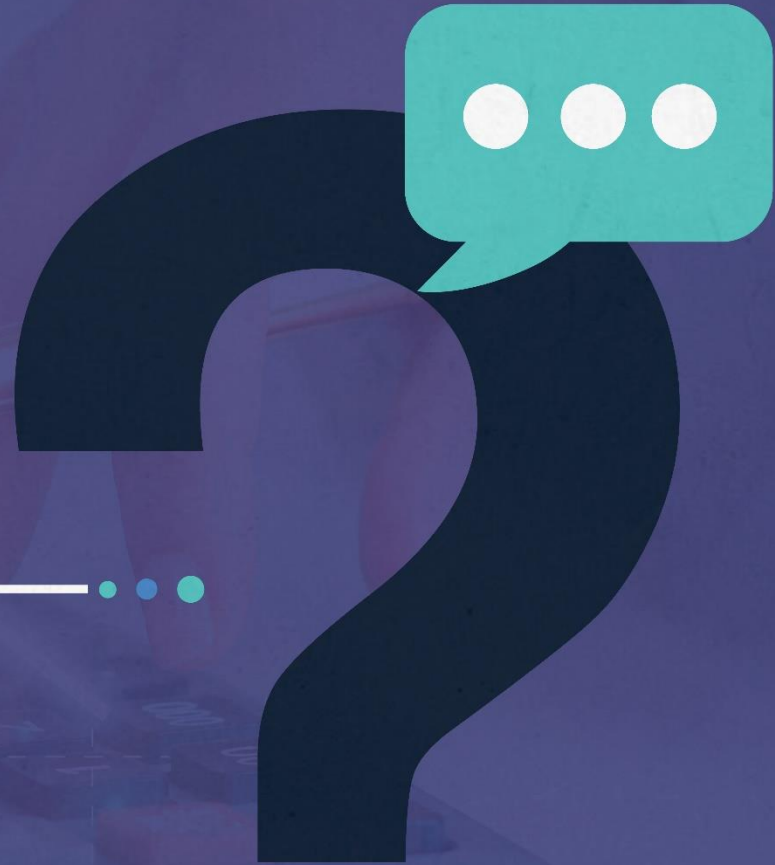


30

QUESTIONS FOR

THE GOVERNMENT'S ECONOMIC

TEAM



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Thirty Questions for the Government’s Economic Team

The following are some of the most pressing questions on the nation's economic agenda, along with potential explanations from our team and/or quotes from relevant sources that prompted these questions.

We will discuss these questions together with the National Bank, the World Bank, and other international organizations and experts. The purpose of the discussion is both to find answers to the questions and to facilitate a discussion on them.

1. Why did the country shift to the 35th spot in the 2023 Economic Freedom Index from the 13th spot it occupied in 2017 (mostly free countries)?

- In 2017-2023, the situation worsened across the majority of the criteria¹:

	Overall score	Property rights	Judicial effectiveness	Government integrity	Tax burden	Government spending	Fiscal health	Business freedom	Labor freedom	Monetary freedom	Trade freedom	Investment freedom	Financial freedom
2017	76.0	55.1	66.5	65.0	87.3	74.4	93.5	87.2	75.9	78.2	88.6	80.0	60.0
2023	68.7	54.3	55.5	62.9	89.1	70.0	43.0	69.8	62.1	72.0	86.0	80.0	80.0

2. Why is the informal economy so prevalent in Georgia, despite a good business environment and a low perception of corruption?

In 2021, the size of Georgia’s informal economy was estimated at 46.2%², which constitutes about \$29 billion at the GDP PPP level.

