

Productivity and Competitiveness of GEA Member Companies

Survey

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Introduction

Developing countries face the pressures and impacts of globalization. They are seeking ways to stimulate growth and employment within this context of increased openness. The Government of Georgia remains fully committed to the integration of the country into the world economy. One of the current administration's policy objectives is to ensure a more competitive and dynamic economy that will be capable of driving sustainable economic growth and strengthening the regional capabilities for meeting competition in both the domestic and external markets. With the liberalization of the markets for goods and financial services coupled with the opening up to international capital flows, state intervention has been channeled toward regulation and control, the elimination or reduction of market weak points.

It may be noted that Georgia reached a reasonable level of macroeconomic stability and now it needs to focus efforts on the issues of competitiveness and productivity through microeconomic reform programs. It's right time to formulate country wide strategy to increase competitiveness as a key priority of government programs.

The State's intervention in business development is to be focused on preservation of an environment that favors productive investment in enterprises and fosters their efficient functioning.

The Government of Georgia (GoG) has taken great strides in consolidating the economic recovery since 2004 and has made improving the business environment and strengthening the financial sector central to the country's pursuit of faster economic growth.

Improvement of the business environment in Georgia has been declared as one of the top priority for the Government. First of all it should be mentioned that during last year government of Georgia has been actively working to elaborate new tax code, which significantly simplified previous tax code and reduced tax burden. Significant steps have been undertaken towards liberalization of the tax legislation to meet the current needs of Georgia and to maximize the pace of its economic development. As a result, the new tax legislation, which has been adopted by the Parliament of Georgia, is considered as the most progressive and liberal tax code in the entire post soviet area and will create a truly favorable business environment in Georgia.

According to the new tax code, more than 21 effective taxes have been reduced to only 7. Tax rates have also decreased. In addition, efforts are being made to simplify the system of tax administration, in order to save the taxpayer's time and simplify procedures.

In order to legalize shadow economy and reduce tax evasion, the government of Georgia has issued financial amnesty, which was adopted by the Parliament of Georgia. Main purpose of amnesty was to facilitate new business relations between the government and private sector, which will not be burdened with the old obligations. The amnesty will play a major role in legalizing business operations and undeclared tax liabilities, which will reduce shadow economy, support establishment of a liberal economic environment and encourage full involvement of civil capital in economic processes.

Existing system of permits has often discouraged potential business partners and investors and has also hampered the operation of existing enterprises. With regard to this, the government of Georgia is taking active steps to liberalize system of licenses and permits. According to the recent initiative of the government, revolutionary changes in this sphere will significantly reduce number of required licenses and permits from 909 to approximately 159. The commitment of the

government to bring the system of licensing and permits into full compliance with the standards of the EU undoubtedly institutes major progressive change in this area.

The 2006 "Doing Business" report by the World Bank and the International Finance Corporation (IFC) ranked Georgia as the number two reformer in the area of business environment in a sample of 145 countries. The GoG has more recently embarked on a series of policy and institutional reforms to promote productivity and efficiency among enterprises. This high-ranking was due to the country's significant reforms in the fields of administrative simplification, contract enforcement, and property registration. Georgia was runner-up reformer. A one-stop shop was created for license application, so that now business can submit to all documents there, with no verification by other agencies required. A simplified tax code eliminated 12 of 21 taxes. And the time to register property fell by 75% and the cost by 70%. In addition, Georgia has taken important steps to increase labor market flexibility and stimulate foreign direct investment.

At the core of these reforms is a concerted effort to further improve the business environment and continue strengthening the real sectors, to enable it them fund the investment needed for productivity and efficiency gains at the firm level.

Economic Development

First three years of Georgia's transition were characterized with sectional strife, military conflicts, and hyperinflation, the rate of which in 1993-1994 constituted annual 3 000%, mounted down to annual 57% in 1995.

Due to its internal political problems, the country was not able to start implementing economic reforms until 1994, the year when the internal situation had stabilized sufficiently. Starting from 1995-1996 Georgia began to reap the benefits of the reform program. Following four years of output collapse, growth resumed in 1995 and accelerated in 1996, while inflation continue to decline and the exchange rate remain stable against U.S. dollar.

As a result of post revolution government's affords to fight corruption, improve business climate and support economic development of the country, we can see tendency of the economic recovery and growth.

In 2004 Georgia's GDP amounted to GEL 9,800 million that is about USD 5,148.8 million. Real GDP growth rate was 8.4 percent. Among the major sectors of economy, negative growth was recorded in agriculture and domestic processing of products. Industry, Construction, trade, telecommunication and financial intermediation have shown a high growth rate.

Table 1 *Main Social-Economic Indicators (In GEL, Ex. rate: 1 Euro=2.21 GEL)*

	Unit value	2000	2001	2002	2003	2004
Real Sector						
Nominal Gross Domestic Product	Mln GEL	6015.4	6647.9	7459.4	8560.1	9800.0
GDP per capita	GEL	1292.6	1439.4	1626.6	1879.1	2160.8
Volume of Industrial Production	Mln GEL	1793.4	1847.8	2121.7	2447.6	2869.0
Volume of Agricultural Production	Mln GEL	1815.9	2062.5	2160.5	2477.7	2388.3
Growth Rate in Real GDP	%	101.8	104.8	105.5	111.1	108.4
2. Inflation						
Consumer Prices Index	%	104.6	103.4	105.4	107.0	107.5

Food Products	%	107.5	103.7	108.1	109.4	113.6
Non-food products	%	99.2	100.6	100.1	105.1	103.2
Services	%	101.9	105.2	102.9	99.9	100.1
3. State Budget						
Revenue	Mln GEL	640.2	740.3	818.0	932.4	1773.0
of which tax revenue	%	68.4	61.9	65.7	59.6	50.8
Expenditure	Mln GEL	833.8	905.7	1045.6	1207.1	1923.6
Deficit	Mln GEL	-193.6	-165.3	-227.6	-274.7	-150.6
Percentage of GDP	%	-3.2	-2.5	-3.0	-3.2	-1.5
Financing, domestic	Mln GEL	165.7	5.6	99.6	140.3	16.5
Percentage of Deficit	%	-85.6	-3.4	-43.8	-51.1	-11.0
Financing, foreign	Mln GEL	27.9	159.8	128.0	134.4	134.1
Percentage of Deficit	%	-14.4	-96.6	-56.2	-48.9	-89.0
4. Employment						
Employment	Thousand employees	1840.7	1877.7	1839.5	1814.5	x
Registered unemployed	"	329.8	354.6	303.0	45.9	46.9
Unemployment rate	%	10.3	11.1	12.3	11.5	x
5. Social Indicators						
Money Income of Households	Mln GEL	1792.8	1946.5	1964.4	210.9	x
Expenditure	"	2960.4	2990.6	3425.1	3309.3	x
Nominal Wages	GEL	72.3	94.6	114.0	125.9	x
Growth of Nominal Wages	%	107.1	130.8	120.5	110.4	x
Growth of Real Wages	%	122.6	104.7	114.1	105.4	x
Minimum Cost of Living for:						
Adult Male	GEL	114.5	118.0	127.9	136.0	150.5
Average consumer	GEL	100.4	103.5	112.2	119.4	132.0
Average family	GEL	199.2	205.2	222.4	236.7	261.8
6. Foreign Trade*						
Exports (FOB)	Mln USD	329.9	320.0	347.8	465.3	648.8
Imports (CIF)	Mln USD	650.7	678.7	731.4	1141.1	1847.0
Trade Balance	Mln USD	-320.8	-358.7	-383.6	-675.8	-1198.3
Percentage of GDP	%	-10.5	-11.2	-11.3	-16.9	-23.4

Source: Department of Statistics

Table 2 Structure and growth rate of GDP

	2004 vs. 2003 (2003=100)	Share in GDP 2004 (%)	Share in GDP Q1 2005 (%)
Agriculture, forestry and fishing	93.3	16.2	17,3
Industry	112.2	13.2	12,9
Domestic processing of products	98	3.8	3
Construction	107.5	6.4	5
Trade	109.5	13.4	13,3
Hotel and restaurant	103.7	2.7	2,7
Transport	105.8	9.8	8,6
Telecommunication	125.5	4.2	4,1
Financial intermediation	108.7	1.3	1,3
Operation with real estate, renting and business activities	106.3	5.2	5,9

Public administration and defense	104.8	5.4	6
Education	100.9	3.5	3,3
Health care and social services	101	3.4	3,5
Other service activities	111.7	3.4	3,3
Private households with employed persons	100.6	0.1	0,1
Amendments by financial intermediation services	91	-0.8	-0,7
Net taxes	---	8.5	10,4
GDP	108.4	100	100

Source: Department of Statistics

The Concept of Competitiveness and Productivity

The term "competitiveness" is used widely in the business and economic literature with various meanings. Competitiveness should be equated with productivity. It is interrelated with activities that increase productivity of companies, industries, regions and governments. It is also related with the continual upgrading of human resources, capital and technological change. It applies to the changing organizational structure and behavior of firms, industry and government — both locally and nationally.

Competitiveness has various definitions. Each of them differs by its core context. The difference of definitions relies on their institutional approach.

Definitions of Competitiveness:

- *A field of Economic knowledge, which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people. (IMD's World Competitiveness Yearbook, 2003).*
- *The ability of a country to achieve sustained high rates of growth in GDP per capita. (World Economic Forum, Global Competitiveness Report, 1996, pg. 19.)*
- *Competitiveness is relative and not absolute. It depends on shareholder and customer values, financial strength which determines the ability to act and react within the competitive environment and the potential of people and technology in implementing the necessary strategic changes. Competitiveness can only be sustained if an appropriate balance is maintained between these factors which can be of conflicting nature. (Feurer, R. and Chaharbaghi, K., "Management Decision", 1994, Vol. 32, No. 2, pp.49)*
- *A firm is competitive if it can produce products and services of superior quality and lower costs than its domestic and international competitors. Competitiveness is synonymous with a firm's long-run profit performance and its ability to compensate its employees and provide superior returns to its owners. (Report of the Select Committee of the House of Lords on Overseas Trade, 1985.)*
- *National competitiveness refers to a country's ability to create, produce, distribute and/or service products in international trade while earning rising returns on its*

resources. (Scott, B. R. and Lodge, G. C., “US Competitiveness in the World Economy”, 1985, pg. 3.)

- *Competitiveness is the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long-term.* (OECD.)

Productivity is the efficient and effective use of resources-labor, capital, land, materials, energy, time, information-in the production of goods and services that meet users needs and requirements. As an efficiency measure, high productivity implies that production inputs are fully utilized and that waste is minimized. Competitiveness is continual process of innovating, upgrading and increasing value-added activities.

The success of productivity factor in Georgia depends on how local economy and firms learn the issue. The important element of a competitiveness strategy for Georgia is to expand exports and FDI. Productivity convergence depends on whether the business environment creates appropriate conditions for firms to take advantage of new technologies available in the world market. Such conditions include the ability to adapt the workforce to the needs of these new technologies, which in turn depends on industrial relations regimes and labor market regulations.

Concept of productivity should be distinguished from four other similar terms: profitability, performance, efficiency and effectiveness.

Profitability

Perhaps the reason why companies tend to ignore the importance of productivity is that they often link productivity and profitability as one issue. Profitability is the overriding goal for the success and growth of any business, and is generally defined as a ratio between revenue and cost.

Performance

Many people who claim to be discussing productivity are actually looking at the more general issue of performance. While productivity is a fairly specific concept related to the ratio between output and input, performance is a term which includes almost any objective of competition and manufacturing excellence such as cost, flexibility, speed, dependability and quality.

Efficiency and effectiveness

The two terms effectiveness and efficiency render the terminology even more complicated. There is no single accepted view about these terms; however, effectiveness is usually described as ‘doing the right things’, while efficiency means ‘doing things right’. Most researchers agree that efficiency is strongly linked to the utilization of resources and mainly influence the input of the productivity ratio. This means that efficiency in manufacturing can be seen as the minimum resource level that is theoretically required to run the desired operations in a given system, compared to how much resources are actually used. The efficiency ratio is rather simple to measure, whether it is based on time, money or other.

Effectiveness, on the other hand, is a more diffuse term and in most cases very difficult to quantify. It is often linked to the creation of value for the customer and affects the output of the productivity ratio. In conclusion, a single focus on efficiency does not seem to be a fruitful way to increase productivity. It is the combination of high values of both efficiency and effectiveness in the transformation process that leads to high productivity.

National prosperity is strongly affected by competitiveness, which is the productivity with which a nation uses its human, capital, and natural resources. Competitiveness is rooted in a nation’s microeconomic fundamentals, manifested in the sophistication of its companies and the quality

of its microeconomic business environment. Political stability, sound macroeconomic policies, market opening, and privatization have long been considered the cornerstones for economic development. The results here suggest that these are necessary but not sufficient.

The Concept of Systemic Competitiveness

The national competitiveness may be defined as the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets, while simultaneously maintaining and expanding real incomes of its people over the long term. This long-term perspective implies the need to reduce ecological impacts and resource intensity to a level at least in line with the carrying capacity of the nation's ecosystems.

The concept systemic competitiveness seeks to capture both the political and the economic determinants of successful industrial development. What is meant by systemic competitiveness is a pattern in which state and social actors create the conditions needed to develop systemic competitiveness. The concept distinguishes between four levels:

- *The Micro level* of the firm and inter-firm networks,
 - *The Meso level* of specific policies and institutions,
 - *The Macro level* of generic economic conditions,
 - *The Meta level* of slow variables like socio-cultural structures, the basic order and orientation of the economy, and the capacity of social actors to formulate strategies.
- 9 The key ingredients of successful industrial development are at the meta level:
- first, development-oriented cultural values shared by a large part of society;
 - second, a basic consensus on the necessity of industrial development and a competitive integration into the world market
 - third, the ability of social actors to jointly formulate visions and strategies and to implement policies;
- 9 At the macro level: a stable and predictable macroeconomic framework.
- 9 At the meso level: specific policies and institutions to create competitive advantages. What is meant here are specific, targeted policies aimed at shaping industries and their environment (technology institutes, training centers, export finance, etc.). Moreover, it is the world of local and regional industrial competitiveness initiatives to strengthen the business environment. Many of the institutions that act at the meso level are typically, or can in principle be, nongovernmental entities, e.g. business associations, nonprofit entities, or firms;
- 9 At the micro level: capable firms and their continuous improvement, and networks of firms with pronounced externalities. Wealth is actually created in the microeconomic level of the economy, rooted in the sophistication of company strategies and operating practices as well as in the quality of the microeconomic business environment in which a nation's firms compete. Unless there is appropriate improvement at the microeconomic level, macroeconomic, political, legal, and social reforms will not bear full fruit. A nation's standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of the nation's human, capital, and natural resources. Productivity depends both on the value of a nation's products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced. True competitiveness, then, is measured by productivity. Productivity allows a nation to support high wages, a strong currency, and attractive returns to capital—and with them a high standard of living.

As mentioned above, Competitiveness as a multipronged category can be considered on several levels - competitiveness of companies, industries, institutions, policies and countries, all of those standing in close relation to each other, as competitiveness of a country and its industries ultimately depend on competitiveness of companies.

One of the most integral criteria used to analyze the economic situation in a country is the country's competitiveness. The World Competitiveness Yearbook by International Institute for Management Development (Lausanne, Switzerland) and World Economic Forum (Geneva, Switzerland) use aggregative ratios generalizing 350 different criteria to assess competitiveness of an industry branch on a country level. According to World Competitiveness Report 2005 (World Economic Forum) Georgia is ranked at 96th place by Business Competitiveness Index and at 86th place by Growth Competitiveness Index.

Table 3 *The Business Competitiveness Index*

Country	BCI ranking	Company operations and strategy ranking	Quality of the national business environment ranking	Country	BCI ranking	Company operations and strategy ranking	Quality of the national business environment ranking
United States	I			Egypt	71	58	74
Finland	2		1	Sri Lanka	72	73	73
Germany	3		4	Namibia	73	75	72
Denmark	4		3	Russian Federation	74	77	70
Singapore	5	14	5	Ukraine	75	71	76
United Kingdom	6	6	6	Nigeria	76	65	79
Switzerland				Azerbaijan	77	74	80
Japan			10	Bulgaria	78	82	71
Netherlands			8	Morocco	79	80	75
Austria	10	II	9	Vietnam	80	81	77
France	11	10	II	Peru	81	66	82
Sweden	12	7	14	Tanzania	82	93	81
Canada	13	18	13	Macedonia, FYR	83	89	83
Taiwan	14	13	15	Zimbabwe	84	78	84
Australia	15	23	12	Uganda *	85	91	87
Belgium	16	12	17	Serbia and Montenegro	86	101	86
Iceland	17	15	16	Maw	67	109	65
New Zealand	18	21	16	Armenia	88	87	90
Ireland	19	16	20	Cameroon*	89	84	92
Hong Kong SAR	20		19	Gambia	90	100	89
Norway	21	22	21	Malawi	91	86	93
Israel	22	19	22	Venezuela	92	85	97
Malaysia	23	24	23	Moldova	93	90	94
Korea, Rep.	24	17	24	Bosnia and Herzegovina	94	101	91
Spain	25	25	26	Algeria	95	111	88
Estonia	26	33	25	Georgia	96	94	95
Czech Republic	27	29	27	Madagascar	97	102	96
South Africa	28	26	30	Mozambique	98	97	99
Chile	29	31	29	Benin*	99	100	98
Portugal	30	39	28	Bangladesh	100	99	101
India	31	3)	31	Dominican Republic	101	88	103
Slovenia	32	II	35	Tajikistan	102	107	100
United Arab Emirates	33	36	33	Guatemala	103	83	104
Hungary	34	40	32	Mongolia	104	98	102
Tunisia	35	46	34	Honduras	105	95	105
Cyprus	36	<8	36	Nicaragua	106	110	106
Thailand	37	35	37	Ecuador	107	96	108
Italy	38	28	39	Kyrgyz Republic	108	92	111
Slovak Republic	39	47	38	Cambodia	109	103	107
Greece	40	42	40	Guyana	110	105	109
Lithuania	41	41	41	Ethiopia	111	113	110
Poland	42	43	46	Albania	112	104	113
Jordan	43	59	42	Bolivia	113	115	112
Qatar	44	64	43	Paraguay	114	112	114
Ghana	45	56	47	East Timor*	115	114	115
Malta	46	61	44	Chad*	116	116	116
Kuwait	47	63	45				
Latvia	48	51	48				
Brazil	49	32	52				
Costa Rica	50	34	53				
Turkey	51	38	51				
Mauritius	52	45	49				
Jamaica	53	54	54				
Bahrain	54	67	55				
Botswana	55	16	50				
Colombia	56	49	57				
China	57	53	58				
El Salvador	58	S/	56				
Indonesia	59	III	59				
Mexico	60	55	62				
Panama	61	37	68				
Kazakhstan	62	72	60				
Croatia	63	70	61				
Argentina	64	52	64				
Trinidad and Tobago	65	62	63				
Pakistan	66	68	65				
Romania	67	69	67				
Kenya	68	10	69				
Philippines	69	44	78				
Uruguay	70	II	66				

* Survey data for these countries have high within-country variance: until the reliability of survey responses improves with future educational efforts and improved sampling in these countries, their rankings should be interpreted with caution.

