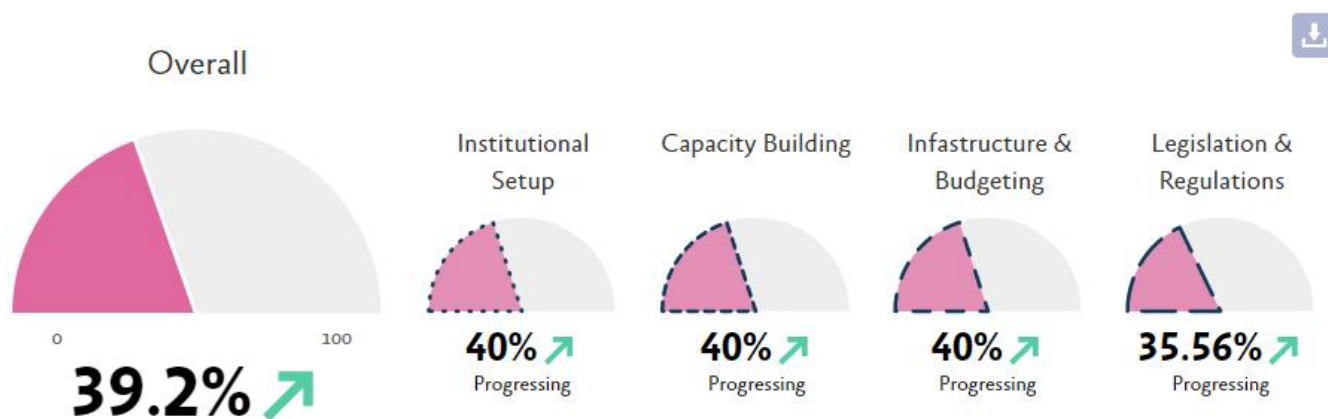


# SME/Innovations Development

## II Phase

On January 2, 2018 ReforMeter, in its second phase, assessed implementation of the SME/Innovation development strategy.



**The Government Survey** showed that, at this stage, 39.2% of the reform, which is planned to be finalized by 2020, has been implemented. In the first phase (6 months ago), this indicator was 24.7%. It is notable that the rate of progress in the areas of institutional organization, capacity building and infrastructure are similar – in all of these areas, 40% of the reform has been implemented. It is noteworthy that the target indicators set by the strategy for 2020 were already achieved in 2016.

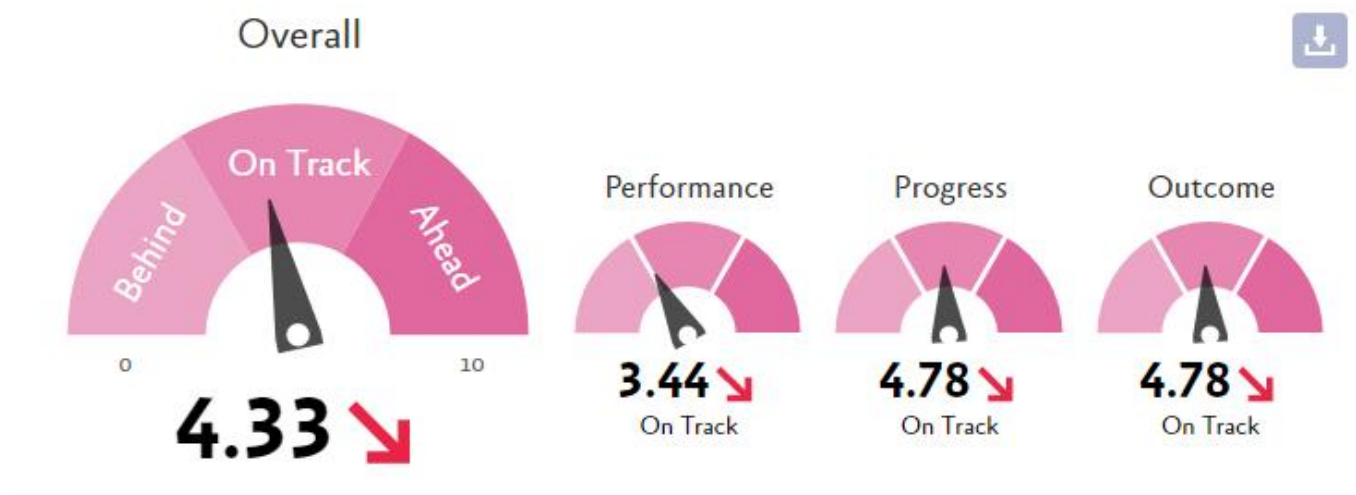
	2020	2016
Annual growth of SME output	10%	14.8%
Increase in number of people employed by the SMEs	15%	20.5%
Increase in productivity of SMEs	7%	19.6%

It should be emphasized that Enterprise Georgia, together with Good Governance Fund and PwC, has implemented a project targeted at increasing the number of SMEs in Georgia. This project also involves linking local entrepreneurs with international entrepreneurs. Last year Enterprise Georgia carried out research, and based on the results of this research, hotel and movie components were added to the program, “Produce in Georgia.”

In the area of capacity building, teaching of entrepreneurship in vocational education centers has been improved. The subject of entrepreneurship has been added to vocational center programs, and in addition, the module itself has been improved and the qualifications of entrepreneurship lecturers have been enhanced.

It is also notable that there is more statistical data on the SME sector; in particular, research on the weaknesses of the SME sector has been carried out. In addition, the studies “ICT Usage in Enterprises” and “ICT Usage in Households” are carried out on a regular basis.

**Stakeholders** assessed the reform with 4.33 points on a 10 point scale. This evaluation is slightly less than the result of the previous phase, where the reform was given 4.78 points.



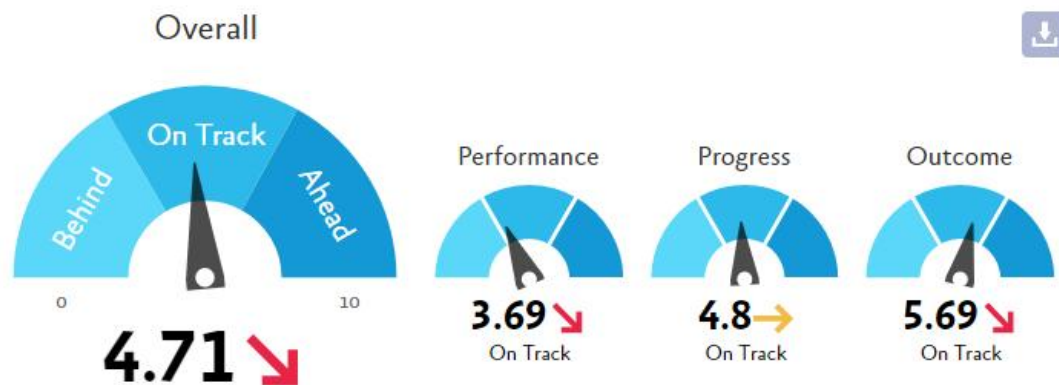
**At the discussion**, in which stakeholders – representatives from the Ministry of Economy and Sustainable Development and invited guests – participated, the following important information on the implementation of the reform was shared:

- The number of patent and useful model applications submitted to Sakpatenti is very low and is decreasing annually. Also, there are no links between the science and private sectors, which means that the relevant science is developing mainly in a fundamental direction - not applied.
- The fact that Shota Rustaveli Foundation provides science grants on different levels is worth noting; however, the volume of the grants is very small and they cannot make any significant impact on the development of science in the country. However, even under such financing conditions, it is necessary to research which areas are financed, and how this funding contributes to the promotion of applied science.
- From the standpoint of SME support, it would be rational if Georgia joins the COSME program. This is the EU program for SMEs, which gives enterprises access not only to funds, but also to EU markets.
- GITA also pointed out that, according to the latest study, the country has innovation potential; however, innovation is not commercialized. In order to address this issue, the establishment of a centralized technological transfer center is planned.
- The National Statistics Office of Georgia has changed the definition of SME to be in line with EU methodology. However, transition to the new system is gradual, and this complicates the comparison of

statistical data during transition period. Starting in 2018, all entities should shift to the new methodology, which will enable us to compare Georgia with other countries.

- GITA also plans to increase private sector involvement in ongoing projects. Involvement implies engaging the private sector in projects, and funding them in exchange for development and expansion of the private sector's infrastructure.
- As there is a lack of innovative products on the local market, as well as export barriers, it is necessary to encourage innovative products within the country and increase their share in state procurement.

**ReformVerdict** – overall assessment of the government has slightly decreased to 4.71 points. This decrease is due to the lower assessment of the SME/Innovation reform in the second phase.



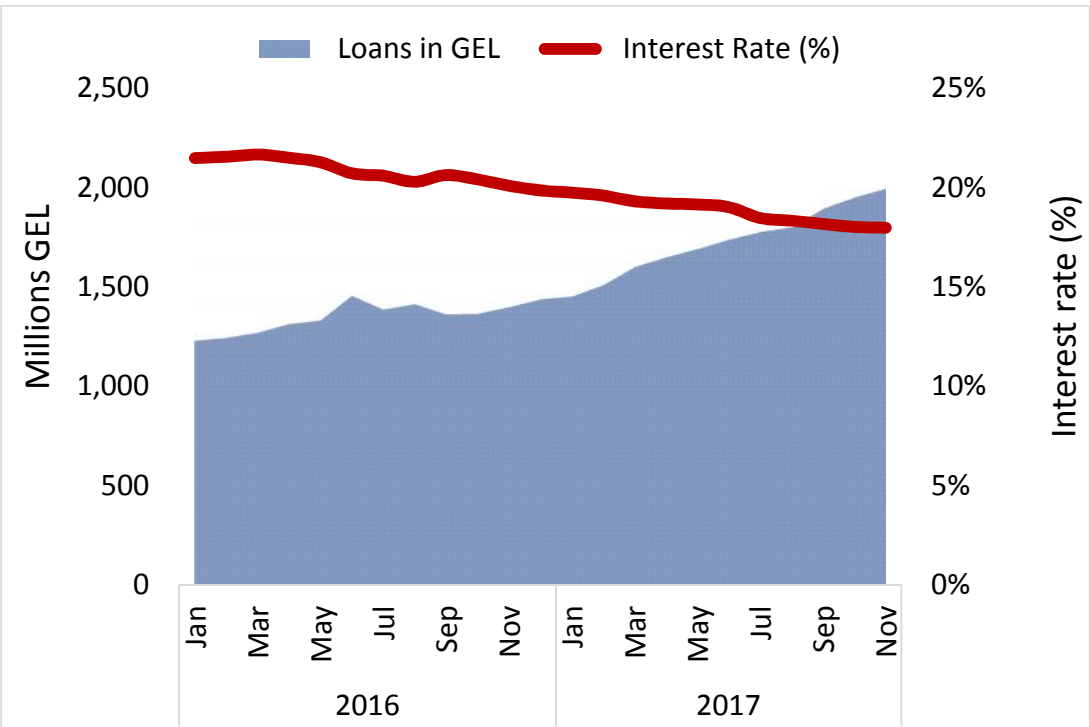
## Reform Indicators

In the I-III quarters of 2017, total SME **output** increased by 18%, which included a significant increase – 41% - in the construction sector.

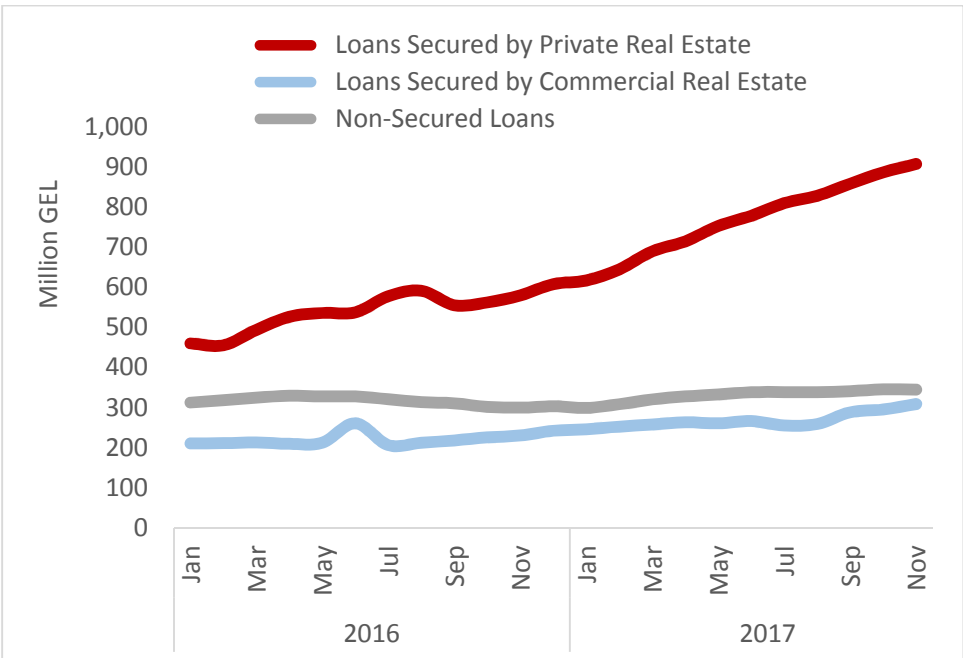
	2016 I-III	2017 I-III	Change (%)
Construction	733.9	1,036.1	41%
Trade	906.4	968.0	7%
Manufacturing	753.7	889.5	18%
Real Estate	809.5	874.0	8%
Transport & Communication	425.3	565.4	33%
Other sectors	922.3	1,045.4	13.3%

In the third quarter of 2017, SME loans constituted 56% of the **loans** given to the private sector by commercial banks.

As of November 2017, the volume of loans in GEL to SMEs by commercial banks increased by +43%. It should be noted that **interest rates** are on a downward trend.

