development and growth is mostly conditioned by its management. Today, management of small and medium enterprises is not in line with the desired standards. Funding by the state of teaching of various subjects for entrepreneurs in private training centers shall facilitate improvement of entrepreneurship. In this regard, it is important that a provider of services is a private company, as well as that the selection of entrepreneurs is conducted based on competition.

4.2.4. By reducing administrative burden encourage development of SME sector

Frequently, small enterprises and start-up companies have difficulties developing because of such obstacles as office and office inventory costs, consultation (accounting and legal) services. Government can set up

cluster incubators in the innovative fields, where small business representatives will have an opportunity to work in an office environment with a minimum membership fee. The same incubators shall offer consultations to the businesses in accounting, legal matters, business planning, marketing and sales.

4.2.5. Teach basics of business and economics in schools

Considerable importance is attached to teaching the basics of economics and business in schools from the elementary grades. This will result in developing economic reasoning in young generation. Also, in long-run, this will create basis for entrepreneurship.

Objective 4.3. Effectively use existing intellectual potential

A great deal of intellectual potential is accumulated among the citizens of Georgia currently living abroad. This potential needs to be applied effectively and it should be directed to resolving educational or innovative challenges in the country. This can be achieved in the following manner:

4.3.1. Create online data-base on Georgian professionals living abroad

The state shall coordinate the process of creation of a unified online database, which shall cover information on Georgian professionals living abroad in different countries. This information will be helpful for a state, which desires both to invite professionals in the country within various programs, as well as for private businesses searching for relevant professionals for different positions.

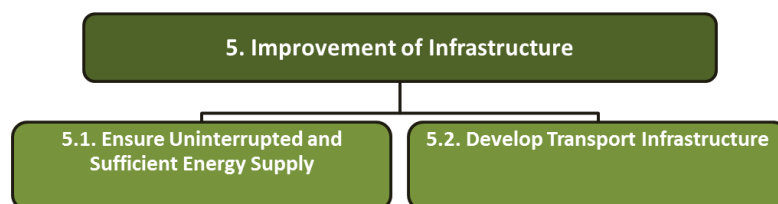
4.3.2. Offer implementation of innovative projects to top-notch professionals

Government shall offer leading, challenging and innovative projects to top-notch professional that work in niche fields abroad. In particular, government should suggest them to lead the development of the same fields in Georgia; example of such an offer can be an establishment and management of niche, high-tech hospital.

4.3.3. Implement summer school program

Government shall encourage successful professionals living abroad to come to Georgia for summer school programs and deliver seminars/classes in various regions. This will notably effect young people's motivation to discover various professions. This will eventually have a positive impact on the workforce.

Objective 5. Improvement of Infrastructure



Pic. 10. Diagram of fifth objective of Georgia's Economic Development Strategy

Planning and development of national infrastructure shall be in full compliance with the strategy of developing into a regional center. Each infrastructural project shall be reviewed in the context of consistency with the plan of becoming a regional center and respective decisions shall be made only based on it.

Objective 5.1. Ensure uninterrupted and sufficient energy supply

It is essential that industrial and tourist centers countrywide are fully supplied with continuous sources of energy. This will require building of domestic and regional alternative transmission lines and their connection to industrial and tourist centers. Besides, it is significant to reduce current connection barriers.

Objective 5.2. Develop transport infrastructure

For comprehensive implementation of the strategy, it is important to develop the road, rail, air and sea infrastructure. Transport infrastructure, which implies completion of constructions of central roads, and connection of proper highways and railroads to industrial and tourist centers, shall develop in accordance with the concept of regional hub. Moreover, it also requires:

- Development of maritime ferryboat movement with every country of the Black Sea basin and creation of capabilities for receiving large cargo ships;
- Intensification of air flights with regional countries and increase of the number of more affordable flights within the region;

- Building of logistics centers along the national borders and inside the country close to transportation hubs; To achieve regional leadership positions and attract international companies, state should arrange logistical centers using advanced, modern technologies.