(cont'd.)

The Business Competitiveness Index (BCI) focuses on the underlying *microeconomic* factors which determine economies' current sustainable levels of productivity and competitiveness.

Table 4 Growth competitiveness index ranking and 2004 comparisons

CWNFI	GC1200511nL	'CI 21:05J(OrO	GC111M r: onl	Cu.rlry	GCtD:J1r!!\A	GOmsu ro	GCiltmranl
finland	1	S.&l	1	Tonurla	71	3.57	82
United Stlltti	2	U1	2	ArOill nd	72	3.56	74
Sweden	3	S.6S	3	Panorro	73	3.55	S8
Oenl lork	4	S.6S	5	tdllil*fo	74	3.53	
lall^\5n	5	S.58	4	AWiion Fodorotlon	75	3.53	10
SifY.IOjIOIO	6	S.48	7	Moroooo	76	3.49	S6
loflond	7	.48	10	Phillppno5	71	3.47	76
Svltte ond	8	U6	8	Algona	78	3.16	71
Norwov	9	S.-10	6	Armen<l	79	3.14	
Auwalb	10	S.21	14	Slftlio onl l'mnteooopro	80	3.38	89
NOihOrOOHS	11	S.21	12	\lenom	81	3.37	77
JtiNft	12	S.18	9	MOidOV4	82	3.37	
Unltd Kingdom	13	S.11	11	PallG14n	83	3.33	91
Cenoda	14	S.10	1S	tIno	84	3.30	86
Gerrmnv	1S	S.10	13	loc8donb.FVR	85	3.26	84
NumZMiond	16	UIG	18	6eor9o	86	3.25	\$4
Koreo, Ril)	17	.07	29	Ugondo	87	3.24	79
United Arob&nlotu	18	(e)	16	Nlg m	88	3.23	93
Ootor	19	4.97		vi111110	89	3.22	8S
Estcrio	20	us	20	Moll	90	3.22	88
Aumo	21	(96	17	MozambiQue	91	3.19	92
PortuoaI	12	U1	24	Kenya	92	3.19	78
Chte	23	4.91	22	IbduroG	93	3.18	97
lovlo	24	(W)	31	Gombio	94	3.18	1S
llu.ilmbouro	25	4.00	26	BoInlo and Hem tno	95	3.17	81
Irelood	26	U6	30	Mon>3Ib	96	3.16	
Israel	27	4.84	19	6uat<lmlIfo	97	3.12	80
Hong KOOQ SAA	28	UN	21	Sn lflrlta	98	3.10	73
Spon	29	4.r.1	23	Nicarouuo	99	MB	8S
fromoe	30	(1S	27	Alborlo	100	3.07	
8elqium	31	4.63	25	Bolhio	101	3.06	98
SIC'nr.io	32	(SO	33	0omiRIC4R RQp,biic	102	3.05	72
Kuwait	33	(58		uor	103	3.01	80
c1J)NI	34	(54	38	TojiJswn	104	3.01	
MohO	35	(54	32	MolD\	105	3.00	87
Ihollond	36	(SO	34	&llliopia	106	3.00	101
8ahron	37	4.48	28	Mod(Y.ID Cdl	107	2.95	96
CNeh RepUBlic	38	4.42	40	EM!!lmor	108	2.93	
Hunoorv	a9	4.38	39	Lmbolrw-a	109	2.89	88
Ttr isio	40	4.32	42	84Ingl.lldesh	110	2.86	102
Slor4k Ropoblio	41	4.31	43	Comerocn	111	2.84	
SoUhl<flt:o	42	4.31	41	Comt>octo	112	2.82	
Utluonio	43	4.		Por uov	113	2.80	100
Lotvlo	44	(29	11	8tnin	114	2.74	
Joroiln	45	U1	3S	Guvono	115	1.73	
Greece	4\$	4.31	37	Kvrvzv hDublic	118	2.82	
ltdIt	47	4.21	47	Child	117	2.37	104
8o!Q.vano	48	4.21	45				
ChiM	49	4.07	46				
IndM	SO	4.04	55				
Pobnd	SI	U11	SO				
Moo.riliu;		4.00	49				
EVYP1	S3	3.96	62				
Urvgtav	S4	1!G	S4				
Merico	55	3.92	48				
9 S:otvoctor	55	3.al	S3				
Colomti4	57	3.&l	84				
8Ul<JOnD	S8	3.83	59				
GhllM	S9	3.82	68				
Trinldod ond T<laoo	60	3.81	51				
l<31akhston	61	3.77					
Cr0ol>rlo	62	3.74	61				
N•mibio	63	3.77	52				
Cosu Rico	6-1	3.77	SO				
814111	66	3.69	57				
TIIIIWf	68	3.68	68				
Aosnonb	1-7	3.63	63				
Penu	68	3.68	87				
Ambollan	69	3.64					
Jt!Nico	70	3.64	85				

The Growth Competitiveness Index is composed of three component indexes: the technology index, the public institutions index, and the macroeconomic environment index. Growth

Competitiveness index for non-core innovators = 1/3 technology index + 1/3 public institutions index + 1/3 macroeconomic environment index.

Research Methodology

The survey was conducted on by the Georgian Employer's Association. The aim of the paper is to present the results of studies on the productivity and competitiveness status of GEA member companies.

The research is mainly focused on all significant aspects of company competitiveness: organizational, managerial, HR, financial, labour, technologic. Research group also considered as important to look through poverty aspects and its influence to competitiveness.

The objectives of the survey were following:

- To measure opinions and awareness of productivity and competitiveness amongst the member companies of GEA.
- The survey was conducted by means of interviewing at senior management level across a representative sample of GEA member companies. The sample comprised 11 industry sectors (including services), and was designed to be representative of small, medium and large enterprises.

Research Goals:

- $\frac{3}{4}$ Analyze of awareness and implementation by the GEA member companies Competitiveness and Productivity instruments.
- $\frac{3}{4}$ Produce recommendations on actions required to raise competitiveness of the Member Companies of GEA

Analyze is done through following variables:

- Productivity strategy and techniques
- Measurement of productivity
- Human Resources Productivity
- Labor productivity
- Innovations and Technology
- Financial culture and constraints
- SMEs Productivity
- Competitiveness of Georgian Legislation
- Financial Performance, access to credit resources

The study estimates contribution of organizational, technologic, financial, and other factors to achieve member company's competitiveness. Company's assessment of its own competitive potential is the starting point in developing a competitiveness raising strategy. This assessment enables to reveal strengths and weaknesses of the GEA member companies and to understand in which fields strategic changes will have better results.

Quantitative Research

1. Method

Descriptive Quantitative Research – a research method that provides statistically reliable information. The purpose is to measure and analyze survey indicators.

2. Technique

The face-to-face technique has been applied in the research. Interviews have been carried out by 6 professional interviewers using special semi structured questionnaire. The questionnaire consisted of closed-ended questions and of some open-ended ones. The answers were marked directly in the questionnaires. The length of the interview was approximately 50 minutes.

3. Interviewers' training

Two experts conducted the interviewers' training. The interviewers were instructed on the following issues:

- survey objectives and instrument
- peculiarities of sampling
- Route Sheet
- form of technical report
- cards
- etc.

4. Target Group and Sampling

Quota sample has been applied in the research. The quota sample considered selection of the survey respondent according to the pre-determined quota.

Based on the survey objectives, the sample size was defined as 65 respondents.

39.2% small, 23.5% medium and 37.3% large companies participated in the research. Among them 49% were limited liability companies and 19.6% joint stock companies,

Legal forms of questioned companies are as follows:

Table 5 *Legal forms of questioned companies*

	Small enterprise	Medium enterprise	Large enterprise	Total
Sole Proprietorship	50.0%	33.3%		27.5%
General Partnership		16.7%		3.9%
Limited Liability Companies	40.0%	41.7%	63.2%	49.0%
Joint Stock Company	10.0%	8.3%	36.8%	19.6%

The questioned companies differ by their annual turnover:

Up to GEL 500 000 - 20 firms,

From GEL 500 000 to 1500 000 - 12 firms,

More of 1500 000 - 19 firms,

According to current legislation the corporate operations of the companies in Georgia fall under the regulation of Law on Entrepreneurs of Georgia adopted in 1997 and amended on various occasions. The law stipulates the following legal forms of the companies: sole proprietorship, general partnership, limited partnership, Limited Liability Company, Joint Stock Company and cooperative.

The companies under study mainly represent four legal forms. This is due to their wide application. The portion of Limited Liability Companies is 49.0 %, Sole Proprietorship - 27.5%. Most of companies (27%) of mentioned legal forms are established three years ago. Registration procedures of such companies were simple by then legal requirements.

The research was conducted in 65 companies, while the number of valid questionnaires is 51:

Small companies - 39.2%

Medium size companies - 23.5%

Large companies - 37.3%.

The companies have been selected by criteria of extent of their functioning. Long duration functioning companies has been granted by preference as they are characterized by sufficient practice and experience.

Table 6 *Companies according to the duration of their functioning*

	Small enterprise	Medium enterprise	Large enterprise	Total
1 year	25.0%			9.8%
From 1 to 2 years	10.0%	8.3%		5.9%
From 2 to 3 years	5.0%	25.0%	10.5%	11.8%
More than 3 years	60.0%	66.7%	89.5%	72.5%
Total	100.0%	100.0%	100.0%	100.0%

The results obtained indicate that, according to managers from the 65 enterprises, there is a significant competitive gap between the Georgian firms and their rivals from neighboring countries. This gap concerns all the three dimensions of firm competitiveness: competitive position, competitive potential and competitive strategy.

Details of the survey can be summarized as follows:

Measurement of productivity

Generally speaking, productivity measurement is necessary in order to provide successful decision-making process, assess productivity status in the company and increase the profit. As a result we focused on this issue in our research. The main aim was to identify whether member company managers and businessmen are aware of productivity measurement, what role does it play and is it priority task in their enterprise development strategy?

We were interested in:

- How much the existing measurement system is understood and trusted by management and employees?
- Are all business activities and profiles included in the measurement?
- Do measurement results provide clear signals for managerial decisions and actions in improving profitability? This point is particularly important since most companies include profit in their strategic objectives.

As organizations have multiple objectives, a single measure of productivity is not sufficient. Only an approach based on a family of measures for the various objectives and expectations gives realistic information. Total productivity measurement in Georgian companies includes the following parameters:

- *customer-related measures* such as timely deliveries, repeat orders, response time to enquiries and complaints, warranties
- *operations-related measures* such as inventories, cycle time to design and manufacturing, waste, rejects, pollutants, housekeeping, safety conditions, downtime
- *employee-related measures* such as skills and education level, satisfaction, absenteeism, accidents, training costs and impact, turnover, health and fitness, recruitment time and expense, incentives and rewards as a percentage of wages
- *business-related measures* such as market share, profits
- *improvement-and process-related measures* such as process cycle time, actual work time, extent of team participation, changes made, technology development, contribution of improvements, new products and services, innovations, value creation

Research showed that professional managers in large firms are informed on a satisfactory level about the production measurement system and effectively apply to it in their activities. They have already trained and developed a measurement system development team, including the measurement system designer, the controller, other people who can provide data, as well as people who can help in data retrieval and processing.

However, it should be mentioned, that the number of companies successfully applying to the productivity measurement system is quite small -10% out of questioned enterprises. We do not stress the fact that these companies mostly work in the capital and situation in the regions in this connection is much more complicated.

Regarding to other data, one part of large companies, medium and relatively small numbers of small enterprises (total 45-50%) are aware of productivity measurement system; however, existing system in their companies do not fully include all business activities and profiles and mainly have only sector-type character. For example, sometimes they measure only one profile productivity (labour or human resources productivity) and pay less attention or completely ignore other profiles and directions. As a result of this segmented approach complicates analyzing the realistic and combined picture of company's productivity. Accordingly, the outcomes of the measurement are not complete.

However 40 to 45% of the companies know a little or nothing about the production measurement system. There are even the cases, when they apply to the nontraditional, self-invented methods of measurement. The major reason for this is their inadequate awareness in the production measurement matters. This kind of situation is often observed in small and medium size enterprises.

The other part of the questionnaire dealt with the following question: what kind of measures do the company managers use to cover practically all significant gaps in enterprise performance revealed after analyzing the results of productivity measurement? In best cases, enterprises as usual working in the capital (approximately 10-12%, mostly large companies and rarely medium ones), apply to complex approach.

The complex process of discovering and covering gaps takes place this way: successful and well organized companies (13,7%) keep a tight contact with the consumer, study and analyze their opinion about the production and the service - what they value including product features, prices, delivery and after-sales requirements, the units which are in direct contact with customers, and complaints procedures. Once the gaps are identified, the enterprise uses different methods according to the character of the problem:

- Reduce costs (waste) and prices to increase volume and better utilize resources
- Improve the product to increase its market share
- Expand the distribution and service network to increase sales
- Use profits to develop new products and technology

Besides this, companies actively study different characteristics of their production and service. The objective is to create a new and superior value curve based on an analysis of customer needs. 68.5% of the interviewed managers achieve this by eliminating undesirable features, creating new features and reducing or raising others to levels unprecedented in the industry.

In this process, 46% of companies use benchmarking – sharing the experience of the organizations having superior practices and processes. 42% of managers involve employees at various levels in the analysis, as many problems in most cases are known only to them, as they have daily contacts with the events taking place in the enterprise.

Marketing

The research has been conducted based on companies’ sales market criteria. Most of companies produce their product/service for internal market.

Table 7 *Market Distribution of Sales*

	Small enterprise	Medium enterprise	Large enterprise	Total
Internal	85.0%	66.7%	57.9%	70.6%
Foreign	15.0%	33.3%	42.1%	29.4%
Total	100.0%	100.0%	100.0%	100.0%

The share of product/services provided by companies differs by markets:

- 70.6% of companies are oriented to local market. Among them 78.4% mark for Tbilisi and regional markets.
- 29.4% are oriented to foreign markets, 31.9% of which score for CIS markets.

The size of company is the determinant factor for selection of market. Small and medium size companies are mainly focused to local market. Large companies express their interest to local market alongside to foreign markets. The important part of the export products are the goods with low added value: metal scrap, metal ore and concentrates. There are also important export goods: alcohol, beverages, mineral waters which mainly cover CIS markets.

Research results revealed the lack of competitiveness of Georgian companies with regard to global requirements. The Georgian export industry analysis illustrates the low added value of exported goods. Consequently, the majority of Georgian companies are focused on local market, hence missing the opportunities granted by EU in export activities.

New GSP+ scheme

The objective of Generalized System of Preferences (GSP) is to assist developing countries in their export activities. The assistance is provided by highly developed countries. GSP introduces special incentives of foreign trade to beneficiary countries. The system of preferences does not require any adequate motivation from beneficiary's side to granter. Reduced tariffs of custom duties are set up in favor of exported goods from beneficiary countries. Therefore export industries of developing countries become more competitive on highly developed markets.

Actual EU GSP scheme is characterized by minor faults. Hence EU elaborated modified GSP scheme. The principles of mentioned document initiate the GSP system for developing countries for upcoming decade. The modified norms of new GSP scheme by 2006-2008 have been integrated in the document of Eurocomission dated by October 20, 2004. The Decree N 980/2005 of Council of Europe is valid by June 27. According to decree modified GSP+ is introduced from July 1, 2005, which gave enormous preferences to Georgian exported goods as well.

New GSP+ scheme is considered as effective assistance for Vulnerable Countries. It covers up 7200 variety of goods authorized to enter in the European markets without custom duties. The previous GSP scheme used to authorize to benefit only 3300 kind of exported goods.