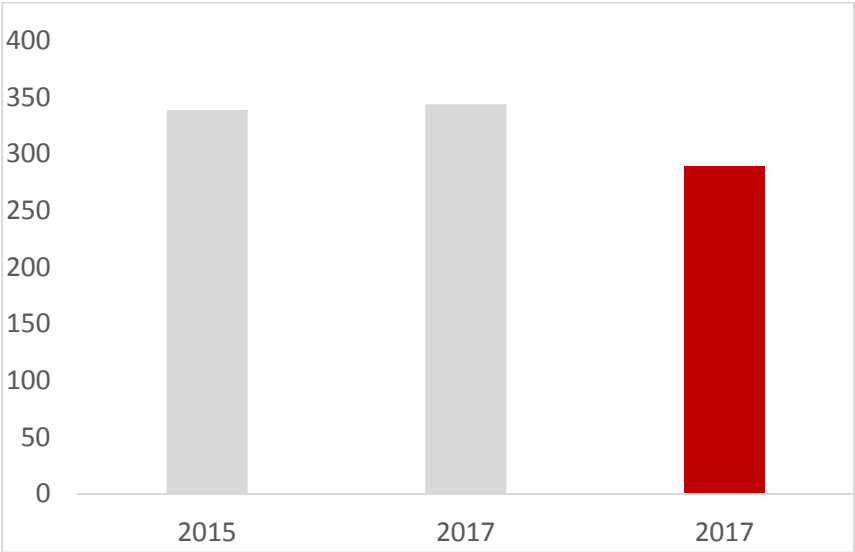


As of November 2017, the volume of loans guaranteed with personal real estate substantially increased (+57%), while the volume of loans guaranteed with commercial real estate and blank loans did not change significantly.



In 2017, the number of **invention and useful model** applications submitted to Sakpatenti significantly decreased. There was a decrease in applications submitted by universities, as well as individuals.

Number of Patent **applications** on Inventions and Useful Models



# Government Survey

SME/Innovation Development  
II Phase



## What is Government Survey?

**The Government Survey** – measures progress in the implementation of reform based on questionnaire agreed upon with the government

The questionnaire covers the following 4 dimensions

Reform Dimension	Description	Example Input Indicator	Example Output Indicator
<b>1. Institutional Setup</b>	<ul style="list-style-type: none"> <li>Governance systems</li> <li>Roles and responsibilities</li> <li>Strategy and Action Plans</li> </ul>	Strategy	Number of actions in line with the timeline
<b>2. Capacity Building</b>	Mobilization and development of adequate human capital	Operationality of the implementation agency	Trainings
<b>3. Infrastructure &amp; Budgeting</b>	<ul style="list-style-type: none"> <li>Budget and physical capital</li> <li>Building and equipment</li> </ul>	Mobilized budget	Grants for SME
<b>4. Legislation &amp; Regulations</b>	Legislative and regulatory framework	Analysis of intellectual property rights	New law on intellectual property rights



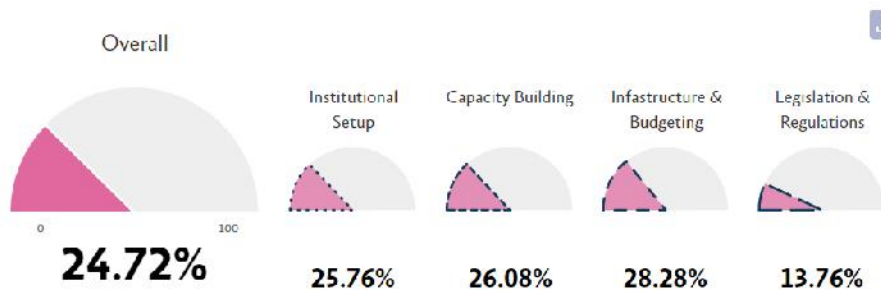
## Official Documents

▪ **SME Development Strategy 2016-2020**

▪ **Innovation Strategy 2016-2020 (draft)**



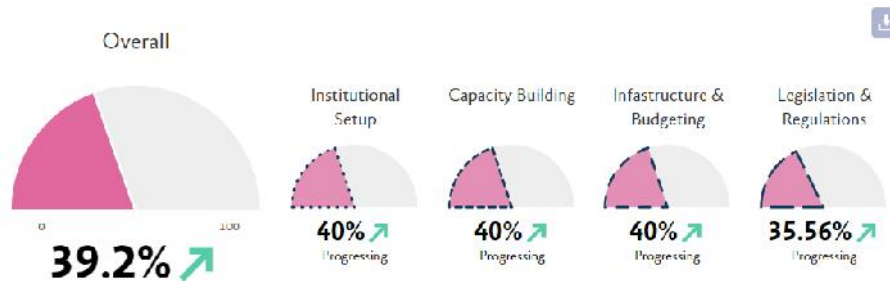
## According to the Government I Phase



0% - absence of a policy approach 100% - good policy practices are fully implemented, monitored and evaluated



## According to the Government II Phase



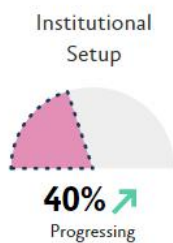
0% - absence of a policy approach 100% - good policy practices are fully implemented, monitored and evaluated



## Government Survey - SME/Innovation Development

### ➤ The measurable targets of strategy (Baseline - 2013):

	2020	2016
Increase of SME production by an average annual rate	10%	14.8%
Increase of employment in SMEs	15%	20.5%
SME productivity growth	7%	19.6%



### ➤ Market research on demand and supply of SME support services

Enterprise Georgia has carried out in-house market research, as a result new Hotel Industry and Film Industry Incentives of government program "Produce in Georgia" were added.

### ➤ An instrument for facilitation of FDI-SME linkage

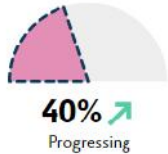
Currently Enterprise Georgia in collaboration with Good Governance Fund and PwC is on the second stage of implementation of the project "Supporting the growth of Georgia's SMEs". It implies creation of linkages between MNCs and local producers.





## Government Survey - SME/Innovation Development

### Capacity Building



### Lifelong Entrepreneurial Learning System (LLEL)

- Components of entrepreneurial learning are included in the Education and Science Strategy for 2017-2021 for
- Entrepreneurship module training has become mandatory for all professional educational programmes
- The entrepreneurship module has been improved and entrepreneurship module teachers have been trained

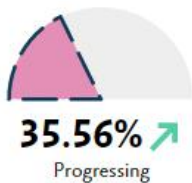
### Information on starting and conducting a small business

- Within "Micro and Small Business co-matching grant" up to 11,460 beneficiaries received information on starting and conducting a small business
- Guidebook "How to Start a Business" - [www.economy.ge/uploads/gzamkvlevi/Business\\_Guide-2013.pdf](http://www.economy.ge/uploads/gzamkvlevi/Business_Guide-2013.pdf)



## Government Survey - SME/Innovation Development

### Legislation & Regulations



### ➤ The identification of main weaknesses of SMEs - SME Policy Index, 2016

### ➤ Statistics for innovation

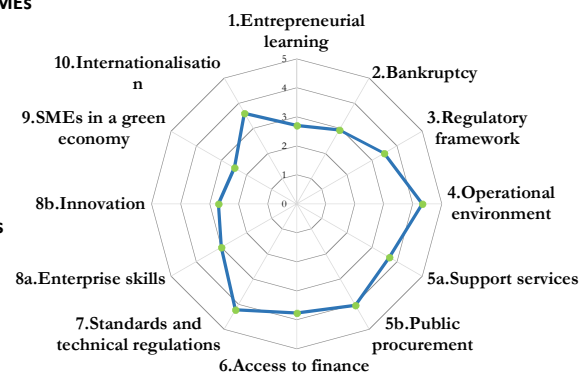
GeoStat conducted surveys:

- Innovation activities of enterprises
- Use of ICT in enterprises
- ICT access and use by households and individuals

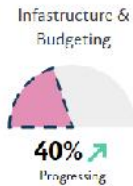
### ➤ Regular monitoring of innovation indicators

GITA monitors innovation indicators of the activities implemented by the agency

➤ No R&D tax incentives



## Government Survey - SME/Innovation Development



➤ **An independent evaluation of the financial support tools**

- Startup Georgia projects were peer reviewed and evaluated by the Silicon Valley experts in 2016
- An independent evaluation tool has been elaborated for the **Matching Grants** program to be launched in February 2018

➤ **Support services offered to the SMEs by GITA:**

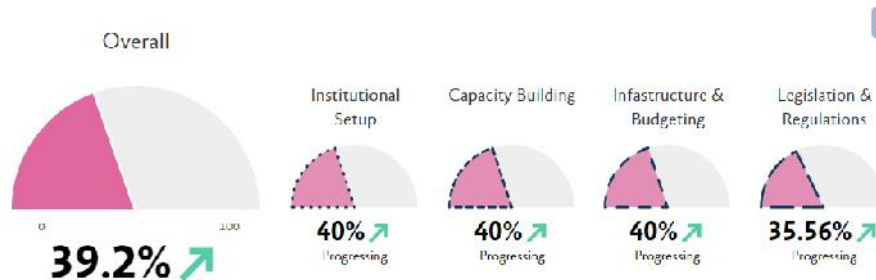
Name of the Program	Total Number	Only in 2017
StartUp Georgia	20	-
Mini Grants Program	15	-
Micro Grants Program	187	59
FabLabs	25	14

**Micro Grants by Industry:**

- Information Technology
- Bio Technology
- Environment Protection
- Energy Efficiency
- Virtual Reality
- Tourism
- Nano Technology
- Agriculture
- Electronics



## According to the Government II Phase



0% - absence of a policy approach 100% - good policy practices are fully implemented, monitored and evaluated



# Outcome Indicators

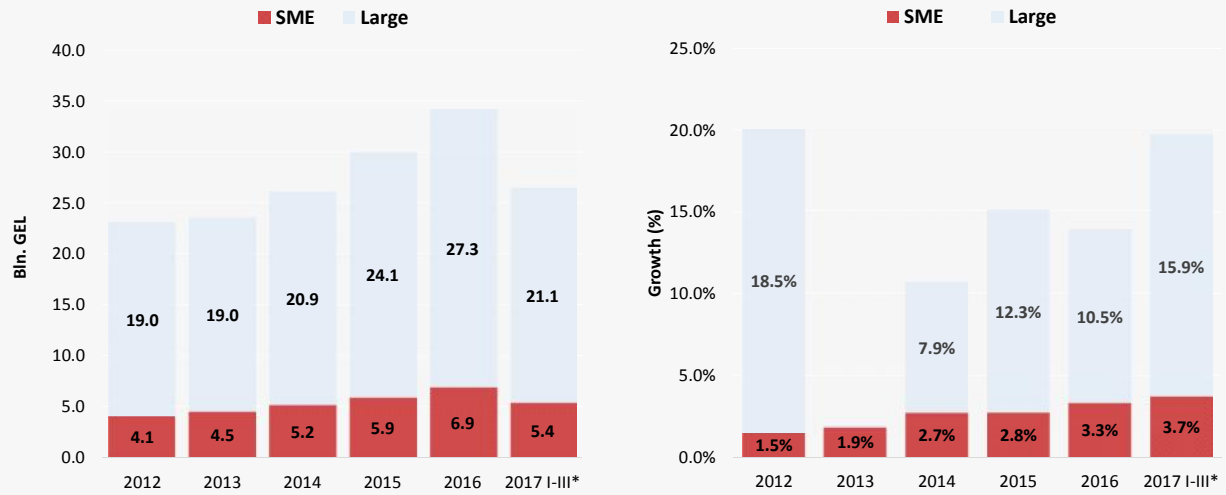
SME/Innovation Development  
2017 – II Phase



## **Size of enterprises determined by the following methodology:**

- Large size enterprise is an enterprise, where average annual number of employed exceeds 100 persons and/or volume of average annual turnover - 1.5 million GEL.
- Medium size enterprises are all enterprises of organizational-legal form, where average annual number of employed ranges from 20 to 100 persons and average annual turnover – from 0.5 million to 1.5 million GEL.
- Small size enterprises are all enterprises of organizational-legal form, where average annual number of employed does not exceed 20 persons and average annual turnover - 0.5 million GEL.

## SMEs Production

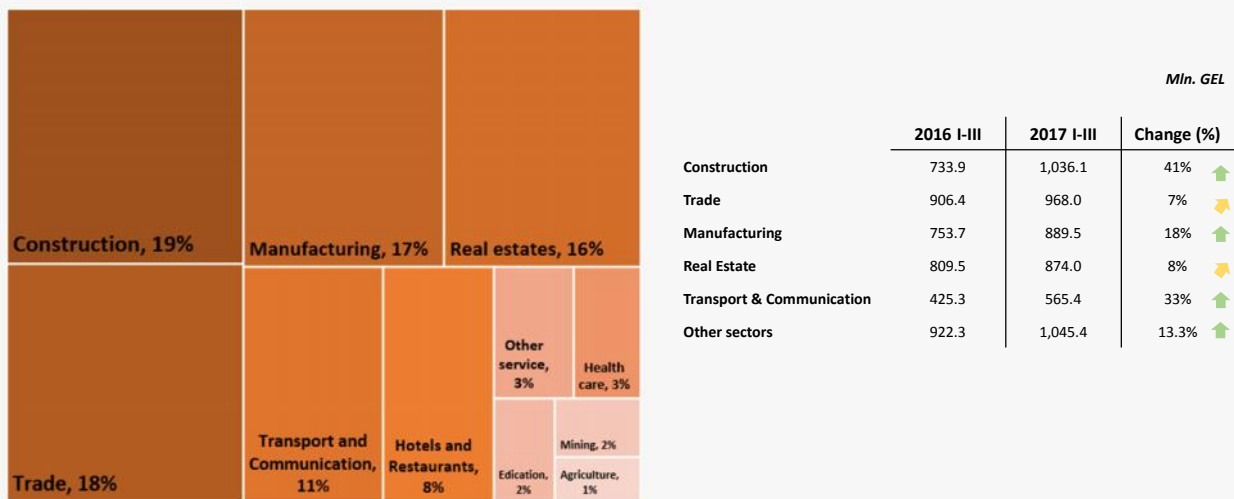


ReforMeter  
Geostat Group Ltd. Georgia Ltd.