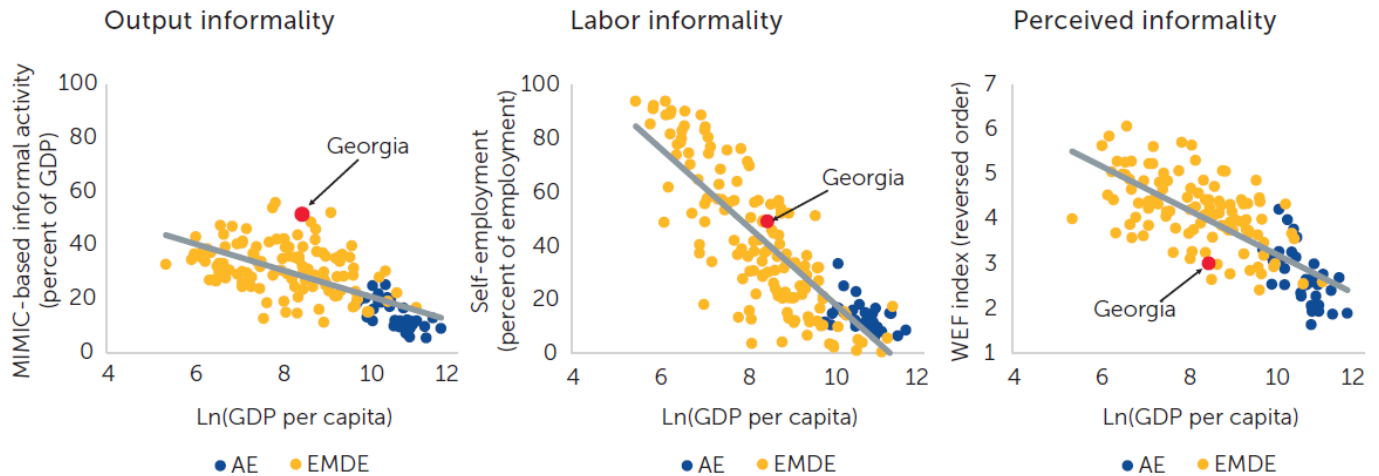
Sizeable, though declining, informality could also be hampering the opportunities to scale up Georgian companies. Various measures provide different results for the size of Georgia’s informal sector. While output informality models put the size of the non-observed economy significantly

¹ <https://www.heritage.org/index/visualize?cnts=georgia&type=3>

² Bertelsmann 2024 index, criterion 7.1.

above peers, labor informality estimates appear to be similar to peers, and in terms of perceived informality, Georgia actually outperforms most peers.³

Figure 1: Level of informal economy in Georgia



Source: *Charting Georgia's Future, Competitive, Connected, Capable*, The World Bank, (p.59)

Note; AE – Developed countries, EMDE – developing countries, WEF – World Economic Forum

A special feature of the informal economy in Georgia is that, despite the formality of most businesses, their activities are partially undeclared. About a fifth of medium-sized companies in Georgia do not fully comply with their VAT obligations, while the concentration of companies slightly below the VAT registration threshold may indicate that they are trying to hide their true size by partially under-declaring their income (World Bank, 2021). This, in turn, prevents us from utilizing our full potential.

Unreliable financial information oftentimes becomes grounds for refusal of a loan, which is one of the reasons for the lack of financial resources.

3. In what year will the state funding of education reach the 6% of the GDP envisaged by the Strategy for the Unified National Education and Science 2022-2030 (2.33% of the state budget in 2022, 2.55% in 2023), which is a commitment taken on in the Budget Code?

According to paragraph 1 of Article 45¹ of the Budget Code, it is mandatory to prepare and approve the draft state budget in such a way that the amount of funding for the field of education according to the functional classification of the combined budget is not less than 6% of the nominal gross domestic product predicted for the planning year.

According to paragraph 3 of Article 45¹ of the Budget Code, financing of education with at least 6% of the nominal gross domestic product is mandatory from the year when a budget deficit of no

³ *Charting Georgia's Future, Competitive, Connected, Capable*, The World Bank, (pp. 58-59)

more than 3% and the debt of no more than 60% are achieved, which is stipulated by the first paragraph of Article 2 of the organic law "On Economic Freedom".

According to the Budget Code, the funding of the education sector may be less than 6% of the nominal gross domestic product provided for in paragraph 7 of Article 2 of the organic law "On Economic Freedom" in the following cases: 1. In the case of a declaration of a state of emergency or war and the financing of the liquidation of the damages resulting from said state; 2. In the case of economic growth slowdown/recession, if according to Geostat data, the real economic growth rate of the last 2 quarters in a row compared to the corresponding quarters of the previous year is 2 percentage points lower than the average real economic growth rate of the past 10 years. Neither of these situations are present at the moment.