It's noticeable that no country from CIS countries except of Georgia is accepted to benefit by GSP+ scheme. The mentioned preference will definitely enhance the FDI increase trend. GSP+ scheme facilitates Georgian export industry to become more competitive by reducing its cost of exported goods. Georgian export industry acquired the cost advantages in comparison with exported goods of neighbouring countries at European markets.

We have studied the environment in regard with competitiveness. Main business competitors for questioned companies are:

Table 8 *Business competitors*

	Small enterprise	Medium enterprise	Large enterprise
Local SMEs	60.0%	41.7%	15.8%
Local large private enterprises	35.0%	16.7%	29.6%
Microenterprises/Informal sector (non-registered family enterprises)	–	8.3%	5.0%
Foreign enterprises		33.3%	39.1%
Do not have rivals	5.0%		10.5%
Total	100.0%	100.0%	100.0%

Most companies (39.2%) consider SMEs as their main competitor. Competitiveness is highest between small companies (60%) because of big number of such kind of companies in Georgia.

According to estimates of 2004 the number of soul proprietorship comprised 55.8%. However their share in GDP was 2.0%. The quality of production of such kind of companies is low and prices are low accordingly. So they manage to seal out their production easily.

Because of the absence of the capital, the unfavorable conditions and the complexity in acquiring loans, the majority of the potential entrepreneurs start their business with a small enterprise. Furthermore, the existing small enterprises also develop with a very low rate. All these cause the increase in their quantity and accordingly in growth of competitiveness among them.

Separately should be mentioned the competitiveness that is faced from the side of foreign enterprises and which affects mainly the large local enterprises – 42.1%. The majority of them are not international market oriented. The produced goods are characterized with low added value and lack of diversity. For that same reason, the share of the foreign produced goods, with less price and better quality than that of the local production, in the country market is increasing. As a result we have a serious competitiveness towards local enterprises.

Human Resources Productivity

Enterprise management’s modern conception, considers human resources and their management as the basic factor for future production increase. Management of human resources is an integrated part of company’s strategy, operational and strategic planning and growth of competitiveness. Moreover, the human resources management strategy must be similar to the management’s general conceptions and productivity culture.

The main aim of the research to this direction was to identify to what extent the companies use human resource (HR) productivity and what role does the personnel play in the enterprises.

We have studied the dynamics of growth in personnel number in the questioned companies for last two years. During this period company staff increased by 24.1%, while the number of full-time employees increased by 24.8% and part-time employees by 12.6%.

It should be noted that growth of personnel for last 2 years is most noticeable in SME-s. Results are as follows:

- Small companies – 39.2%
- Medium companies – 23.5%
- Large companies – 37.3%

This results show that the development of SME-s is essential for economic growth as well as for increased employment.

Table 9 *Dynamics of growth in personnel number*

	2 years ago	2 years ago	Currently	Currently
	Full-time employees	Part-time employees	Full-time employees	Part-time employees
Small enterprises	5.5%	5.1%	6.0%	8.5%

Medium enterprises	8.5%	6.6%	9.6%	14.0%
Large enterprises	86.0%	88.3%	84.4%	77.5%
Total	100.0%	100.0%	100.0%	100.0%

We have also studied employees according to their qualification. Total number of staff in 51 questioned companies is 4378, including 283 in small enterprises, 459 in medium enterprises and 3636 in large enterprises.

Employment based on qualification comprises 53.5%. Quite big number is employed not because of relevant qualification, but considering their practical experience in particular field (41.9%). SMEs are mostly staffed by the personnel having practical skills (54.8% and 47.5% accordingly). Large companies are oriented mainly on qualified personnel – 57.3%, but the number of staff with practical experience is quite big even in large enterprises – 40.2%

Table 10 *Staff qualification*

	Employed according to specialization	Employed according to practical experience	Do not Employed according to specialization do not having practical experience	Employees without specialization	Total
Legal form					
Small enterprises	4.6%	8.4%	4.6%	28.3%	6.4%
Medium enterprises	6.5%	12.0%	42.8%	50.0%	10.5%
Large enterprises	88.9%	79.6%	52.6%	21.7%	83.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The analysis of research results revealed that in parallel to the growth of number of full-time employees (it can be assessed as good trend) the number of employees with high and average qualification is increasing faster than the number of less-qualified or non-qualified personnel. For last two years the number of high-qualified personnel increased by 35%, average-qualified personnel – 23%, non-qualified staff – 9%. Such kind of tendency gives us credence to predict that the demand on qualified personnel will increase simultaneously.

More than half of interviewed managers plan to renew enterprise technologies within their companies during next two year – 53%, improvement the quality of production/service – 33%, increase the sale – 30%, investment in realization new projects – 23%, attracting new stakeholders and investors – 13% and so on.

According to the manager's views, main factors of developing organization and increasing its competitiveness are as follows:

- Highly qualified and well-prepared staff – 47%
- Strong positions in the market – 20%
- Good reputation of production/service among customers – 43%
- Competitive prices on their production – 33%
- Professional management – 23%

Main obstacles considered by managers are as follows:

- High level of competitiveness – 33%
- High prices on qualified experts and specialists – 20%
- Lack of innovations – 17%
- Lack of experience in business management – 13%
- Lack of effective system of personnel provision – 3%

70% of managers do not have separate department or other kind of administrative unite of human resources management and only half of companies care about personnel development and raising their qualification.

Regarding to seeking and selecting qualified specialists, 64.7% of small, medium and large companies use self-owned sources. Mostly large companies apply to this method – 73.7%. They do agree that this way is much more expensive but it is more accurate to find the needed staff. The fact that only small number of interviewed companies refer to State Agency of Employment once more proves that labour market infrastructure is not properly developed.

Table 11 *Seeking for personnel*

	Small enterprise	Medium enterprise	Large enterprise	Total
Seeked by the enterprise by itself	60.0%	58.3%	73.7%	64,7%
Via State Employment Agency	10.0%	8,3%	5.3%	7.8%
Via the Personnel Provision Agency of Georgian Employers' Association	20.0%	25.0%	5.3%	15.7%
Via private employment agencies	5.0%	0	0	2.0%
Via education institutions	0	8.3%	15.8%	7.8%
Via personal contacts	55.0%	33.3%	10.5%	33.3%
Via internet	5.0%	16.7%	15.8%	11.8%
Via mass media	0	16.7%	5.3%	5.9%
Via advertisement and public	0	8.3%	0	2.0%

According to the research, main criteria for the assessment of new personnel were allocated in this order:

- Qualification and working skills – 77%
- Formal education (approved by diploma) – 27%
- Adaptability to changeable environment – 23%
- Discipline and respect of management – 22%
- Capability getting familiar with new skills – 20%
- Capability and readiness to do additional work – 13%
- Creativity and capability problem-solving – 10%
- Capability for working in groups – 3%

This kind of hierarchy in new personnel assessment perfectly reflects the situation existing in Georgian labour market. As we see from the above data, alongside with such objective criteria of assessment as responsibility of worker, quality of work and orientation on results of the work done, qualification and working skills, most valued is additional skills and formal education (approved by diploma). Moreover Capability and readiness for additional work is considered as

main criteria of assessment by 13% of managers. This shows the low level of work-organization in the company and addiction to breaking the labour code.

It should be noted, that managers think new personnel do not meet their main requirements, namely: responsibility – 47%, qualification and working skills – 33.5%. These results confirm once more the need on increasing the qualification and working culture among labour force in Georgia.

During problem-solving and decision-making it is important for managers to realize the role of human resources development in their business activities to achieve sustainable success. 43,0% of managers think that human resources is of vital importance in the companies' work, 17,0% consider that this factor is already included in the management, 27,0% assess this factor as problematic for them, but for 13,0% this factor is less important, and for 13% this factor does not have any meaning.

It has been revealed that enterprises are implementing human resources development strategy, but it is not effective because finances are not enough.

Table 12 *The importance of Human Resources*

	Privatized enterprises %	Private branch enterprises %	Newly established enterprises %
It has great importance	27,3	25,1	36,3
It is very important and is included in company management	9,1	11,3	16,7
It is important, but still quite problematic question for the company	36,3	34,7	33,3
It is importantn not so much	27,3	28,9	14,7

According to different spheres of business human resources are mostly valued by companies specialized on finances, tourism, service, communication and informational technologies. Human resources are assessed as less important by companies working in construction, industry and transportation.

Table13 *Importance of raise of qualification according to company size:*

	Small	Medium	Large	Total
Systematic raise of qualification is needed	10.0%	50.0%	36.8%	29.0%
Periodic raise of qualification is needed	65.0%	41.7%	57.9%	56.0%
It is not important	25.0%	8.3%	5.3%	15.0%
Total	100.0%	100.0%	100.0%	100.0%

85% of surveyed entrepreneurs think that the training of the staff has a positive influence on workers' productivity and helps to increase the enterprise production output. Despite this fact company managers pay less for human resources development.

Table 14 *Companies' annual expenditure on human resources development*

Investment	Small enterprises	Medium enterprises	Large enterprises	Total
Do not spend anything	75%	46.4%	5.3%	43.1%
Up to GEL 500	25.0%	36.3%	21.1%	25.5%
From GEL 500 to 1000	—	17.3%	42.1%	19.6%
From GEL 1000 to 3000	—	—	10.5%	3.9%
From GEL 3000 to 5000	—	—	5.3%	2.0%
GEL 5000 and more	—	—	15.7%	5.9%
Total	100.0%	100.0%	100.0%	100.0%

The above mentioned proves that the employers have not still realized their role and duty in human resources development. Human resources development is connected with significant expenditures and which only large companies can afford while SMEs are less capable. That is why GEA plans to help SMEs to carry out important measurements for human resources development and successfully implement them. The results also reveal the fact that employers have not realized yet properly their role and obligation in regards to personnel qualification growth.

Table 15 *Expenditures on human resources development*

	Small enterprises	Medium enterprises	Large enterprises	Total
Not enough	33.3%	66.6%	62.4%	52.7%
Average	44.5%	33.3%	31.3%	36.8%
Enough	20.0%	—	6.3%	10.5%
Total	100.0%	100.0%	100.0%	100.0%

Only 10.5% of companies regard the expenditure on human resources development as enough, while greater number (52.7%) enterprises think that money spent on personnel is not enough. However they can not change the situation due to lack of financial resources.

Development of private sector and applying to new technologies increased the demand from employers on qualification of employees. We should also take into consideration proposals from employers about refining the system of vocational education. Namely 70% of employers argue that state as well as private sector must support graduates to begin professional life by offering them relevant jobs. 57% of company managers think that graduates must have opportunities to practice their theoretical knowledge, 27% allege on profile change and obtaining new specialisation.

Concept of Vocational Education

With respect to jobs in the future, there is a serious need for people with vocational skills...we need to encourage people to consider that vocational training skills are as valued as obtaining a university degree."

David Arkless,
Senior Vice-President,
Corporate Affairs-World Economic Forum 2006

In line with international developments, Georgian industry is in the process of modernization. Accordingly the demand on qualified labour force is rising consistently. So the improvement of qualification and training-retraining of competitive personnel with more opportunities of employment became vital.

Today there is not effective network of unofficial training service and institutional mechanisms that would make population motivated to engage in the process of vocational training and retraining. If the situation does not change there will appear a gap between demand and supply of qualified personnel.

According to the demands of employers and businessmen and taking into considerations the existing situation, trainings and facilitating employment became one of the directions of the activities of Georgian Employers' Association as in Tbilisi so in the regions through regional offices. Existing situation created demand on introduction a new approach in the sphere of training and retraining of qualified personnel and setting up of general vocational qualification guide. There is also urgent need on implementation of vocational educational standars. According to this Georgian Government worked out a new concept on vocational training.

GEA is actively engaged in the processes of human resources development and employment. The Association as a union of employers is a member of State Commission of Social Partnership in Vocational Education of Georgia. In this Commission GEA is responsible for:

- Development of social partnership in vocational training according to the requirements of internal and external labour market.
- Establishment a mechanism of employment and high level education oriented on labour market.
- Setting up a system of rising motivation of employers to engage in vocational education.
- Setting up methods of integration of entrepreneurship with the vocational education

According to the demand of members GEA has offered to the State Commission following principles:



There are different thematic working groups created in the mentioned State Commission, where members of GEA are presented. According to the results we may conclude in advance that:

- The employers are mainly concentrated on satisfying their own demands when they are seeking skilled personnel. They are not interested or are not capable to provide future professionals with higher qualification and prepare them for enterprise work.
- The employers' demands may be specific
- The employers might be less informed and incapable to predict on the specialists.
- The employers not always take into consideration the demands of socially non-profitable population.
- Low level of qualification of labour force
- Depict on labour market of personnel with new kind of specialization

GEA's approach to this issues is presented in the conclusions.

Labour Productivity

One of the essential directions of the research was labour productivity as an important component of industrial and business activities. There was also analyzed existing situation on Georgian labour market in the context of supply and demand on labour force.

Although economic situation in Georgia is undergoing certain, the labour market situation still remains largely unfavorable and unstable. Whilst unemployment rate figures are generally in line with those for transition economies, the overall picture is flawed by persistent underemployment, widespread hidden and disguised unemployment and majority of salaries falling way below the minimum subsistence level. Most of the working age population is either underemployed or non-employed. New stable jobs are rarely created and very few of them are relatively stable. The labour market is dominated by agricultural subsistence self employment. A large portion of the employed are engaged in unofficial and unregistered low-paying largely self-employment activities. Just around 20 per cent of the working age population has waged or salaried jobs and the vast majority of those employed are hardly earning a living. All the above-mentioned long-term labour market problems adversely effect the poverty situation that is continuously reflected in painful declines in living standards experienced by large numbers of households.

According to the SDS integrated survey results, the national unemployment rate calculated by the ILO "strict" methodology as of the end of Q3 2004 (the latest available sets of figures at the time of working on this study), was 13.1 per cent, while the unemployment rate calculated by the "loose" methodology was 15.2 per cent.

At the same time, jobs have been lost both in the public sector and in the informal sector. Both former civil servants who lost their jobs as a result of government restructure and former self-employed vendors selling goods in the street around the main market in Tbilisi who had to formalize their activities in line with new requirements.

In a situation where the unemployed are not covered by sound unemployment insurance schemes or any other form of support, providing at least a subsistence minimum, they are especially at risk both from an economic and social point of view.

The average monthly nominal salary of hired employees across the economy was GEL 125.7 in Q3 2004, according to the SDS Integrated Household Survey figures. The share of the average monthly salary in the minimum subsistence of a family of four grew compared to a year ago by 5 percentage points and was 53 per cent at the end of Q3 2004. The share of remuneration in monetary household income was 36 per cent and in total household income – about 28 per cent.

Table 16 *Average monthly wage (GEL)*

Category	Average monthly wage (GEL)
Budgetary organizations employees	81.3
Employees of public enterprises and organizations	141.1
Private sector employees	153.1
Employees working in foreign organizations or joint ventures	334.3
Other	125.7

However, the overall situation on labour market still remains unstable, unreliable and unacceptable. While the unemployment rate generally coincide with the rates of the country of transitive economy, it is still high (between 10 – 14% by different estimations), and average monthly wages – low, well below the cost of the existence minimum.

In addition, other profound problems are: partial employment as well as covert and hidden unemployment. Also there are very few stable jobs and most of employment is unofficial, unregistered and less-paid.

Economically active population decreased by 24% in 2004 comparing with the figures of 1990. By 2004 population entering the working age moved the population leaving this age on 28 000. At the same time this year 37 graduates entered the labour market. This number increased on 40 000 in 2005. As a result the supply of labour force on market is increasing consistently, however total demand on it decreasing and situation is not expected to improve in the future.

Extensive supply of labor force on labor market decreases the value of labor force, which by itself determines low level of wages and causes the retardation with minimal existing minimum.

Labor productivity is one of the significant factors of productivity growth. Alike other existing markets, the labor market is also guided by demand-supply principle. However the labor market is diverse from other markets. Because the biggest part of the labor service is not the final product itself, which is ready for the consumer, but it is the material needed for production of other goods.

The research revealed two approaches to employment from employers:

- Enterprises that hire staff according to the quantity of production and industrial capacities – 41%.
- Enterprises that hire staff according to their practical experience and simple economic measurement – 58.3%.

First approach is used mainly by large companies – 70%, second approach – by medium and small enterprises – 60.6%.

During the research we asked managers the measuring principle of number of employees, according to which they identify the necessary number of their stuff.

The managers introduced various approaches how they are taking decisions about the quantity and qualification level of personnel while hiring them:

- $\frac{3}{4}$ Production program - 58.0%
- $\frac{3}{4}$ Norms of labor expenditures - 43.0%

- ¾ Norms of earnings - 41.0%
- ¾ Norms of the service - 51.7%
- ¾ Normative of workers' quantity - 17.8%
- ¾ Managerial norms - 28.9%
- ¾ Balance of one worker's time - 15.8%
- ¾ Implementation of norms - 11.6%

The labor productivity is characterized mainly by two factors:

- Production/service worked out in time unit
- Production/service according to required work volume

Every enterprise, based on production process, uses different labor productivity measurement methods. The research has shown that, the most widespread and universal is the production produced in the time unit, used by 58.9% of enterprises.

Decline in labor productivity growth, has a negative effect practically on every sphere of production.