Along the transport and energy infrastructure, it is critical to increase competitiveness of Baku-Tbilisi-Ceyhan railway route in relation to cheaper routes on the territories of neighbouring states. To achieve this, it is necessary to negotiate with the partner parties and take mutually beneficial decisions.

Moreover, it is important to develop telecommunications and information technologies. At the initial stage, it is particularly important to raise the level of internet coverage in the most part of the country.

A d d i t i o n

1) Structural and Organizational Support for the implementation of the Strategy

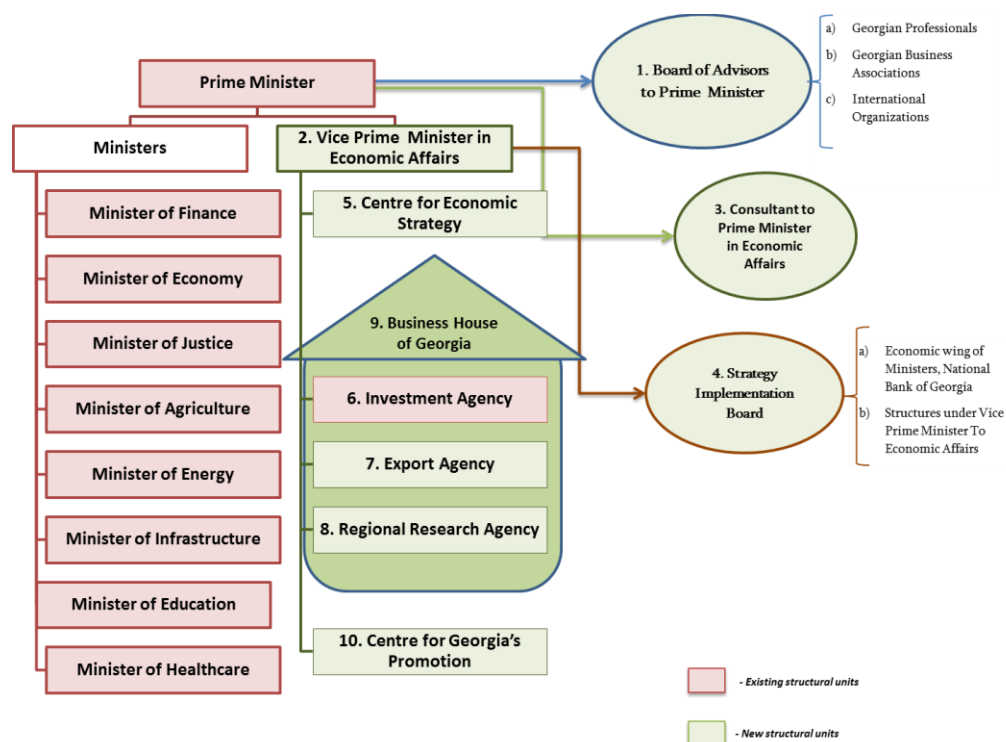
Efficiency and effectiveness of the strategy is largely conditioned by its translation into action plans and creation of such management infrastructure that will be able to effectively implement the strategy.

After the adoption of the strategy, each strategic objective or task should be distributed to the respective ministries/public agencies and identified responsible persons on each of them (project managers), who will process the task in detail. The process of distribution of objectives, identification of responsible persons and development of detailed action plans should be preferably completed by November 2013 to ensure that from the beginning of the year comprehensive fulfillment of the strategy is made possible.

In addition to the development of action plans for the strategy implementation, it is necessary to create an effective management infrastructure.

In the suggested structural organization the diagram of which is provided below, major emphasis is made on the economic direction.

It is essential to note that suggested structure implies more effective allocation and optimization of administrative resources. The structure does not aim to add new bureaucratic burden on budget expenses.



Pic. 1. The Structure for the implementation of the strategy

Focus on economy is reflected in new structural entities and two collegial councils. Each structural entity is discussed in more detail below:

1. Board of advisors to the Prime Minister

Involvement of various professional parties in the process of elaboration and implementation of the economic strategy results in a very balanced and informed economic decisions. Therefore, the suggested structure includes the Board of Advisors to the Prime Minister, main function of which is to discuss strategic economic decisions and provide recommendations to the Prime Minister.