4. Why does the productivity of children born in Georgia lag behind the European Union average by 17%, and the European and Central Asian average by 6%?⁴

A child born in Georgia today will be 57 percent as productive as his/her full education and health potential. While this is in line with countries at similar levels of development, it is below the ECA average (excluding high-income countries) (63 percent⁵), and the EU average (74 percent).⁶

5. What benefits/harms did the complication⁷ of registration of businesses/companies found in the August 2021 amendments to the Law on Entrepreneurs bring the country? In particular:
- The minimum capital requirement for a joint-stock company⁸?
 - The requirement for a founding agreement signed by all the founding partners to establish the entrepreneurial society?
 - The power of attorney requiring notarization or execution of the signature in accordance with the Law of Georgia "On Electronic Document and Electronic Trust Services"?
 - The founding agreement including the articles of association and other information required by law (for example, business name, address, identification data of partners and the director; in the case of a limited partnership, the name of the limited partner and the amount of his contribution; in the case of a joint-stock company, the amount of initial and authorized capital; in the case of a cooperative, the nominal value of a share)?
 - Drafting a standard charter, which is considered part of the founding agreement if there is no charter drafted by the founders⁹?

⁴ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 57)

⁵ Minus high-income countries

⁶ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 45)

⁷ Bertelsmann 2024 index, criterion 9.2.

⁸ The minimum amount of capital of a joint-stock company at the time of its registration must be at least 100,000 GEL (based on Art. 45 (1) of Directive 2017/1132)

⁹ <https://nomadentrepreneur.io/business-formation-georgia/> ;

<https://www.matsne.gov.ge/document/view/5230186?publication=2>

The Parliament fully adopted the law "On Entrepreneurs" prepared by the government in August 2021. The new law will better regulate corporate relations between parties and company partners and increase harmonization with EU legislation, as it was created in accordance with EU directives. It will also pave the way for significant corporate law reform in Georgia. However, some of its changes compared to the old law made it more difficult to register a business/company¹⁰.

According to the explanatory note, the old law was general in nature and did not regulate a number of important issues, and because of this, the issues not covered by the law were effectively unregulated, leading to long and expensive legal disputes. In addition to the gaps in the old law, the development of the new law was based on the requirements of the Association Agreement and Association Agenda signed between the European Union and Georgia.¹¹

Since the ease of doing business is one of the main non-material assets of a country, determining its economic attractiveness, all decisions that affect this attractiveness must be measured through a cost-benefit analysis.

6. Why are we not conducting a complete and all-encompassing reform of state enterprises?

6.1. Should the Ministry of Finance have the freedom to solve the problems of state-owned enterprises that it describes in the fiscal risk document, e.g.

- Complete and then ban quasi-fiscal activities
- Have the freedom not to allow the maintenance of consumer tariffs for natural gas in the domestic sector, which has put the efficient operation of the most successful state-owned enterprise, the Oil and Gas Corporation, at risk.

6.2. What is the plan B of the 2023-2026 strategy for reform of state enterprises – what happens if the reform of certain state enterprises cannot be carried out as envisaged by the strategy?

6.3. What should be changed in the current strategy of corporatization of state enterprises?

- According to the law "On Entrepreneurs" as well as the Corporate Governance Code of State Enterprises, it should be determined whether the supervisory boards have effective and real powers, namely:
 - The supervisory board should be able to appoint and dismiss only the heads of the state enterprise, as prescribed by the current Code, as well as the chief financial and executive heads if it cannot be achieved within a reasonable period of time given by the supervisory boards.
 - o Strategic goals defined by the shareholder for the supervisory board

¹⁰ Bertelsmann 2024 index, criterion 9.2.

¹¹ <https://info.parliament.ge/file/1/BillReviewContent/268673?fbclid=IwAR0nXhZEffg-HxX8u3W4Zzk5WERw9jsU3F7npJRigbfTKgDhx4JtnA8bFqs>

- Target financial and nonfinancial coefficients and other KPIs, risk limits, etc.
 - No-nonsense description of each commercial function
 - Ceasing quasi-fiscal activities
 - Should the establishment of a supervisory board be mandatory in all state enterprises (currently only some state enterprises have a board)?
 - Can supervisory boards be made accountable directly to parliament, as is the case in many other countries, e.g. Switzerland?
7. What is the value of the money (the value of each 1 GEL can be 1 GEL or even 5 GEL) in state-supported initiatives (Produce in Georgia, Rural Development Agency programs, GITA)

Not even in Georgia, etc., where it has a good track record, state-sponsored initiatives can fail, e.g., according to The Economist, recent American history is littered with examples of failed state-sponsored industrial initiatives, starting with solar energy From the company Solyndra, to tax subsidies, which, for example, failed to attract large investments from electronics manufacturer Foxconn in Wisconsin.