Company managers were asked - which are priority factors for labor productivity growth in their enterprises. The answers were allocated as follows:

- Climate in the companies, that fosters innovation processes – 27.8%
- Conviction of managerial staff that the growth of labour productivity is inevitable task – 31%
- Orientation not on the costs reduction, but on the growth of the quality of production/service- 43%
- Improvement of enterprise and labour organization – 22.1%
- Environmental changes – 5.4%
- Structural changes in the entrepreneurship connected with the change of share of some kind of productions – 6.3%

Table 17 *Labour Productivity per employee, 2004*

Economic Sectors	Small enterprises		Medium enterprises		Large enterprises	
	DS*	Study*	DS	Study	DS	Study
Agriculture	18093	17855	3006	3145	3051	3000
Mining	20376	19054	18376	18115	7691	7544
Industry	32593	31455	12432	12678	9453	9284
Construction	26983	27123	11662	11745	9782	9621
Trade	24473	24819	8295	8378	3114	3396
Transport and Communications	23866	24456	7798	7458	7622	7496
Tourism, Hotels and Restaurants	35035	36123	8014	7958	5398	5123
Others	6969	6875	5554	5378	4055	3875

Source: "Entrepreneurship in Georgia", Department of Statistics

* DS – Department of Statistics

* Study – Study conducted by GEA

Official data of Department of Statistics and results of our study is almost the same, besides small exceptions. It should be noted, that these data increased by 16.6% in 2004 comparing the data of previous year and increase in 2005 comprised 14.7% .

Labour productivity per employee according to the form of ownership of companies is varied:

Table 18 *Labour productivity per employee, 2004 (GEL)*

Economic Sectors	State	Private
Agriculture	2628	10096
Mining	18008	22109
Industry	8799	27264
Construction	16112	43340
Transport and Communications	11778	48995
Tourism, Hotels and Restaurants	19359	11285
Others	4862	7805

Source: “Entrepreneurship in Georgia”, Department of Statistics

These data shows again that government should facilitate faster development of private sector and create favorable legal and business environment.

One of the most important tasks for employer in labour productivity is a definition of the share of wages – employee must create such kind of production/service that will cover expenditure on wages, costs of resources and other expenses. So wages are directly connected with effectiveness of employee.

The level of wages is determined by factors that they are self-regulated until supply and demand on labour market does not become equal. Misbalance among supply and demand on labour force on Georgian labour market, when supply is much more than demand, wages in private sector made self-regulating that is proved by study as well.

Table 19 *Changes in wages for last two years*

	Small enterprises	Medium enterprises	Large enterprises	Total
Decreased	20.0%	16.7%		11.8%
Increased	50.0%	75.0%	78.9%	66.7%
Significantly increased	5.0%	8.3%	21.1%	11.8%
Dos not concern	25.0%			9.8%
Total	100.0%	100.0%	100.0%	100.0%

As a result of imbalance between demand and supply on labour force in Georgia, when supply is much higher than demand, the wages in private sector become self-regulated. It was proved by research.

Most employers (69%) primarily pay attention on prices of each kind of worker on labour market while determining their wages, because prices are low as a result of overweighed supply.

Most enterprises have their own system of payment. In most companies there is taking place a differentiation of payment. As the study showed due to the growth of company income, wages

are growing consequently. However, this growth refers mostly to the wages of managerial staff, while wages of qualified personnel is increasing slowly. So, it can be concluded, that qualification of employees does not play a great role for their stimulation. In this situation, motivation of employees to raise their qualification and working skills still remains low.

Table 20 *Correlation of company income with wages for last two years*

	Company income	Wages
Decreased	11.8%	0
Has not changed	33.7%	41.6%
Increased	54.5%	58.4%

Despite the income decrease in 11.8% of enterprises they did not reduce the wages, while the 41.2% of the enterprises did not change the wages.

According to labour productivity, the employee should produce a product/service which will fit in the wage, material expenditures, and its price will give us the chance to gain profit. Thus the wage is in direct connection with labour effectiveness. It should be mentioned that, the significance of wage, as of socio-economic category, is of different importance employees and employers:

- For employee, the wage is the main source of his/her income; that's why the wage plays the role of stimulator for him/her by increasing work results to increase the income.
- The wage of the employee is expenditure for the employer. So employer tries to minimize those expenditures by integrating it in cost of production.

Table 21 *Changes in wages for two years*

	Small enterprises	Medium enterprises	Large enterprises	Total
Decreased	–	–	–	–
Did not change	70.0%	58.4%	–	41.2%
Increased	30.0%	33.3%	84.2%	51.0%
Significantly increased	–	8.3%	15.8%	7.8%
Total	100.0%	100.0%	100.0%	100.0%

According to DS average monthly wage was GEL 167.6 in 2004 in Georgia, while average monthly wage in governmental sector was 157.8 and 167.6% in private sector. Wages according to company size allocated as follows:

- Small companies – GEL 73.2
- Medium companies – GEL 111.4
- Large Companies – GEL 311.1

The data are approximately the same according to our research as well. Average monthly wages comprised GEL 166.4. Wages according to company size allocated as follows:

- Small companies – GEL 81.2

- Medium companies – GEL 118.9
- Large Companies – GEL 299.1

Poverty

According to the DS data, in 2003 poverty level was 54.5 percent to subsistence level and increased by 2.4 percent points against 2002, which can be considered a substantial increase. The increase in the poverty level was contributed by high rural poverty (increased by 7.7%) though urban poverty decreased by 2.7 percent. Extreme poverty made 17.4 percent in the first months of 2004 which is 0.8 percent high than in 2003.

Table 22 *Official and extreme poverty level in 1996-2004*

	Urban	Rural	Average
Official poverty level			
1996	56.4	46.7	52.1
1997	46.9	45.4	46.2
1998	54.4	45.3	50.2
1999	60.5	41.8	51.8
2000	57.0	46.1	51.8
2001	54.4	47.6	51.1
2002	55.4	48.5	52.1
2003	52.7	56.2	54.5
2004	51.3	53.4	52.3
Extreme poverty level			
1996	16.8	10.4	14.0
1997	10.5	9.2	9.9
1998	16.2	11.1	13.8
1999	18.1	11.8	15.2
2000	14.4	14.1	14.3
2001	14.2	13.4	13.8
2002	15.3	15.0	15.1
2003	15.2	18.0	16.6
2004	15.0	19.8	17.4

Source: Department of Statistics

The average monthly expenditures of households increased by 8.4 percent in the reporting period and made GEL 356.2, though increased by 0.8 percent in real terms. The share of groceries in household expenditures is 60 percent which is 3-times high than in developed countries.

Among other factors, unemployment is the main cause of poverty. The unemployment rate by ILO definition was 12.7 percent in the first 9 months, and 15.2 percent by soft definition, which represents an increase. The lion share of unemployment comes on structural unemployment. Low salaries of contractual employment also contribute to the poverty level. Average monthly salary of a contractual employee made GEL 120, which is 89.2 percent of the subsistence level in the corresponding period.

In Georgia poverty indicators are calculated according to household costs. To calculate poverty lines the method of food energy is applied. Two poverty lines are used for evaluation:

- Official minimum subsistence– this is GEL 124 -128 per month for an adult of working age;

- Extreme poverty line –GEL 58-63 per month for an adult of working age.

In 2002, the level of poverty in respect to the official minimum subsistence was approximately 52%. In 2002, 15% of the population lived in extreme poverty. This figure decreased between 1999 and 2001. Third of the households were below the poverty line during 2002.

All types of households are not captured by poverty equally. However, there are some shared characteristics of those in poverty. These characteristics are:

- Households with unemployed members –one third of households in extreme poverty have no employed member;
- Households with comparatively low levels of education – the one third of households in extreme poverty have average or lower education levels.
- Households without working capacity – around 20% of households in extreme poverty are comprised of members without working capacity.

Unemployment is one of the most important factors that define the poverty level. The risk of households to fall below the poverty line increases according to the number of unemployed members. The poverty level is almost three times more than the average in those households where all members are unemployed.

Most of the working age population is either underemployed or non-employed. New stable jobs are rarely created and very few of them are relatively stable. The labour market is dominated by agricultural subsistence self-employment. A large portion of the employed are engaged in unofficial and unregistered low -paying largely self-employment activities. Just around 20 per cent of the working age population has waged or salaried jobs and the vast majority of those employed are hardly earning a living. All the above-mentioned long-term labour market problems adversely effect the poverty situation that is continuously reflected in painful declines in living standards experienced by large numbers of households.

Urban and rural poverty differs. Urban poverty is related to insufficient food supply, which is viewed as an indicator of severe and deep poverty. Rural households consume the food they produce. In rural areas the major issues are a lack of financial resources and undeveloped infrastructure. The latter reduces accessibility to major services. While urban poverty is deeper and more severe, accessibility to education and health care services is better. This enhances employment prospects and improves economic standing.

The rural poverty level is always lower urban levels but is no less acute. Living above the poverty line in rural areas is assisted by the availability of one's own harvest, live-stock and poultry products. This depends considerably on climatic conditions. For instance, droughts in 1998 and 2000 increased rural poverty. The major resource that keeps rural populations above the poverty line is land. There is little prospect to reduce rural poverty unless existing conditions are changed. Even if poverty is reduced with a good harvest, this will not be stable and will continue only until the next drought, hail or other natural calamity.

Several factors affecting poverty in Georgia can be identified. These factors include:

- Employment;
- Unemployment;
- Age;
- Shock;
- Infrastructure.

If one person in a household finds employment household consumption increases by about 20%. Similarly if a household member becomes unemployed consumption decreases by 20%. The age structure of a household has a close relation to poverty. This factor is particularly significant in urban areas where the existence of pensioners living alone decreases the consumption volume calculated according to equivalent adults by almost 30%. The effect of this factor is also significant in rural areas but less than urban areas. The households composed of members of non-working age encounter severe problems in urban areas and this fact reduces consumption by about 25%.

Households in Georgia find it very difficult to withstand external crisis. The Russian financial crisis of 1998 and droughts in 2000 are evidence of this. The poor condition of infrastructure is also an important problem. This is more severe in rural areas. Rural households have less access to education and healthcare. The energy crisis and information vacuum aggravates the problem further especially in remote villages. The Low quality of roads is also a large problem.

Poverty risk rapidly increases in households that have three or more children. Poverty in families with many children is more distinctive when there is only one breadwinner in the household. This can be partly explained by a can reduction of actual income and also by the lack of state benefits for children. At present children of school age head the list of the poorest age groups. In terms of integration into the labour market internally displaced persons (IDPs) face particular difficulties. The unemployment level of individually accommodated IDPs is twice as high as the local population. Collectively accommodated IDPs unemployment is three times higher than the local population. About 20% of internally displaced persons declare that they are isolated from the local population. They do not have information about vacancies and connections to get jobs. Employment prospects are low paid and unreliable.

The majority of jobs, especially in cities, are created in the informal sector. The informal economy, dominated, as overall employment, by irregular self-employment, is represented largely by unrecognized, unrecorded and unregulated small-scale activities. Underemployment and hidden and disguised unemployment are widespread. The majority of the employed are engaged in low-paying and insecure segments of the labour market and working under poor conditions. Stable, long -term, full-time jobs are rare, both in the formal and informal sectors. Long-term unemployment curbs the growth of the labour force, and is reflected in the misleadingly low unemployment rate.

Above mentioned data shows the detrimental picture of poverty in Georgian society. The problem is reinforced by increasing stratification tendencies between poor and rich groups. More clearly, the revenues of smallest group of rich increases whilst the revenues for poor categories diminish.

The positive impact of competitiveness and productivity on poverty alleviation may be achieved through economic development, employment and increase of decent work opportunities. These elements represent a necessary prerequisite for poverty reduction in Georgia. To achieve the strategic objective, the following priorities have to be implemented:

- Improvement in the structural and institutional environment;
- Development of human capital;
- Development of economic priority sectors;
- Development of science and information technologies

The important components of this objective are:

- Improvement in the business and investment climate;
- Development of small and medium businesses;
- Reinforcement of proprietary rights and promotion of resource capitalization;
- Development of a financial infrastructure;
- Improvement in industrial, energy and communication infrastructures;
- Development of the labour market.

The strategy has to place strong emphasis on the development of rural areas in Georgia, not only because of their higher incidence of poverty but because of their continued potential for growth with their abundant, if underemployed, factor endowments. Moreover, agriculture and small and medium businesses have great potential for reducing unemployment and underemployment because they are labor-intensive. .

GEA formulates its competitiveness and productivity action program to achieve stable results in entrepreneurship development programs in all sectors, with particular focus on agriculture. The GEA agriculture training programs for SMEs should focus on new employment opportunities, improvement of current working conditions and creation of decent work conditions based on salary increase.

The average monthly nominal salary of hired employees across the economy was GEL 124.6 in Q4 2004, according to the DS Integrated Household Survey figures. The share of the average monthly \ salary in the minimum subsistence of a family of four was 46.5 per cent at the end of Q4 2004. The \ share of remuneration in monetary household income was 59 per cent and in total household income – about 46.2 per cent.

Salaries of public sector employees (65 per cent of hired workers) as well as remuneration of the majority of private sector employees remain predominantly way below the subsistence minimum. Whilst hired employment remains the primary source of income for urban households, it is as unstable as any other source of household income in the country. Although the average monthly nominal salary of hired employees grew by almost 15 per cent in absolute terms compared to a year ago, its growth in real terms has been continuously affected by inflation. The remuneration of hired employees grew mainly at the expense of staff cuts of civil servants. Starting from January 2005 the minimum salary of civil servants has been fixed at GEL 115.

Table 23 *Minimum Subsistence Level (GEL per month) in 2000-2005*

See *appendix 1*

Minimum Subsistence Level

According to the DS, the official minimum subsistence, calculated basing on the old methodology, introduced in early 1990s, was GEL 132 for an average consumer, GEL 150.5 for a working man, and GEL 261.8 for an average family of four as of end of Q4 2004. (It was respectively GEL 135.1, GEL 154 and GEL 268 as of end of Q1 2005).

The average monthly remuneration of another 50 per cent of waged and salaries workers comprised of civil servants was way below even that level, and the flat rate pension rate paid nationwide accounted for about 20 per cent of the level for an average consumer. Subsisting on GEL 262 per month for a family of four does not seem to be an easy task. According to the above and anecdotal evidence, however, many households have to survive on much less than that, especially those with only one breadwinner.

State social protection system must become economically viable, available and equal to face all challenges of poverty. Social policy and new reforms in this sphere are one of the priorities of Georgian government and some steps have been already made in this direction, however, there still remains a lot of problem to be solved.

Georgian government amended and refined program of economic development and poverty reduction. The program is designed to make reforms for reduction the level of social inequality caused by poverty. It states that one of the reasons of poverty is unemployment. Moreover, program makes emphasize on the fact that the solution of the problem indeed requires urgent and stable economic growth, however argues that it can not be achieved immediately. As a result, poverty reduction will be depended only on governmental aid in nearest future.

Productivity Strategy and Techniques

There are many approaches to improve organizational productivity and performance. One of the most important tasks to selection of valid production strategy and technique and its proper implementation to have adequate information on the current situation of firm:

- Does the firm have the potential and reserves to cope with incremental continuous improvements?
- Does the company use this kind of strategy in their business activities?
- What kind of techniques and methodology does the company apply to?

The research revealed that questioned companies (the companies which have already applied this kind of strategy in their industries and successfully use in practice 44.6%) mainly apply to two different strategies:

- $\frac{3}{4}$ The incremental, continuous strategy is reflected in KAIZEN concept, developed in Japan.
- $\frac{3}{4}$ The "Quantum Leap" strategy.

The incremental strategy that involves making continuous small improvements is more widely referred to by Georgian companies (62.4% out of above mentioned 44.6%). It is mostly used by small and medium enterprises. There are two reasons of this tendency:

1. Incremental strategy requires little or no investment
2. It involves all employees in making improvements and providing structured opportunities, systems and tools for increasing productivity.

Both are more available in small and medium enterprises with relatively restricted resources and staff. Approximately 98% of companies using incremental strategy consider that the most important task of continuous improvement is to achieve sustainable growth in productivity through elimination of all kinds of waste. They mostly concentrate on eliminating 4 kinds of waste: *materials*, *energy*, *labour-time* and *machine-time* – 63.3%. They stress out the following sources of waste:

- Inappropriate technology – 30%
- Improper work methods – 15%
- Wrong choice of materials – 19%
- Machine breakdown – 25%

- Inefficient space utilization – 11%

The "Quantum Leap" improvements are considered as dramatic breakthroughs in performance. In accordance it requires important technologic and other type investment requiring much more efforts and costs than the incremental, continuous strategy. Taking into consideration these factors "Quantum Leap" strategy is mostly applied to by prominent and developed companies - (37.6% out of above mentioned 44.6%). The most important method to achieve such ambitious goals, these companies prefer to use, is strategic management coupled with productivity improvement programmes (PIP).

Besides above described two strategies successful enterprises often refer to complex approach. Interviewed managers mostly choose 14 best ways to improve company competitiveness and productivity:

- Benchmarking - studying how other successful companies operate and sharing experience with them – 14%.
- Optimal staffing structure – 61%
- Job rotation – 26 %
- Work organization – 12,6%
- Enterprise restructuring – 23,5%
- Business process re-engineering – 41%
- Costs control – 68%
- Statistical process control – 47%
- Energy conservation and waste reduction – 58%
- Productivity measurement (including customer satisfaction measurement) – 18%
- Strategic planning and setting up the enterprise growth strategy – 43%
- Total Quality Management – 22%
- Customer segmentation – 23,5%
- Customer orientation – 63%

Experienced and developed companies – 10% mostly apply to different combinations of these measures that enable them to enhance the company structure, improve productivity and make enterprise management more flexible and dynamic.