The Council should preferably be staffed by:

- a.** Georgian professionals educated in the leading universities and who possess rich professional experience;
- b.** Representatives of domestic business associations;
- c.** International organizations.

Selection of the Board of Advisors in such a manner will engage all important stakeholders in the elaboration of the economic policy. Preferably, number of the board members should not exceed 9 people to ensure effectiveness of communication and discussion. With the chairmanship of the Prime Minister,

board meetings will be held on a quarterly basis, where strategy implementation, as well as important economic initiatives will be discussed.

2. Vice Prime Minister in Economic Affairs

For strengthening of the economic direction in the country, it is necessary to appoint a high-ranking public official responsible for elaboration and implementation of the strategy. To this end, the structure proposes introduction of the position of the Vice Prime Minister in Economic Affairs. Vice Prime Minister is not under any ministry. Instead, its main function is to develop economic strategy, coordinate various ministries with regards to economic issues and monitor implementation of the strategy.

Under the Vice Prime Minister (except for the ministries) are such structural units that are directly responsible for the implementation of the economic strategy. These units are the following:

- Centre for economic strategy
- Investment agency
- Export agency
- Regional research agency
- Centre for Georgia's Promotion

Furthermore, Vice Prime Minister will head the Strategy Implementation Board.

3. Consultant to Prime Minister in Economic Affairs

Structure creates the position of the Consultant to the Prime Minister in Economic Affairs. Consultant in economic affairs is an internationally recognized professional with rich experience in this field.

This new structural unit is aimed, on one hand, at sharing world's best practices and experiences and on the other hand, at strengthening international support towards the national economic vision and raising the prestige of the country.

4. Strategy Implementation Board

Various ministries and government agencies are involved in the implementation of the strategy. Proper communication and coordination of their work is critical for the successful implementation of the objectives identified in the strategy. To this end, the structure creates a collegial body – Strategy Implementation Board, which is coordinated by the Vice Prime Minister in Economic Affairs. It is composed by:

- a.* Ministers of Economy, Finance, Justice, Energy, Infrastructure, Agriculture and Education, as well as President of the National Bank.

- b.* Heads/Chairpersons of Investment agency, investment group, export agency, marketing group and regional research agencies.

Executive Council meets monthly and discusses the status of implementation of the objectives envisaged in the strategy.

5. Centre for Economic Strategy

Economic development strategy requires annual renewal, and constant monitoring. Therefore, management structure requires a secondary unit responsible for the above processes. For this purpose the suggested structure creates an Economic Strategy Center. This center is under the Vice Prime Minister in Economic Affairs and its main function is to coordinate the development of the strategy and to monitor the strategy implementation. In addition, it provides analytical support for these processes.

6. Investment agency

Keeping in mind the economic goals of the country, investment agency has a particularly significant role and it should develop as a separate structural entity under the Vice Prime Minister in Economic Affairs. Main functions of the agency will be to identify the right investors and conduct negotiations with them, as well as transfer the feedback received from investors to the economic team.

Agency branches will be located in every country that has an investment potential.

Preferably, overseas branches of the agency will be composed of both Georgia, as well as local professionals.

7. Export agency

For the economic development it is essential to use country's export potential. Apart from strengthening competitiveness of domestic products and services, it is essential that export oriented companies are provided with technical assistance. For this purpose, the structure creates an export agency. The agency is under the Vice Prime Minister in Economic Affairs and its main functions are the following:

- Study of export related barriers and coordination of various agencies to eliminate them;
- Assistance of Georgian exporters in solving bureaucratic issues and finding partners.

Export Agency will have representatives in every country in the region that Georgia considers as an important partner.

8. Regional Research Agency

Turning Georgia into a regional hub is one of the central objectives. To achieve this objective, it is necessary, along with other activities, that Georgia supplies such products and services to the region on which there is a demand in the countries of the region.