State-sponsored initiatives can fail not just in Georgia, but even in the United States, where they have a good track record, e.g. according to The Economist, recent American history is littered with examples of failed state-sponsored industrial initiatives, from solar energy company Solyndra, to tax subsidies, which, for example, failed to attract large investments from electronics manufacturer Foxconn in Wisconsin¹².

Is it necessary to start regular monitoring of the state's support for various initiatives?

8. Why are startups unable to expand/develop following their initial growth?

Large firms dominate employment growth in Georgia, and to a lesser extent productivity growth; startups are dynamic but fail to expand after their initial growth spur¹³.

In 2018-2023, the Georgian Innovations and Technology Agency financed 186 projects (32 million GEL)¹⁴, while “Produce in Georgia” in 2014-2020 invested over a billion lari (loans and subsidies)¹⁵.

9. What will be the next ambitious reform following the income tax reform?

9.1. What do we need to dramatically improve tax administration (TADAT International Assessment Score)?

¹² <https://www.economist.com/briefing/2022/10/27/joe-biden-attempts-the-biggest-overhaul-of-americas-economy-in-decades>

¹³ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank (p. 57)

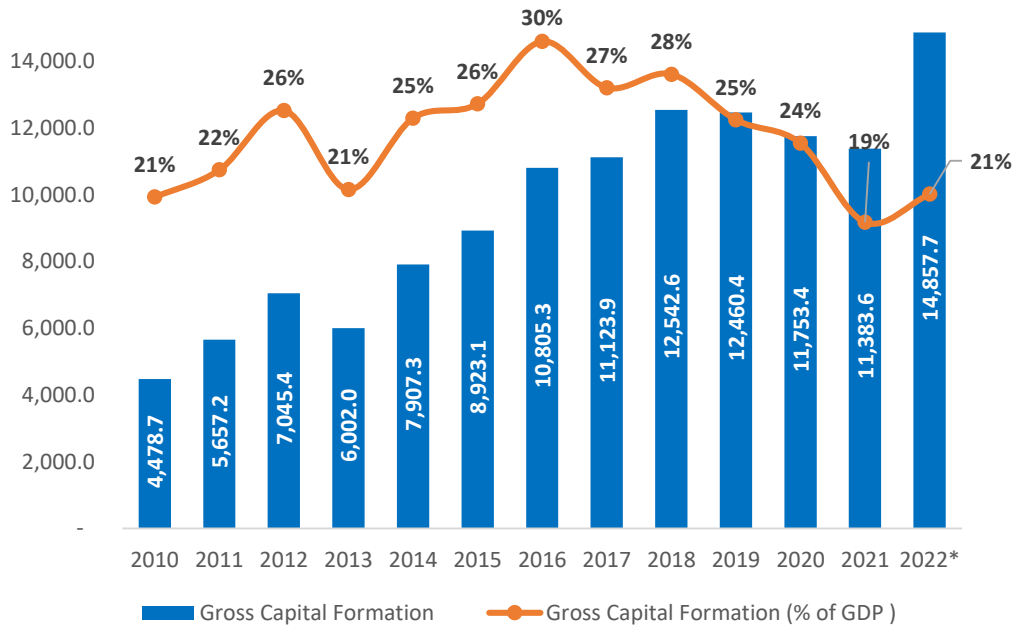
¹⁴ <https://gita.gov.ge/news/erovnuli-inovatsiebis-ekosistemis-shedegebis-prezentatsia-vTSjn2F9I>

¹⁵ Annual report 2019, Produce in Georgia, p. 6 ;

<https://www.enterprisegeorgia.gov.ge/uploads/files/publications/606ea449f3169-Annual-Report-2020.pdf>

10. Why did the share of investment in GDP in 2022 remain below the pre-pandemic level, despite the economy having grown by 10.1%?¹⁶

Figure 2: Investment level (mil. GEL) and its share in GDP by years



Source: Geostat, IDFI

*Preliminary data (corrected data will be published on November 30, 2023)

Although large-scale (about 6-7 percent of GDP) and timely policies limited the impact on living conditions and contributed to a strong economic recovery in 2021, as evidenced by the economic growth rate of 10.4%, the labor market and human capital losses will likely take longer to return to pre-COVID levels, with unemployment rates, for example, still higher than the pre-pandemic levels. In addition, the investment level remains below the pre-pandemic level.