Innovations and Technologies

Development will be oriented on the elaboration and introduction of state of the art technologies without which it is impossible to achieve fast and sustainable economic growth. The introduction of modern technology requires direct government support, as well as educational programmes and measures in society. There is a need to create a powerful scientific and research base in the area of rapidly developing information technologies and biotechnology

There should be an increase in the proportional share of modern equipment and technology in industry and special measures should be taken to import new technology and know-how. The country should use its potential to become a scientific and technological leader in the region.

For the development of companies' productivity the innovations are essential. One of the direction of the research was to find out how important is for Georgian entrepreneurs innovations in connection with productivity and competitiveness.

We can divide companies into three categories:

- Companies applying to innovations - 8%
- Companies partly applying to innovations - 37%
- Companies do not applying to innovations - 55%

As the research showed and it was expected also, that mostly large and developed companies can afford to apply to innovations, possessing relevant financial resource. It is the fact that innovations do not completely cover different areas of organizational activity (new product development, new production process, distribution, management). Accordingly, in the survey we mainly concentrated on technological innovations as it appeared that Georgian companies generally focus on technical innovations.

We also studied system of management of innovations established in GEA member firms. There are created structural units responsible for the establishment of innovations in the companies. In some companies there are also departments of quality control.

Questioned managers presented us different approaches to the process of innovations. However we can distinguish three distinct stages of the innovation process:

- The concept stage in which the ideas are found: the stage of “invention “and free creativity.
- The development stage in which ideas are transformed into projects.
- The introduction stages in which projects are turned into new business.

It should be noted that in the process of establishing innovations most companies do not properly concentrate on following phases:

- Formulating a clear, well understood and easily communicable strategy, a company perspective which the members of the organization can share.
- Stimulating and motivating employees, management has to create the favorable material and social conditions for the employees to contribute to the company’s objectives.
- Ecology and environmental policies.

The other companies, partly applying to the innovations, are mostly medium sized. Most of them (65%) changing old and absorbed technologies by new or working ones consider as innovations. Interviewed managers think that main obstacles among others to their development are:

- Old machines and technologies - 65%
- Insufficient machines and technologies - 38%
- According to these problems cheap and unavailable materials - 41%

As innovations and new technologies require quite big capital investments and many companies can not afford such expenditures, their production is mostly designed for local or regional market.

The third category of the companies think that innovations is not their primary task as it is connected with additional costs they do not have. Moreover, new technologies will increase the quantity of their production and they will not be able to sell it. Although some of respondents noted that they will have to make more concentration on innovations and productivity growth through applying to new technologies because of increased market requirements. These kinds of companies are mostly small ones.

The study revealed that the activities of companies of third category have not improved for last two years, they do not have a strategy of development, managers are less informed and the level of their qualification is not sufficient. The perspectives of such kind of companies are quite vague. (See table 24).

During next two years almost all enterprises plan technological changes and renewal of technical base, but these are primary tasks only for large companies. Large companies as well as medium enterprises plan new product development. Regarding to new investments and attracting new investors, it is important almost for each company.

Table 24 *Planned technical changes during next 1-2 years according to company size (%)*

	Large enterprises	Medium enterprises	Small enterprises
Technical changes	59,5	21,3	7,1
Renewal of technical base	43,7	18,9	5,6
New product development	45,1	34,7	9,3
Settle on new markets	34,6	33,7	11,3
Attracting investors	39,2	43,5	38,7
Other	17,2	25,6	35,8

Innovations and technological changes are different in regional context. Level of innovations is high in the companies operating in Tbilisi – 73%, in Imereti region – 26%, in Shida Kartli – 21%.

These high figures in Tbilisi are a result of more developed market in the capital. Moreover most customers, financial resources and qualified specialist are concentrated in Tbilisi. Here is manufactured main part of export production, while regional companies are oriented mostly on local market.

Market in Tbilisi obliges companies to apply to new technologies and other kinds of innovation, increase productivity and production quality, to maintain position in the competitive environment. The regions have much less competitive environment. It's easier to penetrate at regional market, though it has a big problem as well- small size of regional market, which creates it as less attractive for investors. Hence, main flow of investments is directed to Tbilisi market.

Finances

The study paid increased attention to following variables:

- Practice of Budgeting in companies
- Access to credit resources

Besides, it has been done in-depth analysis of the finance constraints for SMEs on countrywide scale. It has as purpose to make assessment of financial environment as major element of productivity and competitiveness of Georgian firms.

A serious factor to increase a company's competitiveness is its stable financial position. As the poll showed, the annual income reduced for 2% of companies, for 13.7% the income remains at the same level and about 74% increased their profit

Table 25 *Changes in company income for two years*

	Small enterprises	Medium enterprises	Small enterprises	Total
Decreased	5.0%			2.0%
Did not change	20.0%	8.3%	10.5%	13.7%
Increased	50.0%	75.0%	63.2%	60.8%
Significantly increased		16.7%	26.3%	13.7%
Does not concern	25.0%			9.8%
Total	100.0%	100.0%	100.0%	100.0%

Annual Budgeting is important constituent part of a company's financial policy. As the research showed, forecast of 1 year expenditure are made by 21.3% of companies. The rest do not plan costs at all.

This index increases with the size of a company. If only 10.0% of small firms' representatives said they plan budget of expenditures, the same percentage among medium enterprises is 18.2% and .35.6% among big enterprises. Thus, annual budgeting is much more favored by large companies.

The explanations of producers that do not plan their annual budget are following:

- ¾ No stability in contracts – 48.5%;
- ¾ Instable economy - 34.9%;
- ¾ Impossible to make prognosis of legal changes -68.4%;
- ¾ No skills, experience, knowledge -55.7%;
- ¾ No reliable partners. - 52.0%;

Access to credit resources

Inadequate financial base is the reason of major problems for Georgian small and medium firms. These problems derive from different sources and have huge negative impact on the companies' competitiveness. There are several factors that inhibit the financing of Georgian enterprises. Major challenges include the size of the market, limited Foreign Direct Investment (apart from the oil and gas pipeline), the small size of most businesses, and enterprises' traditional business culture:

- *Market:* In general, the Georgian market is characterized by low levels of purchasing power, and reluctance of enterprises to expose themselves to the tax authorities by openly making large purchases or investments. This reduces the scope for open transactions, limiting the market for formal institutions.
- *Investment:* There has been limited investment by large-scale firms (apart from the oil and gas pipeline and a few other sectors), reducing possibilities for supplier relationships to be formed with SMEs. This reduces prospects for SMEs to generate needed contracts and cash flow, consequently reducing their financial capacity to increase borrowings. Investment is particularly needed in agriculture and the industrial sector to increase productivity levels and achieve standards for export competitiveness.

While the banking sector showed significant growth in 2004-05, penetration as reflected in intermediation levels and assets-to-GDP are still fairly low. Lending to the real sector increased, and deposits have likewise increased. Moreover, because the interest rate environment is

becoming more stable, banks are looking to lend more to stimulate greater earnings. A stable macroeconomic framework characterized by declining inflation rates, low fiscal deficits, reasonably stable exchange rates, and manageable debt service also reduces the role of government as a potential encroachment on financing of the real sector. As the banking system consolidates, average capital will likewise increase, and a broader array of products and services will be made available to the market. Nonetheless, most SMEs still operate without financing from banks or other licensed institutions, and average loans are still small. Several impediments persist in the financial sector, making it difficult for SMEs to obtain needed amounts of financing at more affordable rates and for sufficient maturities to meet investment needs. We may consider the following obstacles to the issue:

- *Maturity Mismatches:* Banks have attracted greater deposits in recent years, but most of these are either demand deposits that can be withdrawn at any time, or term deposits in which maturities are usually for less than one year. The lack of long-term funding makes it difficult for banks to lend on a long-term basis due to asset-liability matching practices. The absence of hedging mechanisms in the market pushes banks to pursue excessively conservative asset-liability management practices, with very little willingness to take on open loan positions (where loans exceed deposits on a maturity basis). However, in the case of most manufacturing firms and many SMEs, their financing needs are for machinery and equipment or premise expansion that take years to cover. These investments require long-term loans (three to five years, sometimes longer) given the high upfront cost and time required to generate cash flow to help service the loan and ultimately repay. However, most banks' deposits are current or short-term in nature, and long-term loans cannot be matched with most funding. (Where there are exceptions on this are in the housing market, although these are basically booked as one year loans that are rolled over on the condition the borrower meets debt service and principal repayment requirements.)

As for non-banks, there is currently very little financing. Micro Finance Institutions have been the only other active segment of the financial sector that has effectively delivered credit to Georgian enterprises. However, their loans have been exceedingly small, at about \$420 on average. Other non-bank issues include:

- *Credit Unions:* The credit union movement has had a difficult time mobilizing resources and becoming effective in lending markets. Credit union movement still faces enormous problems in Georgia, particularly as it is targeting rural areas where savings are low. In urban areas, banks themselves are attempting to capture individuals and small businesses, another target audience for credit unions.

In Georgia, risk management itself is difficult due to weak levels of information disclosure, poor governance standards, and a heretofore unfavorable legal environment for creditors. Thus, exposure limits and other supply-side constraints are not the only reason for SME difficulties in accessing finance. Demand side issues that constrain lending to SMEs include:

- *SME Non-Compliance with Underwriting Standards:* In many cases, the SMEs themselves are unwilling or unable to meet banks' underwriting standards and requirements. Key among these (according to the banks) are the lack of assets SMEs have or are willing to pledge as collateral for loans, and difficulties verifying information presented. As such, many enterprises and their financing proposals present credit risk that banks need to manage or are unwilling to underwrite. Failure for banks to do so results in non-performing loans, which can ruin a bank's financial position and, at a minimum,

trigger the need for corrective action that constrains lending activities (as well as other banking operations and transactions). In this regard, banks are often being prudent.

- *Insufficiency of Collateral Due to the Legal Environment:* While there is credit risk, the traditional response is that secured loans can offset risks associated with SME inability to service and repay loans from cash flow. However, in Georgia, property rights are poorly defined and enforced, the legal environment for secured transactions is weak, institutional mechanisms for credit risk evaluation are underdeveloped, and dispute resolution mechanisms are notoriously slow or unreliable. As such, banks themselves are not automatically secured, even when collateral levels are two to three times loan values. Techniques that banks can pursue to offset this risk include broader value chain relationships that are more cash-based and provide banks with greater opportunities to monitor SME cash flows. However, if SMEs are unwilling to make these commitments or comply with requirements, they are unable to access needed financing.
- *Inadequate Equity Levels:* The sector characteristics of loans and maturities are also significant because, in the case of housing loans, households often have high equity stakes. This results in low loan-to-value ratios, meaning that households are not excessively leveraged or over-exposed. By contrast, many SMEs expect banks to finance most or all of their investment needs with loans, which represents a highly exposed position for the banks. As such, many SMEs themselves do not have sufficient equity reported in their companies, reducing the amount of loans banks are willing to make. (SME loans were greater than \$46 million-equivalent at year end 2004, but there is no precise figure. However, from donor-financed programs, only \$2.3 million was outstanding to agriculture and \$3.4 million for fixed asset purchases).
- *Inadequate Working Capital Levels:* Enterprises themselves also make mistakes with regard to needed working capital once financing for property, plant and equipment is obtained. In some cases, enterprises in the past have managed to obtain needed financing for fixed assets, only to find their operations constrained by the lack of working capital. This has resulted in capacity underutilization, which has translated into insufficient cash flow for debt servicing.
- *Interest Rates:* When SMEs do obtain financing, interest rates are often high. This is partly due to risks associated with the firms and/or the project, but mainly due to weak protection for creditors. Difficulties and costs related to loan recovery have substantially added to the risk premium banks assign to such exposures. In a worst case, the high interest rate burden can jeopardize credit quality, and lead to losses for both borrowers and lenders.

SME sector

Small business development is one of the main directions, which must ensure establishment of the private entrepreneurship and market economy in Georgia, formation of new social group – small and medium owners and help the country to overcome its economic crisis. World economy development experience shows that, during economical crisis, small enterprise development oriented policy is very important to achieve balanced economical growth.

The following points are made in conclusion with regards to access to Credit Resources:

- Financing SMEs in Georgia is one of the major burdens of entrepreneurship development.
- Security access to capital/initial credit is the major problem for start-ups, especially without collateral.
- Georgian SMEs are heavily reliant on bank credits as external finance.
- Banks perceive start-up businesses and micro-credits as high-risk and low-return activities. The handling costs for micro-loans are very high.
- Access to finance is much more difficult for small and medium size businesses rather than big enterprises.

Existing microfinance institutions in Georgia demonstrate that through appropriate financial services a significant number of unemployed become self-employed and improve their conditions and local economies. Micro credit has proved to be an efficient and effective tool for promoting entrepreneurship, particularly useful to promote self-employment and solve problem of social inclusions and alleviate poverty.

The productivity growth of small and medium enterprises is hindered by different reasons. In previous years, the practice of “state capture” and unfair competition was still in place. As a result, the most economically viable were those enterprises that lobbied by illicit means. In such a business environment, small and medium enterprises have little chance for survival and further development. It is worth mentioning that in the small and medium industrial enterprises only 19 per cent of general industrial output was produced, while in the most developed countries the share of such firms is 50-60 per cent.

New government recognized the SME development as issue of highest priority. The issues of SME policy and administration improvement are under consideration; consequently the conceptual and policy documents will follow up soon.

Competitiveness of Georgian Legislation

Legal environment

The legal system of Georgia has undergone significant changes over the past decade. Georgia has adopted laws of various levels in various fields. First to be mentioned is the Constitution of Georgia, the supreme law of the country, which was adopted by the parliament on 24 August 1995.

The enforcement of the Civil Code on 25 November 1995 was an important milestone in the modern history of the Georgian legal system. This Code regulates property, family and personal relations of a private nature, based on the equality of persons.

In 1995 Georgia enforced the Law on Entrepreneurs, which regulates relations between entities engaged in entrepreneurial activity, provides requirements for setting up an enterprise and carrying out activities. The adoption of the Civil Code and the Law on Entrepreneurs was of crucial importance for Georgia to move to a new stage of civil relations.

A number of laws have been also adopted with regard to entrepreneurial and investment activities, citizenship issue, as well as the ones to regulate normative acts and relations between persons of public law. It should also be noted the laws on the privatization of agricultural land, non-agricultural land, and state property following which Georgia carries out the privatization.

The law on monopolistic activity and competition regulates monopolistic activity in Georgia and the antimonopoly service was established on the basis of this law.

The laws adopted in the financial sector – the Tax Code, Customs Code, the Law on the Activity of Commercial Banks - are of special importance as well. The tax code, being into force since 1995, was replaced by a new Tax Code on 1 January 2005.

There is a law on private arbitration, which regulates disputes arising between persons of the private law. However, it should be noted that private arbitrations are not much applied in Georgia. The first reason is that the law often allows challenging decisions of private arbitration in courts of first instance, which makes the activity of the private arbitration ineffective. Another reason is court fees that are extremely high for private arbitration and, consequently, the sides try not to approach this court for their disputes. The private arbitration is often approached by the sides of secret deals where the sides want to avoid going through official instances. Promoting private arbitration activity was the aim of that part of the new Tax Code, which demanded that tax disputes be resolved in the private arbitration., However, it turned out that tax disputes were not often resolved in favor of the state and therefore, the code was amended to stipulate that such disputes be resolved only in courts of general jurisdiction.

A number of laws have been adopted in the field of insurance, in particular, the laws on medical insurance and on general insurance. The law on securities is also worth mentioning. It aims at developing a securities market in Georgia, protecting the investors' interests on securities market, ensuring the transparency of trading in securities, and establishing fair and free competition in publicly held securities trading. This Law does not stipulate rules for the issuance and public offering of state securities, as well as for trading held outside a stock exchange.

Intellectual Property Protection.

In January 1994, Georgia joined the Paris Industrial Property Convention, and became a member of the World Intellectual Property Organization and a party to the Patent Cooperation Treaty. Georgia ratified the Copyright and Phonograms Treaties on May 23, 2001. Georgia also joined the Madrid Agreement pertaining to international registration of trademarks. Existing intellectual property rights legislation applies to copyright provisions for literary, musical, artistic, photographic, and audiovisual works. Industrial property rights protect inventions, trademarks, industrial design, and appellations of origin. The Georgian Civil Code passed in 1997 establishes the legal framework for copyrights in Georgia. The organizations responsible for oversight of intellectual property are the Agency of Authors' Rights and the Georgian Union of Writers. New patent, trademark, and design applications are filed with the Georgian Patent Office. Foreign companies may apply only through local patent attorneys. The Georgian Patent Office (Sakpatenti) under the Department for Science and Technologies grants patents on inventions, utility models and industrial designs, as well as registers trademarks on behalf of the Government of Georgia. Patents are available for all areas of technology, both product and process. Georgian legislation defines the patent protection period as twenty years and the trademark period as ten years, with another five-year extension possible.

Arbitration.

Upon the agreement of the parties the dispute can be considered and settled by the Georgian or international court of arbitration.

Georgian law allows disputes between a foreign investor and a governmental body to be resolved in Georgian courts or at the International Center for the Settlement of Investment Disputes

(ICSID), unless a different method of dispute settlement is agreed upon between the parties. If the dispute is not considered at ICSID, the foreign investor has the right to submit the dispute to an ICSID supplementary institution or to any arbitration agency founded in accordance with arbitration rules of the Commission of the United Nations for International Trade Law (UNCITRAL).