To identify and plan for the activities to be undertaken in this direction, the government needs high quality analytical information. For this reason, the proposed structure creates a Regional Research Agency.

The Agency is under the Vice Prime Minister in Economic Affairs and its main functions include research of characteristics of each regional country. The Agency will have representatives in every country in the region and it will constantly observe domestic economy and study the market requirements.

The research will identify such services and products in every country of the region the demand on which is met through the import. By using such analytical information, government will develop its exports more effectively and purposefully.

9. Project: Business House of Georgia:

The proposed structure includes three organizational entities – investment, export and regional research agencies – that have offices in the region and beyond.

To ensure that the work undertaken in all three directions is effective, and at the same time, costs for running the agencies are optimal, a brand – “Business House of Georgia” shall be introduced.

“Business House of Georgia” will be a space that will combine all services, which are needed by every person who has business relationship with Georgia (the principle everything in one space). Besides the business house, this space will also host:

- a.* Investment Agency
- b.* Export Agency
- c.* Regional Research Agency

Business Houses will be located both in Georgia and abroad. Head office of the Vice Prime Minister in Economic Affairs, Strategy Center, Investment, Export and Regional Research Agencies and Centre for Georgia's Promotion will be located in the head office of the Business House – building located in Georgia.

Agencies in one space will be best equipped with capabilities to share their experiences and information, and their efforts will be more productive.

10. Centre for Georgia's Promotion

Transition of Georgia into a regional hub and a better utilization of the export potential of the country require a strong marketing support. In particular, creation of a brand “Georgia” in accordance with the above concept and promotion of this brand in the region, as well as outside of the region.

For this purpose, the structure proposes a new entity – Centre for Georgia's Promotion. This strategic unit will conduct a central work in developing the national branding strategy.

As a result of centralizing this function, activities undertaken by various ministries and public agencies to promote the country, will be consistent with the unified concept and coherent.

Georgian Promotion Center will be placed under the Vice Prime Minister in Economic Affairs. Preferably, it shall be headed by a professional who has international experience and advanced knowledge in this area.

2) Support public administration

Efficiency of public agencies and a strong and highly professional public administration plays a leading role in achieving economic goals. This can be achieved only in case the state is able to attract highly qualified personnel in the public service.

Predominantly, the main barrier to attracting such professionals is the salary and work conditions. To overcome this obstacle, it is required to create a **fund for supporting public administration**; its main function will be the provision of appropriate salary for highly qualified staff. The fund will be partially financed by the state, while another part of funding will be attracted from international and domestic donors.

Mobilized funds will be allocated for providing additions to the salary for highly proficient public service staff and for upgrading qualifications of the existing staff.

The mentioned project should be limited in time and shall preferable last for the maximum of 10 years.

The highly qualified staff is essential for the effectiveness of public service. However, in addition, government should create the system of self-control, which will constantly evaluate and monitor the quality of work performed by the public agencies.