Source: Geostat

## SMEs Production by Industry

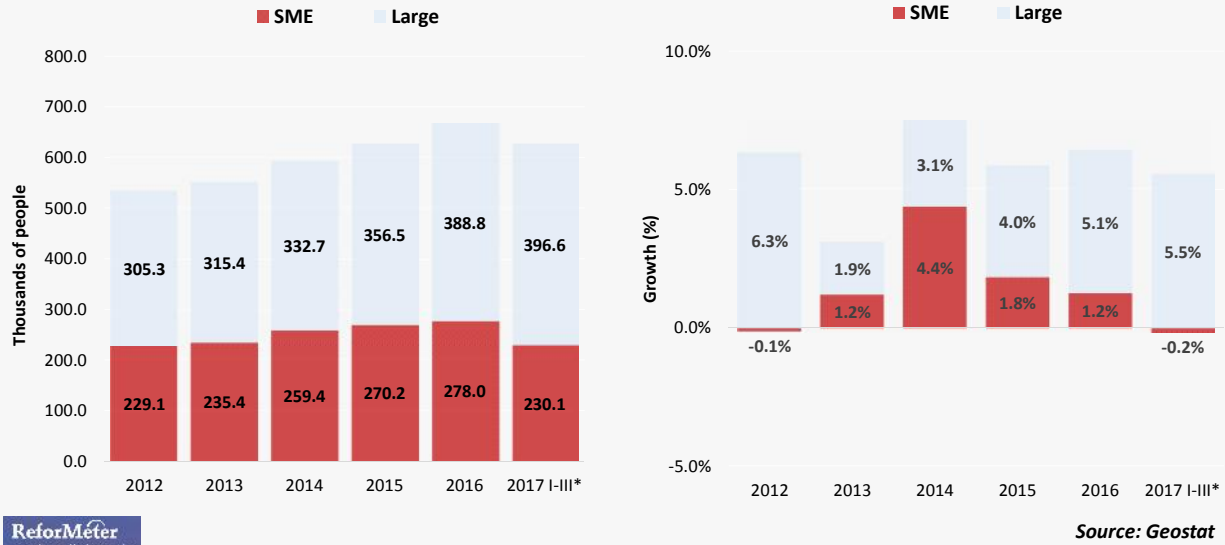
(I-III Quarters 2017)



ReforMeter  
Geostat Group Ltd. Georgia Ltd.

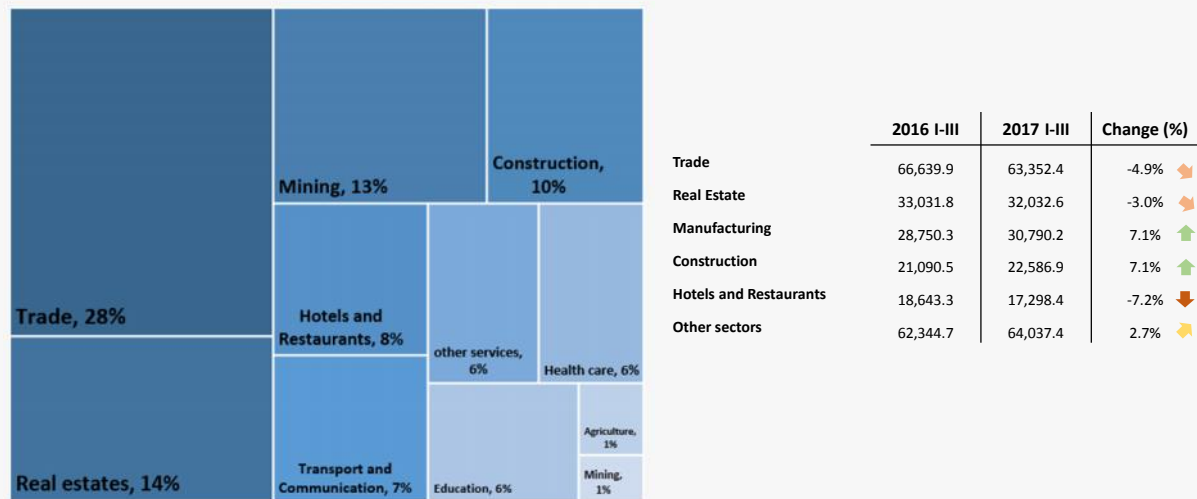
Source: Geostat

## SMEs Employment



## SMEs' Employment by Industry

(I-III Quarters 2017)

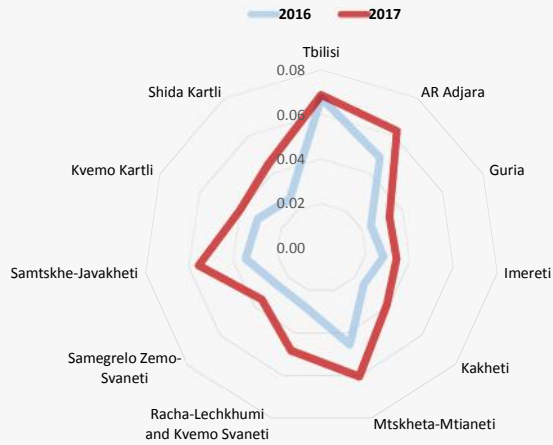


Source: Geostat

## Productivity measures of SMEs by region

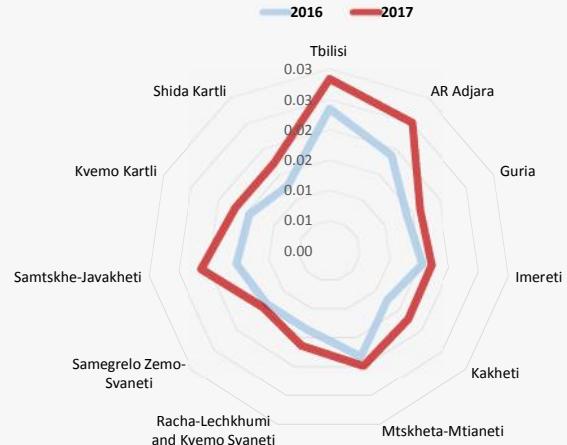
Production per active company

(Mln.GEL)



Production per Employee

(Mln.GEL)

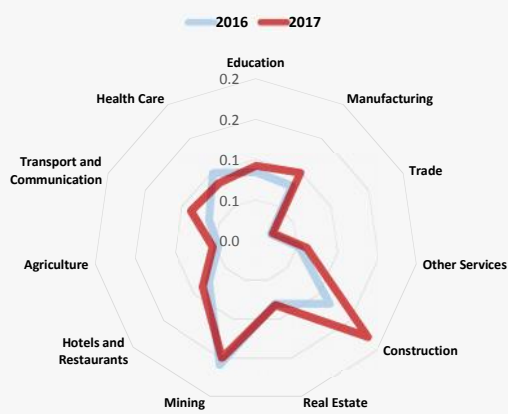


Source: Geostat

## Productivity measures of SMEs by industry

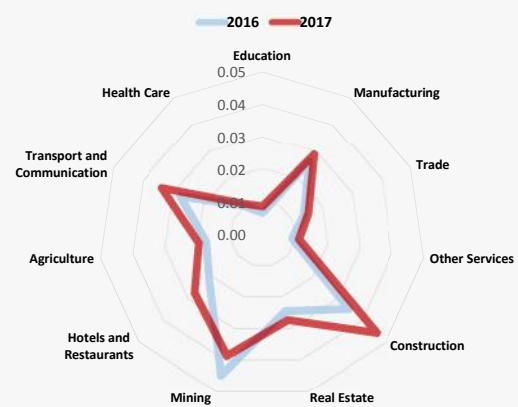
Production per active company

(Mln.GEL)