On February 3, 1994, Parliament ratified a decree on accession to the International Convention on the Recognition and Enforcement of Foreign Arbitration Awards. As a result, decisions of international arbitrary bodies are to be binding. Their enforcement is guaranteed by the state. The enforcement of the international arbitrary body can be enforced through the Supreme Court of Georgia.

The Law of Georgia on “Private Arbitration” of 1997 regulates the resolution of dispute by permanent or temporary arbitrations in Georgia. Awards rendered by the Georgian arbitration can be directly enforced by Enforcement Bureau of the Ministry of Justice of Georgia.

The *Law on Investment Activity Promotion and Guarantees* (enforced on 12 November 1996) defines the legal framework for implementing both foreign and local investments and provides guarantees for their protection on the territory of Georgia. Chapter 3 of the Law stipulates the rights of investors. One of important rights is the right of an investor to convert the profit left after the payment of taxes

Weaknesses of Georgian Legislation

The existing *Law on Employment* contributes to misrepresentation of the unemployment situation in the villages and in the whole country as well. Considering each farmer owning 1 hectare or more of agricultural land, or his/her family member as self-employed artificially excludes majority of rural dwellers from the category of unemployed. In addition, many of those living in villages are engaged in unpaid family work and are counted as agricultural self-employed, a category accounting for the majority of total employment. Thus, the rural and national unemployment rates are automatically reduced, the participation rate is raised, and the overall labour market situation appears distorted. In reality, while land is the basic source of income for most rural households and provides them with a subsistence minimum, many village dwellers, especially those whose lot of land is not very large and those who cannot afford to work their land, are hardly earning a subsistence. The vast majority of the rural population comprises elderly people: younger people migrate to cities in search of some employment. While some of them are more successful and sometimes even manage to help their relatives in villages, others join the urban unemployed.

Table 26 *Legal environment for business activities two years ago*

	Small enterprises	Medium enterprises	Small enterprises	Total
Very ineffective	25.0%	33.3%	21.1%	25.5%
Ineffective	30.0%	41.7%	57.9%	43.1%
Average	35.0%	25.0%	21.1%	27.5%
Effective	5.0%			2.0%
Does not concern	5.0%			2.0%
Total	100.0%	100.0%	100.0%	100.0%

Table 27 Legal environment for business activities after two years will be

	Small enterprises	Medium enterprises	Small enterprises	Total
Very ineffective	5.0%	8.3%		3.9%
Ineffective	25.0%	50.0%	36.8%	35.3%
Average	60.0%	33.3%	36.8%	45.1%
Effective	5.0%		5.3%	3.9%
Does not concern	5.0%	8.4%	21.1%	11.8%
Total	100.0%	100.0%	100.0%	100.0%

Table 28 Impact of irrelevant legislation on business activities

	Small enterprises	Medium enterprises	Small enterprises	Total
Insignificant impact	15.0%	33.3%	36.8%	27.5%
Significant impact	75.0%	58.3%	63.2%	66.7%
Does not impact	5.0%			2.0%
I do not know	5.0%	8.3%		3.9%
Total	100.0%	100.0%	100.0%	100.0%

Tax Policy

Tax policy has direct impact on business environment. New tax code which has been introduced from January 2005, decreased number of taxes from 21 to 7. Research revealed factors affecting negatively to business development. New tax policy is considered by 29.4% of entrepreneurs as obstacle to business development. The conditions are not improved at all for 25% of small enterprises, 33.3% of medium size enterprises and 31.6% of large enterprises.

Tax code does not create favorable conditions for introduction of new technologies. In most cases enterprises are operating by means of old, depreciated technologies. Even demoralized technologies are in shortage for 27.55% of enterprises.

The import of agricultural equipment and modern technologies were privileged by special tax incentives. It was free of VAT. Oil products are taxed heavily which stimulates further increase of cost of local product and services. As a result the local product and services lose the price competitiveness. A lot of companies think about changing place of operations and displace their businesses in Azerbaijan and Kazakhstan where oil prices are healthier that increase price competitiveness of product and services.

Non existence of incentives for small business is main fault of the current tax code. Moreover there is no definition for small business in new tax code. It has been abolished all previously existing incentives and small business is regulated with same tax regime as large companies. The mentioned tax burden stimulates small companies to keep their records in shadow.

There is no mechanism to save the interests of low income social groups. The concept of non-taxed minimal income is ignored at all. The minimum subsistence level is calculated by Department of Statistics. Consequently, the minimum amount for living of individual is officially declared. This amount is free of any taxes. According to tax code the non-taxable income is ignored. Tax code legalizes imbalanced relationship between state and business. If

company has tax debt it is immediately punished for non-payment. If tax administration owes to company, it may arrange prolongation of the repayment for six month term.

Tax code authorizes tax administrator to make subtraction from the account of company without need of court decision. Tax administration also has the right to seize the assets of company as long as tax debt is not paid by company.

GEA considers the new tax code as non-favorable for small and medium size busses. Tax administrator has enormous discretionary power that increases risk factors of doing business. Consequently, business environment becomes less competitive.

Labour Code

Georgia's current labor code was adopted during the Soviet Union in 1973. In contrast with conventional norms, it is based on socialist legal principles and is incongruent with Georgia's present day effort to build a market economy.

So far as the old Labor Code was adopted in USSR times, it mainly regulates the employment relationships between the state owned enterprises and organizations and their employees. The new Draft Code has been approved by to Georgian Government and presented for consideration to Parliament by November 9, 2005 The Parliament qualified the draft as being in disagreement with its objectives.

The Draft Code really has many changes that could not be fully appreciated by workers, as the steps toward determining their rights in the pursuit of a livelihood will eventually worsen their working conditions. According to the new Labor Code working hours are increased from 41 to 48 hours per week. Paid vacation is reduced from 24 to 15 days per year. In addition, the overtime hours will be paid similar to rate of working hours and in case of any emergency situation employer has to work without any compensation.“

The working contract could be concluded in writing form or verbally according to new Code. This also could cause violations. GEA declared its vision on Draft Code pointed out that this point could be a problem for employer since the relationship would be uncontrolled. However, new Labour Code defends an employer from “unpleasant surprises” while his obligations are decreased to minimum.

An employee has to hand in a notice about terminating a contract 30 days in advance, while an employer could break the contract at once without any warnings. GEA pointed out that a real businessman is always interested in satisfied and healthy staff; however, the above Code will make many businessmen violate the workers’ rights during the competition with the other companies.

The project of new Labour Code violated the obligatory regulations considered by the range of international legislative documents, ratified in Georgia. This Code did not undergo the examination by experts of ILO (International Labour Organization) and violates European Social Charter, endorsed by Georgia.

The new Code includes measures which are not consistent with ILO International Labour Standards; for example, the clause which proposes that when an employee is summoned for service in the army, the contract of employment is rescinded automatically. The proposal that, in the cases of illness or pregnancy, an employer would have the right to end the contract without notice is unacceptable and is also contrary to the principles of EU Directives.

Georgia has ratified 16 ILO Conventions, including C 87 on Freedom of Association, 98 on the Right to organize and engage in Collective Bargaining, 100 on Equal Remuneration, 111 on Non-Discrimination, C 52 on Holiday Pay, 151 On Labour relations in the public sector, etc. and its Labour Law should be in accordance with the commitments given to the ILO. In addition to non-compliance with international standards, draft law is considered as enormous hazard for business environment. It increases the tension between employer and employee, hence affecting negatively to firm competitiveness.

The final version of law will be adopted by spring session of Parliament of Georgia. GEA continuous its efforts to encourage the dialogue between all social groups to achieve harmonized solution that improve business environment.

Monopoly Environment

If we look through revenue side of state budget, the dominant portion (82%) of budget revenues are assembled by large companies (6.2%). the mentioned group of large companies own about 80% of capital of Georgian companies. Therefore, tax liberalization is mainly assigned to large companies, ignoring interests of small and medium size business. The formation of competitive business environment is obstructed by lack of clear vision in tax policy.

Unevenness in the ownership of working capital boosts monopolistic positions of small number of large companies. Disproportionate possession of business power hinders social development and increases poverty level. Parliament recently adopted “The Law on Competition and Free Trade”. The law is alternate to the anti monopoly law. There are no adequate legal mechanisms to provide fair competition and hamper misuse of monopolistic positions by large firms. Unfair competition and monopolistic environment as main impediment has been pointed by 29% of polled companies.

Conclusions

The research conducted by GEA emphasized the existing constraints in regards to awareness and appliance by member companies of Productivity and Competitiveness concepts and techniques. It may be stated that although firm achievements are done through macroeconomic policy, many impediments exist in business environment. The existing obstacles negatively influence on firm’s productivity hence reducing their competitiveness in worldwide. Globalization eradicates all existing barriers for trade and investments. All countries are equal in conditions to encourage their trade and industry. Consequently, the only element of their economic success lies in competitiveness level of their product and services. The technologic development and innovation is considered as most reliable factors of economic growth. Trends in foreign trade of Georgia stresses the emergent misbalance of Georgian competitiveness with global one. Trade balance is extremely negative that augments on a daily basis. Government Economic Policy is not enough helpful to afford stable inflow of foreign Direct investments. There are still no successful steps made in order to arrange the advantageous conditions for doing business in Georgia.

Productivity factors are not enough favored by Georgian firms. The absence of productivity definition within a company was also found to cause problems. However, most managers and employees at the studied companies agree that an established productivity definition would be beneficial to a company’s improvement work.

The employees did not fully understand the management’s goals for improvement, even though the goals had been specified in numbers. Many different opinions of what characterize

productivity were emphasized during the interviews, including “making money”, “efficient use of labor” or just “good performance”, however, the term was seldom linked to the relation between output and input.

It became possible to analyze entrepreneurs’ perceptions about productivity and Competitiveness due to best possible method of so called “Scanning of Entrepreneurs Visions”. The mentioned method is recognized to be most descriptive that shares the business environment information from major sources. The mentioned method is applied by “World Economic Forum”, global leader in Competitiveness researches.

The research results highlighted the motives of low productivity of GEA member companies. In fact, there is nothing unusual in the results; they come back to conclusions already known by analogous studies in relations to other polled groups from Georgian business community:

Complexity of Legal framework. Although there is enormous work done in order to improve Business Legislation in Georgia, it still remains most vulnerable segment. According to entrepreneurs considerations their advices is ignored by state authorities on permanent basis and it is formed as an imperative:

Table 29 *The level of cooperation in legislative initiatives between government and business.*

	Small enterprise	Medium enterprise	Large enterprise	Total
Never	55.0%	25.0%	26.3%	37.3%
Seldom	40.0%	66.7%	52.6%	51.0%
Always	5.0%	8.3%	21.1%	11.8%
Total	100.0%	100.0%	100.0%	100.0%

As confirmation the business leaders regularly point to non-cooperative relationship from Government side during new Tax Code preparations.

- **Non –predictability of business environment**, impossibility to do prognosis for close future hinders the quality of business environment. Decision making processes of government is not always associated with economic rationale. Hence companies are hampered to do long term forecast of competitiveness increase.

GEA member companies specified exactly everyday burden in their business activities.

Table 30 *Hindering factors*

	Small enterprise	Medium enterprise	Large enterprise
Lack of capital	40.0%	16.7%	15.8%
Unavailability of financial resources	50.0%	25.0%	10.5%
Unfavorable loan conditions (percentage, term, etc.)	40.0%	33.3%	10.5%
Lack of communications (telephone, internet)			5.3%

Communal problems (electricity, water, gasoline)	20.0%	25.0%	21.1%
Old technologies	5.0%	16.7%	15.8%
Not enough technologies	5.0%	33.3%	15.8%
Expensive raw materials, unavailability	25.0%	16.7%	10.5%
Lack of lands, unavailability			5.3%
Taxation	25.0%	33.3%	31.6%
Custom and trade regulations	10.0%		5.3%
Licensing	5.0%	8.3%	10.5%
Lack of legislation protecting business	5.0%	25.0%	15.8%
Unexpected hindrances from suppliers			21.1%
Low purchase power of customers	45.0%	25.0%	21.1%
Lack labour resources	5.0%		
Lack of qualification and professional skills of personnel			5.3%
Macroeconomic instability			5.3%
Corruption, illegal taxes	5.0%	8.3%	10.5%
Criminal situation	5.0%	8.3%	5.3%
High level of monopoly	10.0%	16.7%	57.9%
Sales markets		8.3%	

There is direct indication about lack of trust toward judiciary system in Georgia. Judicial system assessed by questioned companies:

Table 31 *Justifiable and Impartial*

	Small enterprise	Medium enterprise	Large enterprise	Total
Never	5.0%	25.0%	21.1%	15.7%
Seldom	35.0%	16.7%	47.4%	35.3%
Often	10.0%		15.8%	9.8%
Always	5.0%			2.0%
No answer		8.3%		2.0%
I do not know	45.0%	50.0%	15.8%	35.3%
Total	100.0%	100.0%	100.0%	100.0%

Table 32 *Fair and Non-corrupt*

	Small enterprise	Medium enterprise	Large enterprise	Total
Never	5.0%		10.5%	5.9%
Seldom	25.0%	50.0%	36.8%	35.3%
Often	5.0%		15.8%	7.8%
Always		8.3%		2.0%
No answer	65.0%	41.7%	36.8%	49.0%
I do not know	5.0%		10.5%	5.9%
Total	100.0%	100.0%	100.0%	100.0%

Table 33 *Quick*

	Small enterprise	Medium enterprise	Large enterprise	Total
Never	10.0%	8.3%	21.1%	13.7%
Seldom	5.0%	8.3%	26.3%	13.7%
Often	15.0%		10.5%	9.8%
Always		8.3%		2.0%
No answer	70.0%	75.0%	42.1%	60.8%
I do not know	10.0%	8.3%	21.1%	13.7%
Total	100.0%	100.0%	100.0%	100.0%

Table 34 *Reliable*

	Small enterprise	Medium enterprise	Large enterprise	Total
Never		8.3%	15.8%	7.8%
Seldom	25.0%	33.3%	31.6%	29.4%
Often	10.0%	16.7%	36.8%	21.6%
Always		8.3%		2.0%
No answer	65.0%	33.3%	15.8%	39.2%
I do not know		8.3%	15.8%	7.8%
Total	100.0%	100.0%	100.0%	100.0%

Almost non effective judiciary system is acquainted with most important risk factor which threatens to accomplishment of contractual obligations and private ownership.

Custom system inefficiency is ranked among utmost risk factors by importers. They are quite skeptic on this concern: any step done by Government to improve custom efficiency ends by extra burden for entrepreneur. The results of analogous “perfections” are immediate increase cost of product/services.

All of questioned importers stated their disbelief to regular “custom system improvements” and custom policy.

The issue of **insufficient financing** is ranked as most sensitive problem for business development.

On the whole, despite more or less positive general assessments of the financial situation, there is strong deficit of development resources. The beginning of these phenomena is investment hunger of entrepreneurs: companies, especially small and medium businesses have to rely on extremely limited finances of their own. Even if a small business succeeds in getting bank credits, they will cost it many efforts. It is obvious that despite all the steps already taken by the government

authorities; this aspect of the entrepreneurship climate remains to be problematic and requires drastic measures to facilitate the state of small and medium businesses.

The tolerance of Georgian financial institutions towards large companies hampers the increase in productivity and competitiveness of small and medium size firms and economic growth as a whole.

It's true that due to existing political will among state authorities, outrageous activities has been done to defeat corruption. In a small period significant results have been accomplished in anti-corruption strategy. Moreover, there are unexpected tendencies: the low level state administrators are so scared that they are unable to accomplish their functions efficiently. The reason of fear is the lack of experience and professional qualification. The expectation of being punished makes them static and not productive. Hence Businessmen interact on a daily basis with *public servants that are scared* and create for the most part the problems in decision making process.

Information: Access to information on domestic or foreign sources was also not seen as a problem. Of the many potential sources of information is the information provided by the parent companies, companies in Georgia, and trade fairs both in Georgia and abroad. The most important information business associations in Georgia are also relevant. Chambers of commerce was also mentioned as important sources of information.

Technology: According to the survey, the range of existing technologies seems not to be well in line with the companies' needs. Looking at the two groups of companies, i.e. companies which are wholly owned by Georgian entrepreneurs and companies with a foreign involvement, it seems that ownership has so far not been a decisive factor influencing the technological behavior of the companies concerned. Concerning the companies with a prominent foreign involvement, nearly all of the product and process technology is supplied by the parent company.

As the research showed, the share of expenses directed to research activities is quite small in companies' total expenses. As a result the possibility of implementing effective innovative policy in interviewed enterprises is quite low. These companies still manage to cope with the competitiveness of the market at the moment and maintain their market share; however, perhaps they will lose those positions without having research and innovative strategy.

GEA member companies mainly focus their innovative attempts to technology acquisition. At the same time they pay less attention to innovative processes in management, distribution, HR development, etc.

It is very rare to meet the case of submission of complete scheme of innovation: Conceptualization, transformation and introduction of innovations.

Amortized equipment is considered by majority of member companies as main impediment that defines low level of competitiveness of firms. The research also revealed that the size and extent of company greatly determine the effective outputs as the big and well-developed enterprises have more potential at least for technological advancement. Moreover, the reliable and strong financial resources mainly possessed by large companies increase the opportunities for them to establish innovations. Only large companies plan to modernize since they are highly capitalized.

The need for technologic modernization differentiates by regions. The concept of technologic modernization is actual for Tbilisi region at the same time as there is low demand in small cities

and rural areas. The reason is the disproportion in quality demand between Tbilisi and other regions.