Appendix 1: Competitive positions of countries according to main indicators

Globo Competitiveness Report 2012-2013

Rank	Major Indicators/Countries											
	1	2	3	4	5	6	7	8	9	10	11	12
	Institutions	Infrastructure	Macroeconomic Environment	Health and Primary Education	Higher Education and Training	Goods Market Efficiency	Labor Market Efficiency	Financial Market Development	Technological Readiness	Market Size	Business Sophistication	Innovation
1-9							Estonia, 10			Russia, 7		
10-19			Kazakhstan, 16 Azerbaijan, 18				Kazakhstan, 19			Turkey, 15 Iran, 18 Poland, 19		
20-29			Estonia, 20 Russia, 22	Estonia, 27	Estonia, 25		Azerbaijan, 26		Estonia, 25			
30-39	Estonia, 30		Bulgaria, 31		Poland, 36	Estonia, 31 Turkey, 38	Armenia, 30 Georgia, 35	Poland, 37 Estonia, 39		Ukraine, 38		Estonia, 30
40-49		Estonia, 41 Russia, 47 Turkey, 51		Poland, 43 Iran, 46 Bulgaria, 49	Ukraine, 47 Russia, 52		Bulgaria, 49	Turkey, 44	Poland, 42	Romania, 43	Turkey, 47	Azerbaijan, 46
50-59	Poland, 55	Georgia, 53	Turkey, 55 Iran, 57 Romania, 58		Kazakhstan, 58 Romania, 59	Poland, 51			Bulgaria, 52 Turkey, 53 Kazakhstan, 55 Russia, 57 Romania, 59	Kazakhstan, 55		Turkey, 55
60-69	Georgia, 61 Azerbaijan, 63 Turkey, 64 Kazakhstan, 66 Iran, 68	Ukraine, 65 Kazakhstan, 67 Iran, 69		Georgia, 61 Ukraine, 62 Turkey, 63 Russia, 65	Bulgaria, 63	Azerbaijan, 60	Ukraine, 62		Azerbaijan, 61	Bulgaria, 62	Poland, 60	Poland, 63 Iran, 65
70-79	Armenia, 71	Azerbaijan, 71 Poland, 73 Bulgaria, 76	Poland, 72		Armenia, 70 Turkey, 74 Iran, 78	Kazakhstan, 71 Armenia, 72		Romania, 77 Armenia, 78	Georgia, 76	Azerbaijan, 76		Ukraine, 71
80-89		Armenia, 80	Armenia, 83 Georgia, 88	Armenia, 80 Romania, 83 Moldova, 86	Moldova, 88 Azerbaijan, 89	Georgia, 82 Bulgaria, 83	Russia, 84	Bulgaria, 80 Moldova, 81	Ukraine, 81		Ukraine, 91	Russia, 85
90-99		Moldova, 92 Romania, 97	Ukraine, 90 Moldova, 93	Kazakhstan, 92	Georgia, 93			Georgia, 93	Armenia, 92	Estonia, 96 Georgia, 99	Armenia, 92 Iran, 93 Bulgaria, 97 Kazakhstan, 99	Bulgaria, 92
100-109						Moldova, 100	Romania, 104		Moldova, 104			Romania, 102 Kazakhstan, 103 Armenia, 105
110-119	Bulgaria, 108 Moldova, 110 Romania, 116					Romania, 113 Ukraine, 117		Ukraine, 114 Kazakhstan, 115	Iran, 111	Armenia, 115	Romania, 110 Georgia, 113 Russia, 119	
120-129							Turkey, 124	Iran, 123		Moldova, 121	Moldova, 120	Georgia, 126
130-139	Ukraine, 132 Russia, 133					Russia, 134		Russia, 130				Moldova, 135
140-144							Iran, 141					

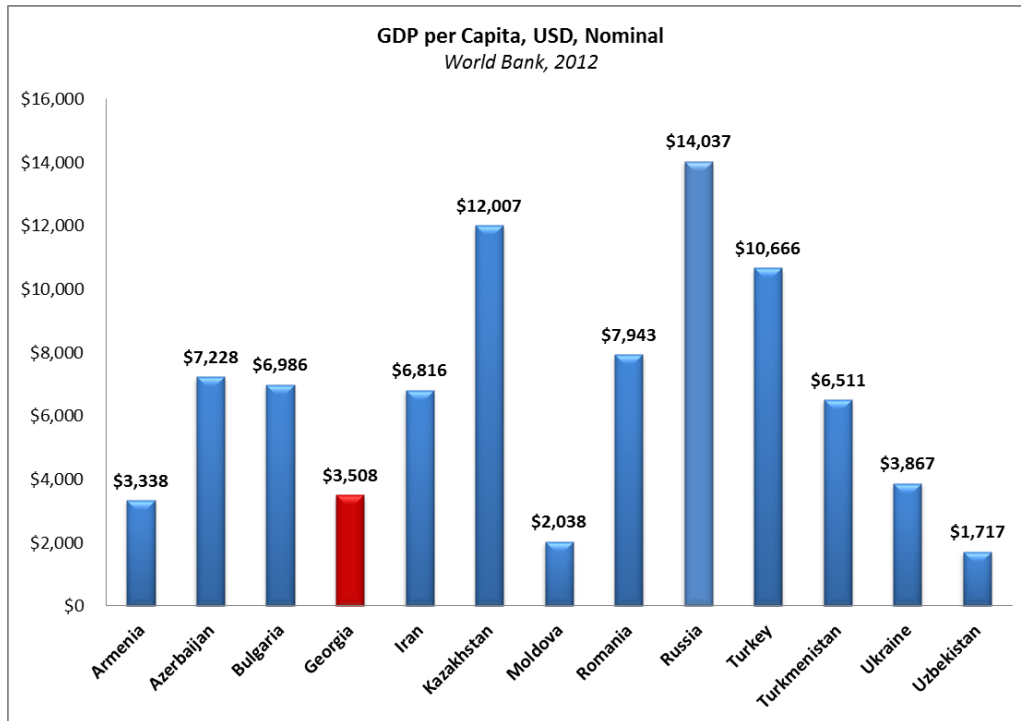
Source: World Economic Forum, Global Competitiveness Report 2012-2013