Production per Employee

(Mln.GEL)



Source: Geostat

## The Share of SMEs' Loans in Total Business Loans



The Volume of SMEs Loans (mln. GEL)

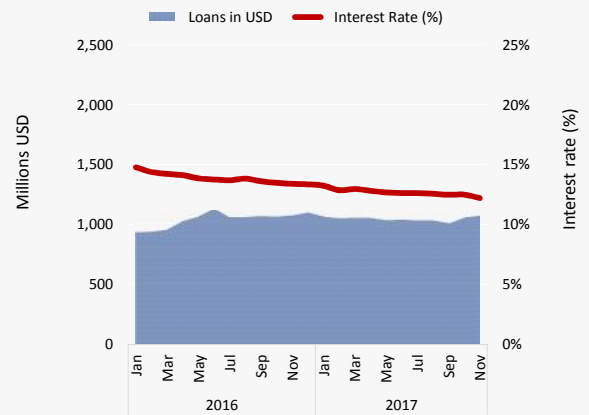
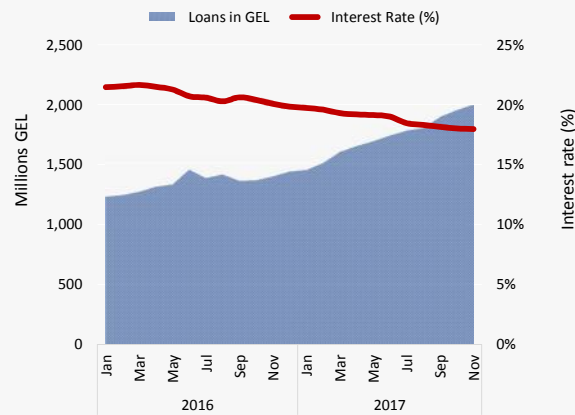
Year	2016	2017
September	3895	4499
October	3939	4713
November	4125	4995



Source: National Bank of Georgia

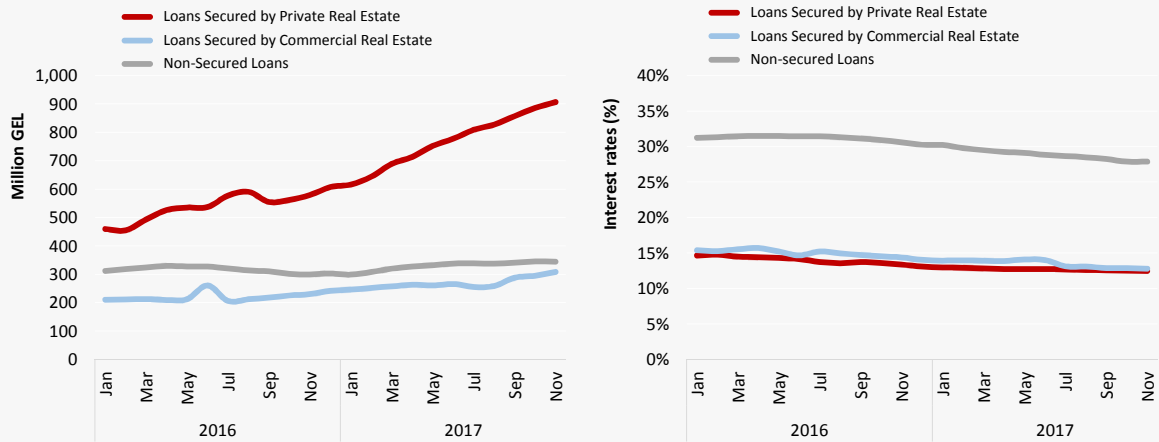
## SMEs Loans in GEL and USD

(the volumes and interest rates)



Source: National Bank of Georgia

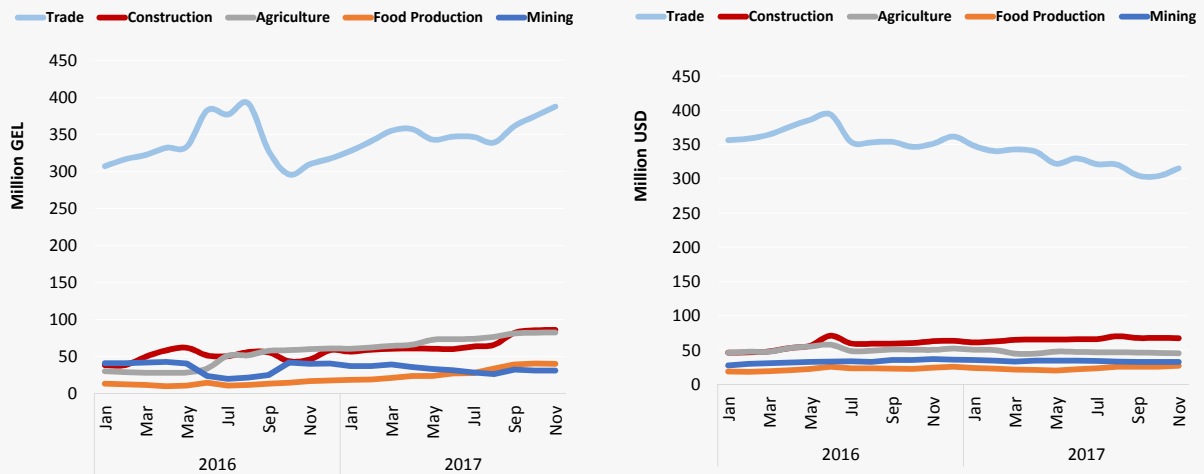
## Secured and Non-Secured SMEs Loans in GEL