Human Resources: One of major problems for decision makers is low level of qualification of their staff. They recognize well the need for permanent increase in professional level of their staff. A small number of companies achieve positive results. The remainders face problems in this regard. The reason all over again is the lack of financial resources, which makes impossible to do costs for long term strategy.

Recommendations

Taking into consideration the research results, some aspects appeared to fit to our expectations. But interviews revealed a lot of other issues that could not have been anticipated in advance.

One of the key factors reducing companies' productivity indexes is *low level of enterprise capitalization*. Only the companies, having high level of capitalization, can achieve utilization of vast amount of resources in such extent the good indexes of productivity attained. So, the primary task to raise the level of productivity remains the growth of capital. As a result, it is increased capital that should provide the replacement of activities based on intensive work by technologies based on intensive capital in the above mentioned companies. This will increase profitability and quality.

The quality of management has a significant effect on productivity growth of Georgian firms. Firms need to acquire state-of-art knowledge in areas such as financing, marketing, and innovation to reach an obvious competitive advantage over firms in which knowledge in these areas is lagging behind. Thus the level of management training is an important factor to provide productivity and stable growth.

Among the factors of productivity growth in Georgia most perspective is *connection of productivity with education* sector. The correlation of these two spheres gains special importance also from the perspective that money invested into education will be returned to national economy on behalf of qualified managers and modern technologies. One of the main problems of Georgia is brain drain. Because of there is not proper conditions in the country for qualified personnel educated abroad or locally to get appropriate jobs, this contingent focuses on leaving the country and getting employed abroad. We face a significant waste of qualified human resources that is negatively reflected on productivity dynamics. Accordingly we should consider the *employment of qualified and western educated personnel* as primary task of increasing productivity.

Recommendations for Georgian companies according to the research outcomes:

The criteria are selected based on systemic competitiveness. These criteria are recommended as capable to ameliorate the productivity culture in the country:

Meta level

A lot of factors should be arranged, in order to achieve productivity growth at Meta level. Mostly these arrangements should include social-economic, political and cultural factors. First of all it is important to achieve common will in the society to set up model of long-term economic development strategy.

At Meta level supporting productivity requires final adjustment of such important factors like an accomplishment of formation of judicial and economic infrastructure and achieving consensus on final models of these factors. Thus, arrangement of above mentioned factors at Meta level will lead us to productivity growth in Georgia.

Macro level

Georgia's macro policies, especially its budgetary, monetary and trade policies are widely seen to have created a conducive and fairly stable general business environment. Macroeconomic reforms under an IMF include in particular the strengthening of the financial system, the introduction of a more flexible exchange-rate system, and tighter fiscal and monetary policies. Macroeconomic reforms cannot, however, be directed only at supporting the stabilization of the economy and improving economic efficiency.

We can estimate that today in Georgia the agreement on formulating politics and its completion practice at micro-level has not been reached. However, there are factors which still remain as topics of bitter debate and formulation of cohesive vision becomes impossible. First of all this applies to monetary mass insufficiency and the reevaluated exchange rate, which disrupts the development of country's export industry. Accordingly these factors appear to be main macroeconomic obstacles and barriers for competitiveness growth. So it has an utmost importance to elaborate valid model of macroeconomic development that would be acceptable for international financial institutions as well as leading social groups in Georgia.

Meso level

It's necessary to conceptualize special policy and build institutions that help industries and create competitive advantages:

- Network with industry associations in the areas of productivity data collection and benchmarking.
- Network with technical and management institutions to develop productivity modules in educational and training curricula.
- Initiate exploratory studies on productivity and productivity measurement in various sectors of the economy.
- Prepare a productivity measurement trainer of trainers' training program that includes a measurement toolkit.
- Influence government to set up National Productivity Strategy.
- Standardize productivity measurement terms for a national data exchange and create a data exchange forum.

Micro level

The fundamental principles of managing productivity in the Georgian enterprises summarized below:

Georgian firms must focus on the dimensions which suit their vision, strategy and environment. In a highly competitive business environment, productivity starts with improving existing products or developing new products and services (effectiveness), and then manufacturing and delivering them at the price and time preferred by customers (efficiency).

Productivity improvement of firms should focus on creating extra value for the customer (quality products and services at affordable prices), for the organization (employee and shareholder satisfaction), and for society (quality of life). Organizational productivity ought to be the aim of

the improvement strategy. The organizational system should be expanded to include suppliers, customers, service providers, the community and others who are affected by the organization. Productivity parameters should be designed for customer satisfaction, operational efficiency, employee satisfaction, community expectations, business performance and process effectiveness. There are some recommendations to be followed at *micro level*:

- To assign an important role to intangible factors such as knowledge and information, time discipline, motivation, creativity and innovation play a great role in improving productivity.
- Productivity to be initiated by managers and sustained by satisfied employees who are the fountainhead of productivity improvement. An effective partnership between management and employees creates the conditions necessary for productivity growth.
- Technology, business processes, customer focus and waste reduction are the basic areas to be considered for improvement.
- Human resource management should be considered as a strategic function; it should focus on understanding what motivates employees, changing employee profiles and factors governing performance in the fast-changing environment. Recruiting the right people, continuously enhancing their capabilities, recognizing and rewarding performance, providing opportunities for participation, linking work life and personal issues are the key features of effective HRM.
- Productivity must be built into all management systems and practices. Firms need to develop an integrated productivity strategy incorporating all the above elements; they need to adopt a systems approach that promotes the participation of employees and supports the competitive business strategy.
- A training of trainers program needs to be designed and implemented. Each trainer should be subject to an internationally recognized certification process and provided with a standard productivity measurement toolkit
- The building blocks of the strategy should include developing productivity policy, creating awareness, analyzing and measuring productivity, organizing for productivity, sharing gains, and replication.
- Productivity must be improved continuously through small-step incremental improvements (KAIZENS) and quantum jump improvements (breakthroughs) which complement each other.
- Productivity targets, derived from the organization's vision, customers, competitive imperatives and market requirements, are to be deployed at departmental, sectional and individual levels. An annual productivity plan incorporating productivity targets for the departments, sections and individuals should be formulated and integrated into the corporate plan.

To improve competition at micro-level Georgian companies have to implement focused actions on various factors. According to this the objects of particular importance must become capital productivity, human resources productivity, improvement of quality management and etc.

The necessary requirement should become formulation of productivity policy and the goals for enterprises. Productivity should find a prominent place in the business mission and corporate policy. The formulation of a productivity statement laying down the future direction, strategy and objectives will provide guidance to employees and help develop a competitive edge and internal resources for growth. The document should provide a framework for setting objectives and targets, and should be communicated to all employees. It should be derived from the organization's vision, mission and value statements, and it should emphasize the:

- importance and philosophy of productivity improvement;
- commitment and role of top managers;
- creation of a conducive environment;
- principles of the productivity movement, particularly its impact on employees and skill development;
- role of employees;
- principle of gain sharing;
- meaning of productivity, customer satisfaction, conservation of resources;
- organization structure for productivity improvement;

To carry out productivity policies, strategies and action plans, it is important to create a structure and specify the responsibilities of the operational units. The precise elements of the structure depend on the components of the organization and its strategies:

³/₄ Constitute a productivity steering committee

A productivity steering committee will be the apex body responsible for drawing up policy guidelines, objectives, targets, and the corporate philosophy, vision and mission. All these documents must be in line with the business strategy, corporate plans and annual performance targets. The chief executive and managers lead the committee, which includes members from different departments.

³/₄ Designate and empower a productivity coordinator

The main task of the chief executive is to provide leadership in making change happen. However, a senior manager should be made responsible for directing the effort on a day-to-day basis. This manager must have the confidence of the chief executive and the necessary human and conceptual skills. However, the continued support and active involvement of the chief executive and the top team play the most critical role. The role of the coordinator is to formulate a direction for the productivity movement within the organization, actively helping departments and employees to draw up their action plans and projects. The coordinator is a motivator and facilitator working closely with top management on one hand and with front line managers and workers on the other to improve productivity through major projects or incremental improvements.

³/₄ Nominate a core productivity group

A core productivity group carries out programmes under the guidance of the steering committee. The size of the group depends on the nature and type of organization. This group, headed by the productivity coordinator, is not the doer but the motivator. In case of a multi-plant enterprise, the core groups should be formed at corporate and plant levels.

³/₄ Designate productivity coordinators

Coordinators are designated in each work area and grass-root structures are set up, such as quality circles, or productivity improvement groups, to implement productivity policies in various departments. These coordinators act as a link between the department and the core group.

Recommendations for GEA

GEA activities towards SMEs

GEA should concentrate its efforts towards SME Policy by providing benchmarking projects for member and non-member SMEs. Issues to be addressed include:

- Legal and administrative environment for creation of financial intermediaries (like micro credit institutions, credit guarantee schemes. etc.) for support of SMEs;
- Special start-up tools (grants, loans, etc.);
- Effects of microfinance on social and human development – poverty alleviation;
- Relationship between start-up businesses, business service providers and financial intermediaries;
- The role of venture capital and business angels in development of fast growing enterprises.

The existing problems in SME Policy emphasize the importance of elaboration of National SME Strategy in Georgia. GEA should transfer and integrate its valuable experience in the processes of drafting of mentioned National Strategy.

The priorities for development of SME National Policy through GEA involvement should be following:

- creation of an enabling legal and regulatory environment for SMEs and business operations;
- improvement of capacity-building, development of physical business support infrastructure- especially the establishment of micro-credit guarantee schemes for fostering the entrepreneurship;
- training for staff in lending and fund management in order to increase the managerial and technical expertise of financial intermediaries;
- provide soft advisory services for entrepreneurs;
- encourage accounting bodies to recognize, measure and report intangible assets of small businesses;
- introduce transparent principles of corporate governance at financial intermediaries.

GEA will concentrate efforts in direction of support and will encourage the involvement of low-income sections of population in entrepreneurial activities. For this purpose the programs aiming development of micro, small and medium enterprises will be promoted;

Micro, small and medium businesses play an essential role in intensifying the resource potential, the stable and dynamic development of the economy, increase employment and income levels of the population and other social issues. The development of SME is impossible without the preparation and introduction of a system of strong supportive measures from the government. This system should ensure the establishment of a regime of preferred treatment for SME and their protection from the influence of monopolies. For this purpose, the following measures are planned by GEA:

- Work over the improvement of a legislative framework to support micro business and SMEs which ensure the introduction of a special regime for these enterprises, harmonization of legislation and institutional structures to simplify bureaucratic

procedures, stimulating entrepreneurial activities and cutting the number of unnecessary procedures involved in the process;

- Establishment of a unified organizational structure to support micro business and SMEs; stimulation and coordination of measures for enterprise development;
- Clear definition of the involvement of the government in supporting small and medium enterprises (volume, duration, methods and expected effectiveness of the involvement).
- Establishment of an effective system of partnership between enterprises, unions, and central and local government bodies.
- Participation of the representatives of small enterprises in elaborating laws and regulations;
- Satisfaction of information and consultative needs of small enterprises.

Today, when Georgian agricultural sector is experiencing harsh crisis, one of the fastest ways to pull it out of the existing situation, is the development of a small and a medium business in this area. Thus, this should assist to the restoration and development of the country's one of the most important sectors, the agricultural sector. Correspondingly, it will also aid the implementation of poverty reduction program in the villages. However, the difficulties concerning the beginning of the industrial activities in the villages-where the main area of activity is considered to be the agricultural sector, should also be taken into the consideration. Having in mind that, the villages are experiencing lots of troubles, the creation of farmers'/peasants' cooperatives might be considered as one of the adopted methods. The internationally adopted methodology and corresponding practice, needed for creation of cooperatives, the Employer's Association already has.

The GEA has worked out the three years action plan on this direction. The main directives of which are the following:

- Implementation of consultative/informative activities
- Forming Farmers'/peasants' Cooperatives
- Teaching industrial activities, conducting trainings under the program - "Start and develop your Business."
- Creating the Consultative centers.

GEA role to improve Labour Productivity

Ensuring labour effectiveness is directly connected with one of the most important objectives of the economy –the enhancement of labour productivity. It is necessary to train labour resources in the expected accelerated technological development. The fast growth of modern equipment and technology and improvement of labour organization is also anticipated, which will set special requirements on labour resources.

The development of mechanisms and institutes that service labour protection and introduce professional standards should be facilitated. Labour safety needs to be regularized both in normative and institutional terms.

Based on the demand of GEA member companies, for the increase of labor qualification and standards, the Personnel Provision Agency of Innovations and Competitiveness Center was created. Because of the absence of the vocational education, the extra informal training and retraining centers became necessary to organize the training and employment aiding services at GEA, in Tbilisi. In the future it is also planned to organize similar services in other regions too.

GEA Training and Personnel Provision Service-center, according to the existing demand for specialized workers from the companies, will help the adult population who are out of educational sector, to promote qualification growth, to acquire new professions and skills and facilitate employment.

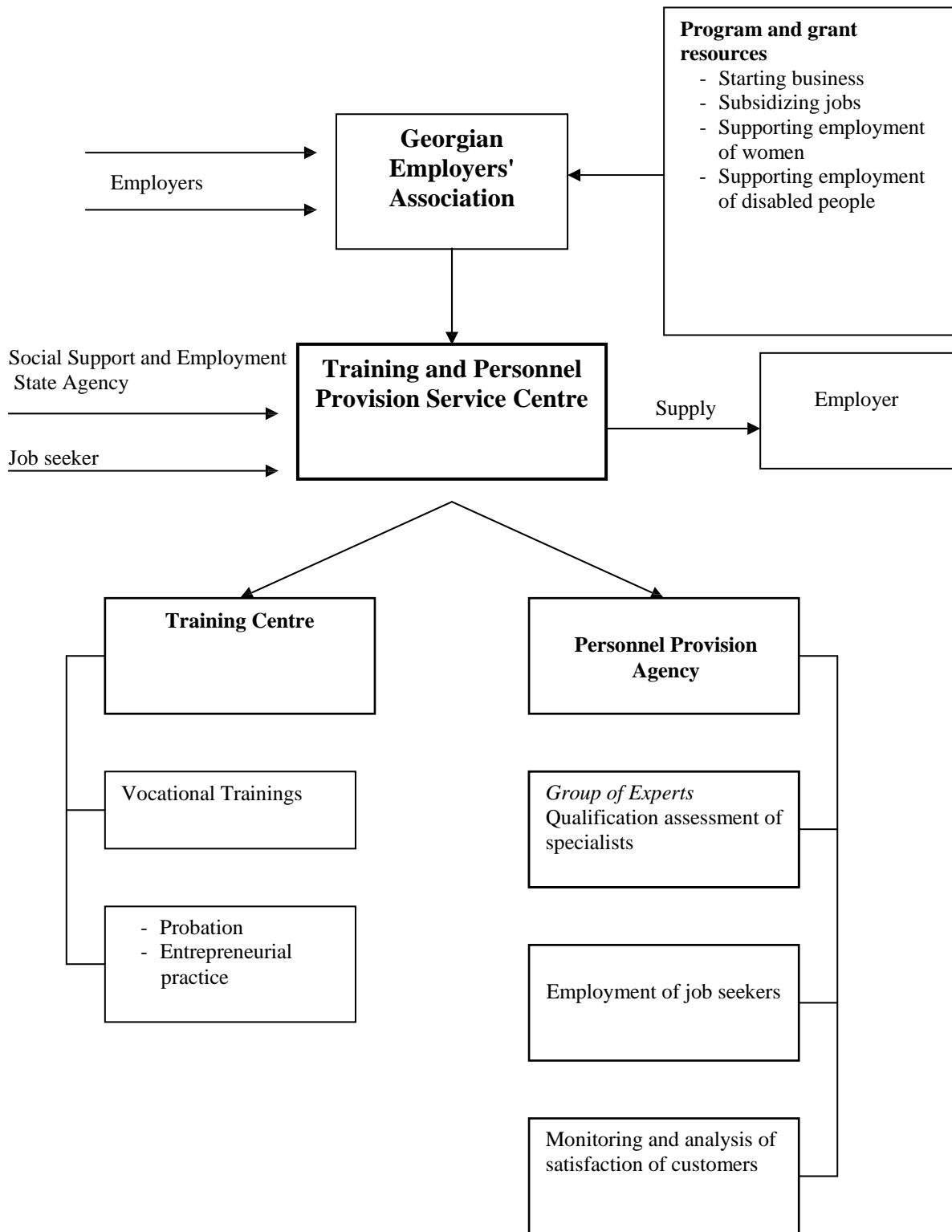
One of the main goals of the service –centre appears to be the support of SMEs, as well as trainings of the beginner entrepreneurs and their support in the credit institutions. Once starting the industrial activities the GEA guarantees them with its membership, after what they can exercise all the privileges of the Association.