Appendix 2. Georgia's competitive position among 144 countries

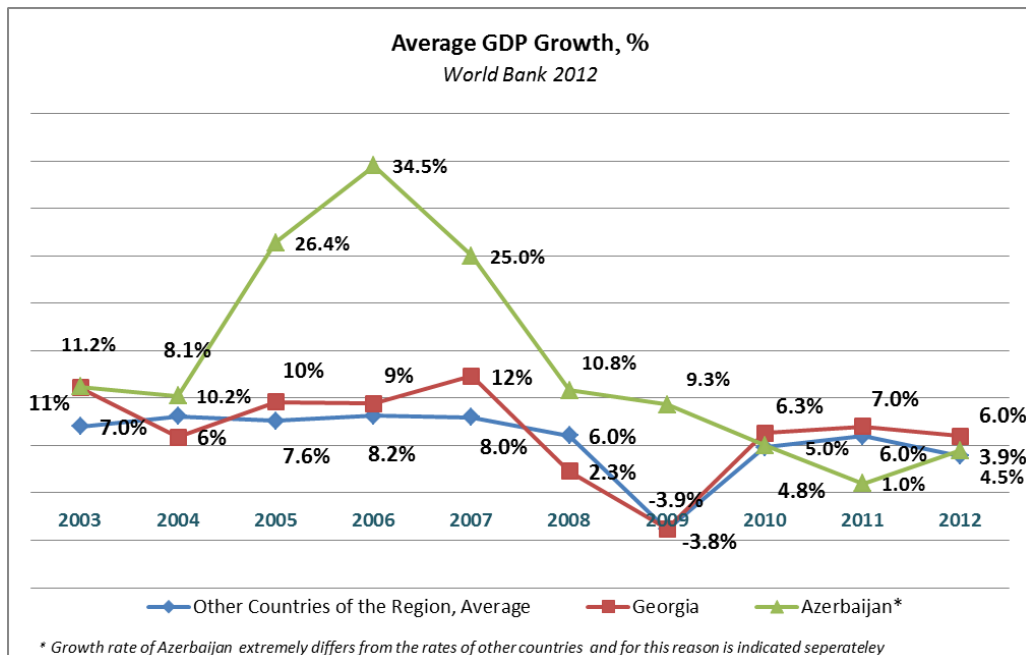
Georgia's Competitive Position among 144 Countries		
1. Institutions 1. Property Rights (132) 2. Intellectual Property Protection (126) 3. Judicial Independence (95) 4. Efficiency of legal framework in settling disputes (89) 5. Organized crime (75) 6. Strength of auditing and reporting standards (94) 7. Efficacy of corporate boards (100) 8. Protection of minority shareholders' interests (114)	5. Higher Education and Training 1. Secondary education enrollment, gross% (80) 2. Tertiary education enrollment, gross % (77) 3. Quality of the educational system (114) 4. Quality of math and science education (101) 5. Availability of research and training services (119) 6. Extent of staff training (101) 6. Goods Market Efficiency 1. Intensity of local competition (127) 2. Extent of market dominance (121) 3. Effectiveness of anti-monopoly policy (141) 4. Agricultural policy costs (128) 5. Prevalence of foreign ownership (121) 6. Degree of customer orientation (120) 7. Buyer sophistication (106) 7. Labor Market Efficiency 1. Reliance on professional management (92) 2. Brain drain (104) 3. Women in labor force, ratio to men (79) 8. Financial Market Development 1. Availability of financial services (100) 2. Affordability of financial services (85) 3. Financing through local equity market (126) 4. Ease of access to loans (93) 5. Venture capital availability (104) 6. Soundness of banks (92) 7. Regulation of securities exchanges (119)	9. Technological Readiness 1. Availability of latest technologies (94) 2. Firm-level technology absorption (123) 3. FDI and technology transfer (101) 4. Individuals using Internet, % (75) 10. Market Size 1. Domestic market size index, 1–7 (best) (96) 2. Foreign market size index, 1–7 (best) (114) 11. Business Sophistication 1. Local supplier quantity (137) 2. Local supplier quality (131) 3. State of cluster development (116) 4. Nature of competitive advantage (81) 5. Value chain breadth (84) 6. Control of international distribution (105) 7. Production process sophistication (112) 8. Extent of marketing (104) 9. Willingness to delegate authority (127) 12. Innovation 1. Capacity for innovation (116) 2. Capacity for innovation (125) 3. Company spending on R&D (125) 4. University-industry collaboration in R&D (134) 5. Availability of scientists and engineers (124) 5. Availability of scientists and engineers (124)
2. Infrastructure 1. Quality of air transport infrastructure (82) 2. Available airline seat kms/week, millions (110) 3. Mobile telephone subscriptions/100 pop.* (83)		
3. Macroeconomic Environment 1. Gross national savings, % GDP (122) 2. Inflation, annual % change (115)		
4. Health and Primary Education 1. Business impact of malaria (86) 2. Malaria cases/100,000 pop (75) 3. Business impact of tuberculosis (91) 4. Tuberculosis cases/100,000 pop. (96) 5. Business impact of HIV/AIDS (76) 6. Infant mortality, deaths/1,000 live births (84) 7. Life expectancy, years* (73) 8. Quality of primary education (91)		