ReforMeter  
Georgian Credit Rating

Source: National Bank of Georgia

## SMEs Loans by Industry in GEL and USD

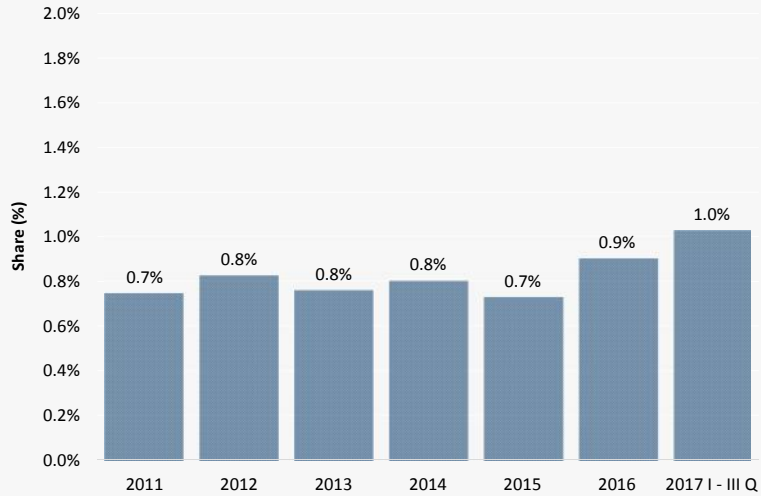


ReforMeter  
Georgian Credit Rating

Source: National Bank of Georgia



## The share of IT Export in Total Export



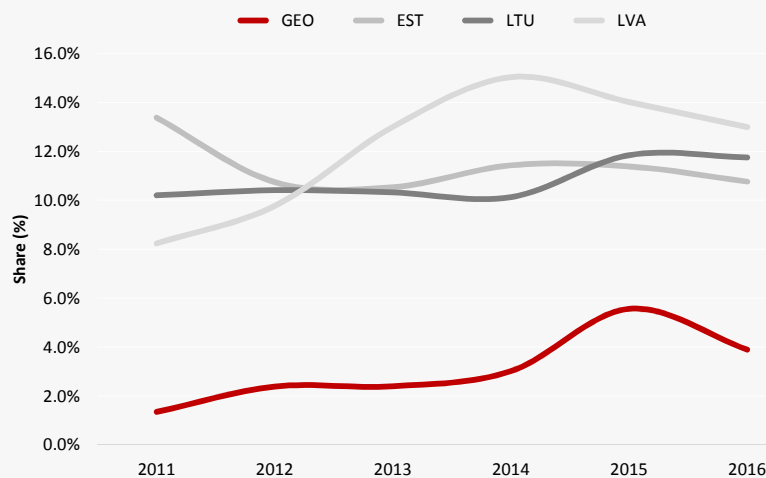
### The Volume of IT Export

Year	Mln. USD
2011	39.1
2012	49.7
2013	54.5
2014	56.4
2015	45.0
2016	56.2
2017 I - III Q	58.0

Source: National Bank of Georgia

## High-Technology Exports

(% of manufactured exports)



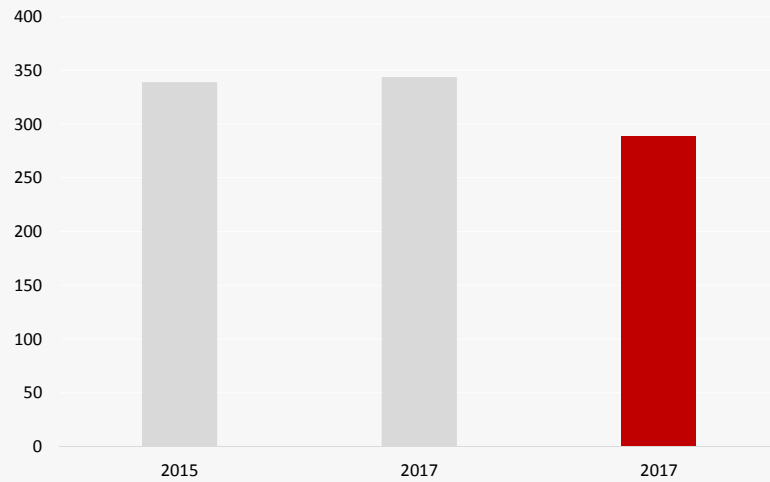
"High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery." - OECD

### The Volume of High-Technology Export

Year	Mln. USD
2011	10.9
2012	19.2
2013	20.1
2014	25.9
2015	34.7
2016	19.8

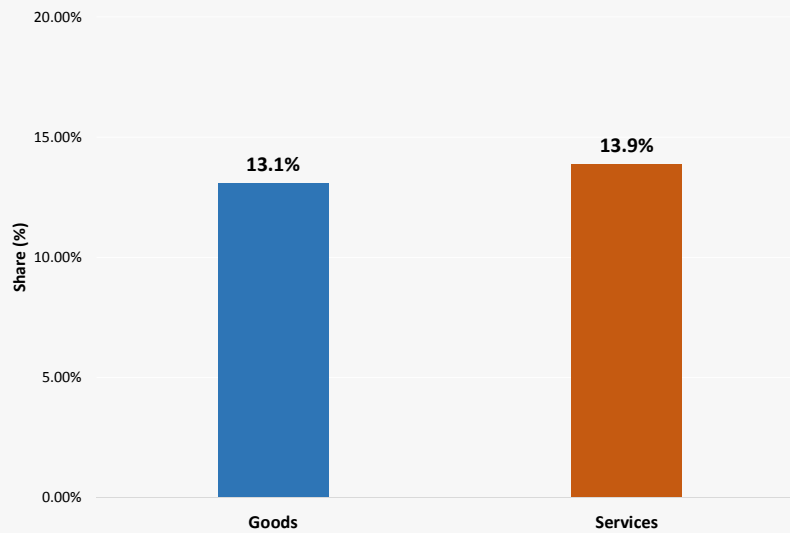
Source: World Bank, World Development Indicators

### *Number of Patent applications on Inventions and Useful Models*



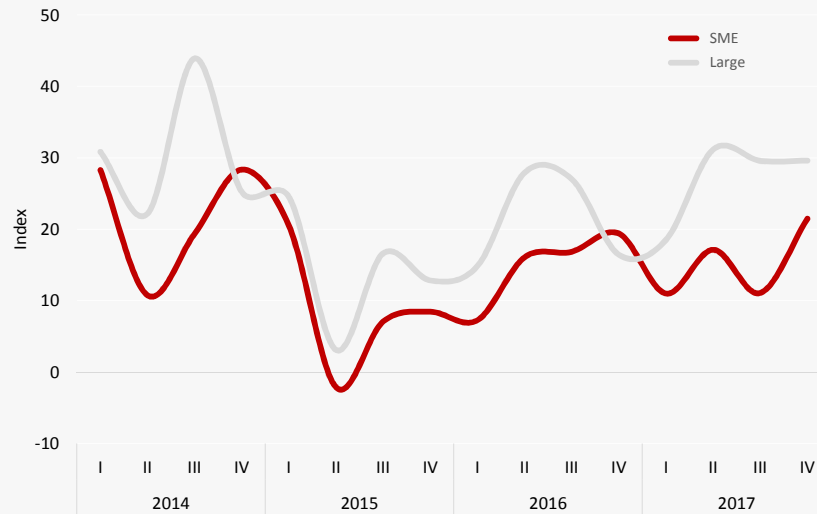
Source: Saqpatenti

### *Innovation in Production*



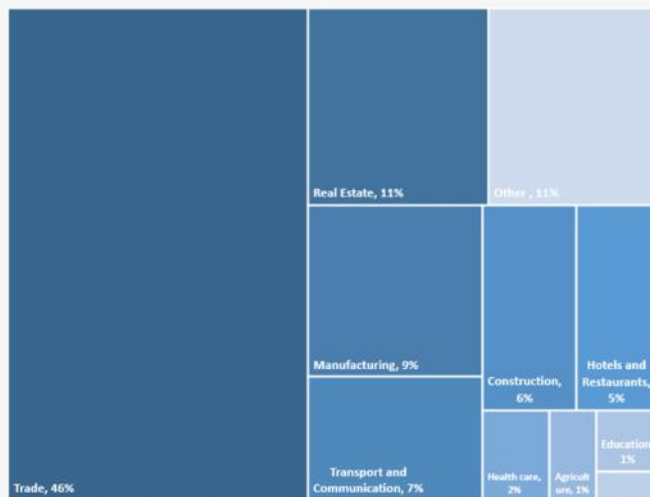
Source: Geostat

## Business Confidence Index (BCI) by Firm Size



Source: ISET

## Number of SMEs by Industry (stock)



	2016	2017 III Q.	Change (%)
Trade	46,810	44,148	-6%
Real Estate	10,087	10,678	6%
Manufacturing	9,458	8,967	-5%
Transport and Communication	6,680	6,482	-3%
Construction	6,203	5,778	-7%
Other sectors	14,263	20,234	41.9%