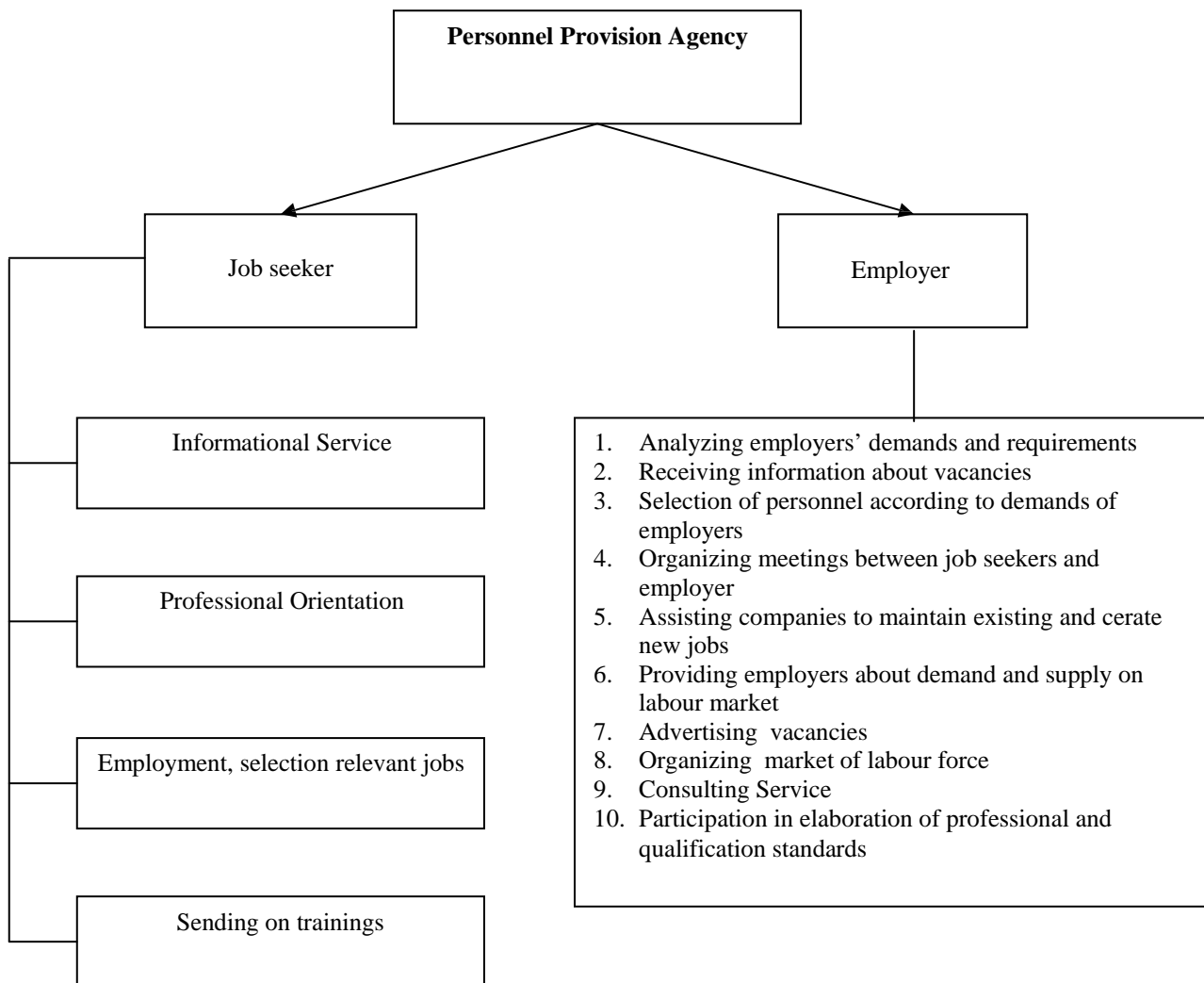
Georgian Employers' Association provides following functions for centre: coordination, administrative and secretarial assistance, office facilities and professional staff. The Training Centre with the help of GEA has already implemented ILO training program “Start and Improve Your Business” (SIYB) and trained 30 trainers. 15 of them were certified by ILO. These certified trainers comprise training network that will be responsible for implementation of training programs. Special guide-books in this direction is prepared and translated/adapted into Georgian. GEA continues translation and adaptation of new materials received from ILO. It has special accreditation for translation-adaptation and publication of training materials.

Future plans of the Centre are as follows:

- Capacity building for Centre to provide direct service for member as well as potential member companies.
- Capacity building for Centre to set up system of direct orders from employers.
- Capacity building for Centre to create a culture oriented on life-long education, providing labour market with competitive personal, raising the prestige and image of GEA.
- Creation of consulting centres in Tbilisi and regions to enhance and improve SME-s.
- Seeking for finances for the development and strengthening the Centre to be transformed as independent institution.

Service Centre will work on the bases of effective structure. This structure can be illustrated as follows: (see bellow)





GEA strategy to facilitate Innovation and Technologic Development policy

GEA future plans in innovation and technologic development relies on two core principles:

- ¾ To assist Georgian companies in general and member companies in particular to increase the level of their innovation activities and to equip them technologically. Research results revealed inadequate level of technologic development from the point of view of global competitiveness. The process of transformation of political and economic systems initiated in the early 90's resulted by civic and economic depression. The economic crisis caused technologic devastation. Prior to it in 1985-88's the enormous investments have been done by then communist government. The investments mainly directed to acquire latest technologies and machines for light industry, textile, etc. By reason of political crisis it has become impossible to benefit from then high technologies. It was impossible under mentioned conditions to find any gain from advanced technologic equipment. Consequently, there was only option- to transform them back in financial resources, simply to sell them. Increased criminal activities and social unrest caused industrial collapse. Hence, there was no need for any kind of high technologic equipment. Step-by-step all of them have been sold to neighbouring countries (Russia, Ukraine, Turkey). Level of technologic ammunition of industrial sectors became merely zero.

GEA efforts to increase member company's productivity and competitiveness rely on clear purposes: to assist in technologic transformation member companies and Georgian firms. The assessment of technologic needs and finding for proper solution to equip member and non-member companies-this is the essential function for GEA in close future. The technologic gap is risk factor for agriculture sector. Besides small exception, the majority of Georgian agriculture product is non-competitive at local and foreign markets. The active enterprises in agriculture are small enterprises and households. They are not equipped at all. Consequently, it's of vital importance to assist them in finding proper ways of acquiring cheap, modern processing technologies. The improvement in technologic level will increase their productivity and accordingly reduce the poverty risks.

- ^{3/4} As next important function, GEA concedes to elaborate the strategy model for innovation and technologic development. The draft will be disseminated for consideration to Government and Business associations. GEA supports the position that the formation of realistic vision and elaboration of effective strategy relies on intensive relationship between private sector, academic groups, Government and non-government sectors. It's right time for appropriate cooperation to achieve long term effect in the strategy of innovation and technology development. GEA is supporter of coalition idea in long-term process of the technologic transformation of Georgian economy.

GEA has already begun the formulation of core principles of innovative strategy. Three strategies for innovation and technology have been developed:

- A strategy of *transfer* – utilizing the scientific-technical potential existing abroad.
- A strategy of *borrowing* – using cheap labour and the domestic scientific-technical potential, mastering the scientific manufacturing of products already produced in industrialized countries;
- A strategy of *intensification* – permanent growth of innovation through utilizing domestic scientific technical potential.

It is necessary to focus on priority scientific-technical trends and technologies over the next five years. They should be carried out on a competitive basis by state order, as well as through the Commercialization of technologies and the creation of conditions to attract non-government capital into the innovation process.

Priorities include information technology, bio-technology, and technology to make new materials, extraction and refining of natural resources, technology for industrial plants and machinery (e.g., in energy and agriculture) and ecologically clean technology.

Additionally it is necessary:

- To ensure adopt a law on innovation activity;
- To establish infrastructure for the development of innovation activity (small scientific, engineering and consulting services, leasing services and business incubators);
- To set up joint ventures and manufacture scientific products with external partners, to disseminate information and advertisements on national innovations abroad, to secure foreign credit for innovation infrastructure;

- To use recommendations on resource saving, small waste, environment protection and environmentally appropriate technologies in coordination with international organizations;
- To support in a preferential way the implementation of small-scale and self-repayable innovative projects, innovation programmes and projects of national importance;
- To set up a system of government support for innovation with the participation of private investors and to carry out research with the special services of the EU, UN and other international organizations, nongovernmental institutions, venture funds and potential donor countries;
- To establish innovation and special funds. These funds will facilitate scientific-technological development, establish scientific production, finance risk-bearing projects, introduce highly productive and resource saving technologies, transfer technologies, stimulate the performance of scientists and specialists;
- To enforce mechanisms for attracting venture capital;
- To prepare and implement proposals to stimulate innovation activity.

The creation of the information society is of importance for a transitional country like Georgia because this issue is directly linked to the formation of transparent public information infrastructure. Knowledge and information technologies represent the basis for rapid economic growth. It is feasible to realize the intellectual potential of the country and revive the economy based on these technologies. An information infrastructure should process and disseminate data and knowledge and ensure the establishment of the information sector in the economy and the formation of a digital economy.

There should be a unified electronic turnover of documents, strategic planning and modeling, electronic commerce and media.. Furthermore, an infrastructure should be created to facilitate sustainable economic development and improvement of governance, overcoming corruption and the fair distribution of resources, improving the investment climate and safeguarding business entrepreneurs against discrimination.

GEA plans to collect and combine above mentioned principles. All interested parties: Government, non-government and private sector institutions will be integrated in the progression. The detailed plan of implementation of selected principles in business environment will be elaborated. Completed Strategy version will consist of legislative, regulations and technical components.

The research showed that competitiveness and productivity issues are quite actual for the growth of effectiveness of Georgian business. For today, the effectiveness of Georgian production and service is not on a satisfactory level. The data of trade balance of Georgia, serves as a proof of the above mentioned, where it is clearly shown the poor performance of Georgian economy in the international markets.

Appendix 1:

Minimum Subsistence Level (GEL per month)	January	February	March	April	May	June	July	August	September	October	November	December
2000 year												
Minimum subsistence level of economically active population	117,9	118,5	116,5	117,8	114,6	112,8	113,1	113,2	113,7	115,7	115,3	114,5
Minimum subsistence level of average customer	103,4	104,0	102,2	103,3	100,5	99,0	99,2	99,3	99,8	101,5	101,2	100,4
Minimum subsistence level of average family	205,1	206,2	202,6	204,9	199,4	196,3	196,7	197,0	197,9	201,3	200,7	199,2
Minimum salary rate	46,9	47,1	46,3	46,9	45,6	44,9	45,0	45,0	45,2	46,0	45,9	45,5
Household (Number of persons)												
1	103,4	104,0	102,2	103,3	100,5	99,0	99,2	99,3	99,8	101,5	101,2	100,4
2	165,5	166,3	163,5	165,3	160,8	158,3	158,7	158,9	159,6	162,4	161,9	160,7
3	186,2	187,1	183,9	186,0	180,9	178,1	178,5	178,8	179,6	182,7	182,2	180,8
4	206,9	207,9	204,4	206,6	201,1	197,9	198,4	198,7	199,5	203,0	202,4	200,9
5	232,7	233,9	229,9	232,5	226,2	222,7	223,2	223,5	224,5	228,4	227,7	226,0
6	322,7	324,4	318,8	322,4	313,6	308,8	309,5	309,9	311,3	316,7	315,7	313,4
2001 year												
Minimum subsistence level of economically active population	114,3	116,9	115,8	116,9	130,6	119,2	117,2	114,1	113,9	117,8	119,8	118,0
Minimum subsistence level of average customer	100,3	102,6	101,6	102,6	114,5	104,5	102,8	100,1	100,0	103,3	105,1	103,5
Minimum subsistence level of average family	198,9	203,4	201,6	203,4	227,2	207,3	203,9	198,4	198,2	204,9	208,4	205,2
Minimum salary rate	45,5	46,5	46,1	46,5	51,9	47,4	46,6	45,4	45,3	46,8	47,7	46,9
Household (Number of persons)												
1	100,3	102,6	101,6	102,6	114,5	104,5	102,8	100,1	100,0	103,3	105,1	103,5
2	160,5	164,1	162,6	164,1	183,3	167,3	164,5	160,1	159,9	165,3	168,2	165,6
3	180,5	184,6	182,9	184,6	206,2	188,2	185,1	180,1	179,9	185,9	189,2	186,3
4	200,6	205,1	203,3	205,2	229,1	209,1	205,7	200,1	199,9	206,6	210,2	207,0
5	225,7	230,8	228,7	230,8	257,7	235,2	231,4	225,2	224,9	232,4	236,5	232,8
6	312,9	320,0	317,1	320,0	357,4	326,2	320,8	312,2	311,8	322,3	327,9	322,9
2002 year												
Minimum subsistence level of economically active population	128,2	126,7	124,8	125,9	128,1	125,4	124,3	124,6	122,1	123,6	122,3	127,9
Minimum subsistence level of average customer	112,5	111,1	109,5	110,5	112,3	110,0	109,0	109,3	107,1	108,4	107,3	112,2
Minimum subsistence level of average family	223,1	220,4	217,2	219,1	222,8	218,1	216,2	216,8	212,5	215,0	212,8	222,4
Minimum salary rate	51,0	50,4	49,7	50,1	50,9	49,9	49,4	49,6	48,6	49,2	48,6	50,9
Household (Number of persons)												
1	112,5	111,1	109,5	110,5	112,3	110,0	109,0	109,3	107,1	108,4	107,3	112,2
2	180,0	177,8	175,2	176,8	179,8	176,0	174,4	174,9	171,4	173,5	171,7	179,5
3	202,5	200,0	197,1	198,9	202,2	198,0	196,2	196,8	192,9	195,2	193,1	201,9

4	225,0	222,3	219,0	221,0	224,7	220,0	218,0	218,7	214,3	216,9	214,6	224,3
5	253,2	250,1	246,4	248,6	252,8	247,5	245,3	246,0	241,1	244,0	241,4	252,4
6	351,0	346,7	341,7	344,8	350,5	343,2	340,1	341,1	334,3	338,3	334,7	350,0
2003 year												
Minimum subsistence level of economically active population	130,2	130,6	130,0	131,4	130,6	133,7	127,4	126,5	128,3	127,1	136,8	136,0
Minimum subsistence level of average customer	114,2	114,6	114,0	115,3	114,5	117,3	111,8	111,0	112,6	111,5	120,1	119,4
Minimum subsistence level of average family	226,6	227,2	226,1	228,6	227,2	232,5	221,7	220,1	223,2	221,2	238,1	236,7
Minimum salary rate	51,8	52,0	51,7	52,3	51,9	53,2	50,7	50,3	51,0	50,6	54,4	54,1
Household (Number of persons)												
1	114,2	114,6	114,0	115,3	114,5	117,3	111,8	111,0	112,6	111,5	120,1	119,4
2	182,8	183,3	182,4	184,4	183,3	187,6	178,8	177,6	180,1	178,5	192,1	191,0
3	205,6	206,2	205,2	207,5	206,2	211,1	201,2	199,8	202,6	200,8	216,1	214,8
4	228,5	229,1	228,0	230,5	229,1	234,5	223,5	222,0	225,1	223,1	240,1	238,7
5	257,0	257,8	256,5	259,3	257,7	263,8	251,5	249,7	253,3	251,0	270,1	268,5
6	356,4	357,4	355,7	359,6	357,4	365,8	348,7	346,3	351,2	348,0	374,6	372,4
2004 year												
Minimum subsistence level of economically active population	135,6	136,4	135,5	135,4	133,7	133,3	133,1	132,4	135,5	139,5	144,2	150,5
Minimum subsistence level of average customer	118,9	119,6	118,9	118,8	117,3	117,0	116,8	116,2	118,8	122,4	126,5	132,0
Minimum subsistence level of average family	235,9	237,2	235,8	235,5	232,7	232,0	231,5	230,4	235,7	242,6	251,0	261,8
Minimum salary rate	53,9	54,2	53,9	53,9	53,2	53,0	52,9	52,7	53,9	55,5	57,4	59,9
Household (Number of persons)												
1	118,9	119,6	118,9	118,8	117,3	117,0	116,8	116,2	118,8	122,4	126,5	132,0
2	190,3	191,4	190,2	190,0	187,7	187,2	186,8	185,9	190,1	195,8	202,5	211,2
3	214,1	215,3	214,0	213,8	211,2	210,6	210,2	209,1	213,9	220,2	227,8	237,6
4	237,9	239,3	237,8	237,5	234,7	234,0	233,5	232,3	237,7	244,7	253,1	264,0
5	267,6	269,2	267,5	267,2	264,0	263,2	262,7	261,4	267,4	275,3	284,7	297,0
6	371,1	373,3	371,0	370,5	366,1	365,0	364,3	362,5	370,8	381,8	394,8	411,8
2005 year												
Minimum subsistence level of economically active population	149,6	152,7	154,0	154,1	149,9	150,1	145,5	145,2	147,0	147,4	154,4	156,2
Minimum subsistence level of average customer	131,2	134,0	135,1	135,2	131,5	131,7	127,6	127,4	129,0	129,3	135,4	137,0
Minimum subsistence level of average family	260,2	265,7	268,0	268,0	260,7	261,2	253,1	252,7	255,8	256,5	268,6	271,7
Minimum salary rate	59,5	60,8	61,3	61,3	59,6	59,7	57,9	57,8	58,5	58,7	61,4	62,1
Household (Number of persons)												
1	131,2	134,0	135,1	135,2	131,5	131,7	127,6	127,4	129,0	129,3	135,4	137,0
2	210,0	214,4	216,2	216,3	210,3	210,7	204,2	203,9	206,4	207,0	216,7	219,2
3	236,2	241,1	243,3	243,3	236,6	237,0	229,7	229,3	232,2	232,8	243,8	246,6
4	262,5	267,9	270,3	270,3	262,9	263,4	255,2	254,8	258,0	258,7	270,9	274,0
5	295,3	301,4	304,1	304,1	295,8	296,3	287,1	286,7	290,2	291,0	304,8	308,3
6	409,4	418,0	421,6	421,7	410,2	410,9	398,1	397,5	402,5	403,6	422,6	427,5

Source: Department of Statistics