source: Global Competitiveness Report 2012-2013, World Economic Forum

Appendix 3: GDP per Capita, Countries of the Region



Appendix 4: Read GDP Growth, Region and Georgia



Appendix 5: Competitiveness Ranking of the Countries 2012-2013

Competitive Positions of the Countries 2012-2013	
Rank	Country
1-29	
30-39	Estonia, 34
40-49	Poland, 41 Turkey, 43 Azerbaijan, 46
50-59	Kazakhstan, 51
60-69	Bulgaria, 62 Iran, 66 Russia, 67
70-79	Ukraine, 73 Georgia, 77 Romania, 78
80-89	Armenia, 82 Moldova, 87
90-144	

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Interviews were conducted with the following persons:

- Bierman, Florian, professor, ISET - International School of Economics at Tbilisi State University;
- Boroffice Feyi, private sector development specialist, Europe and Central Asia Region, World Bank;
- Kadagidze Giorgi, president, National Bank of Georgia;
- Lezhava David, deputy minister of finance;
- Matkava Irakli, deputy minister of economy and sustainable development;
- Mestvirishvili Archi, vice president, National Bank of Georgia;
- Nadaraia Otar, vice president, National Bank of Georgia;
- Prigozhina Angela, sector coordinator in South Caucasus, World Bank;
- Sadikov Azim, regional director, International Monetary Fund;
- Shankar Rashmi, leading economist, World Bank.
- Toliashvili Papun, managing partner, consulting company Synergy Group;
- Warwick Ken, member of Regulatory Committee, United Kingdom;