ReforMeter

Source: Geostat

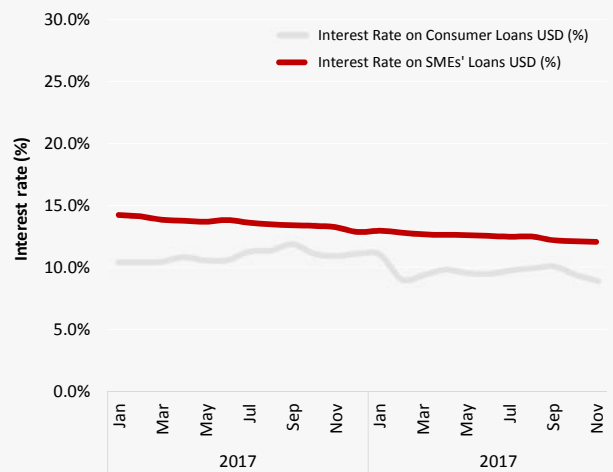
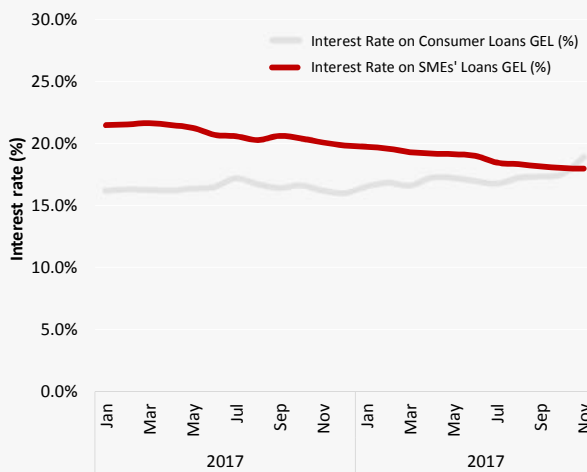
### The Growth of SMEs' Loans in GEL, USD and EUR



Year	Mln. GEL	Mln. USD	Mln. EUR
2016 Sept.	1,359.6	1,056.7	36.0
October	1,363.8	1,051.8	35.8
November	1,397.0	1,062.5	36.3
2017 Sept.	1,891.1	998.2	49.4
October	1,946.9	1,046.8	51.7
November	1,991.2	1,060.1	54.2

ReforMeter  
საერთაშორისო რეფორმების მონიტორინგი

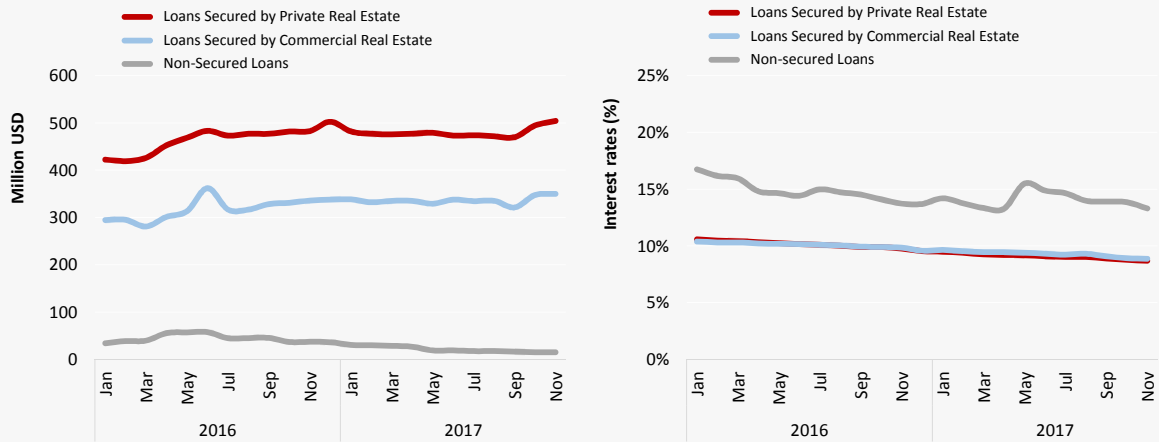
### Interest Rates on SMEs' and Consumer Loans in GEL and USD



ReforMeter  
საერთაშორისო რეფორმების მონიტორინგი

Source: National Bank of Georgia

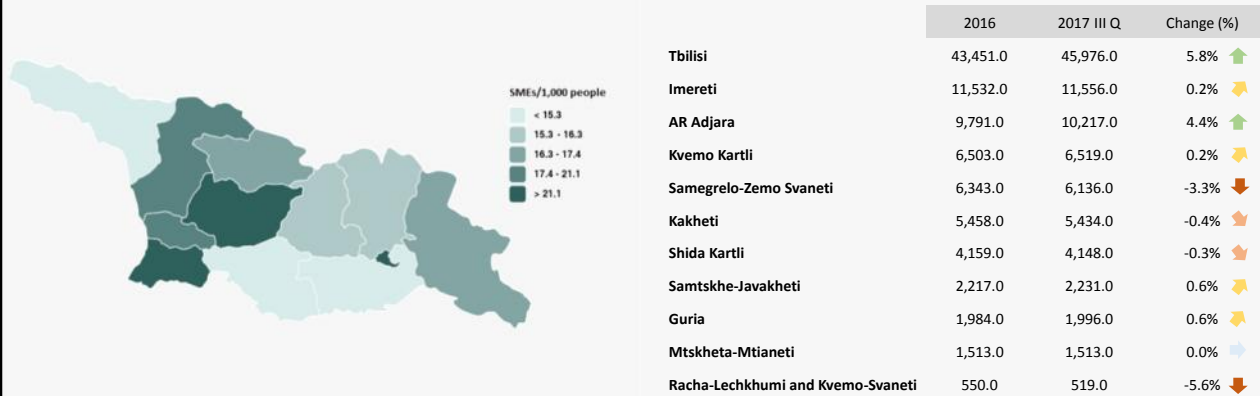
### Secured and Non-Secured SMEs' Loans in USD



ReforMeter  
Geostatistics and Analytics

Source: National Bank of Georgia

### Number of SMEs per 1,000 people by region (Stock)



ReforMeter  
Geostatistics and Analytics

Source: Geostat

Note: Number of SMEs – III Quarters 2017, Number of Population - 2016