11. How can we achieve high economic growth without increasing labor productivity¹⁷? (According to [Geostat data](#), wages rose 21.2 percent year-on-year in the fourth quarter of 2022, while productivity rose only 6.8 percent.)¹⁸

¹⁶ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 41)

¹⁷ Labor productivity shows the amount of product produced for each employee. Accordingly, to calculate the growth of productivity in sectors, the real gross domestic product produced in this sector is divided by the number of employees in the same sector in different years and the percentage increase is calculated.

¹⁸ <https://bm.ge/ka/article/erovnuli-banki-prognozirebs-rom-wlis-meore-naxevarshi-inflacia-3-ze-naklebi-iqneba/130444/>.

- 11.1. What is the reason for the decline in productivity for non-agricultural firms (in 2019, productivity (TFP)¹⁹ decreased by 6.7% compared to 2007)?²⁰

According to the data from firms, the productivity (TFP) of non-agricultural firms is 6.7% lower in 2019 than the same indicator from 2007. At the same time, the construction sector became more productive, manufacturing TFP decreased slightly (by 1.4%), and services TFP fell sharply.

- 11.2. Why did the productivity (TFP) of the service industry decline sharply?²¹

- 11.3. Why do large firms impact the growth of employment more than the growth of productivity?

Large firms have significantly higher employment growth rates. At the same time, young firms are characterized by high growth rates, both in terms of employment and in terms of TFP; however, starting from year three this growth path quickly stabilizes, and stagnates in many cases²².

- 11.4. Why do large firms that are less productive grow while more productive small firms fail to do so?²³

In Georgia, allocative efficiency makes a low contribution to growth in productivity: large firms with relatively low productivity expand while small but productive firms fail to grow.

- 11.5. Why is there no tangible improvement in productivity in agriculture?²⁴

According to the World Bank report, labor in manufacturing and services produces around seven times more output compared to agriculture. This means that further shifting of labor resources from agriculture will be productivity enhancing, given that around 19 percent of the labor force are still engaged in agriculture, generating only around 7-8 percent of value added.

On one hand, agriculture needs to become more productive, so that the remaining farmers can have better livelihoods. On the other hand, the rest of the economy will also need to increase productivity to generate the wage differential needed to attract workers away from the agriculture sector.

¹⁹ Total factor productivity

²⁰ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 57)

²¹ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 57)

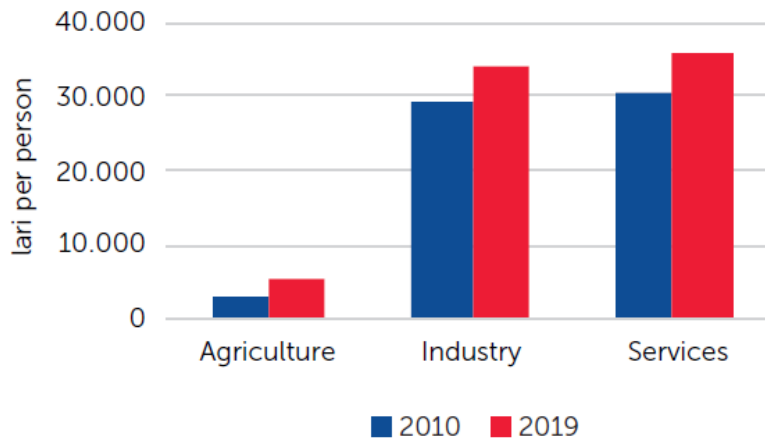
²² Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 57)

²³ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 57)

²⁴ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (pp. 42-43)

Addressing the structural bottlenecks to productivity growth in agriculture and the rest of the economy, as well as constraints to labor and capital mobility and connectivity, will facilitate the transformation.²⁵

Figure 3: Difference in value added per employee, by industry



Source: World Bank, according to Geostat data.

11.6. What can be done in the next 5 years to facilitate the migration of labor from agriculture to other economic sectors?

The share of agriculture in GDP has declined to around 7-8 percent of GDP in recent years, similar to peers. Employment in agriculture peaked later than in peers but has been falling relatively fast recently. Still, at around 19 percent (based on the new methodology; close to 40 percent under the old), it remains above peers. While the move away from agriculture contributed almost half of the growth in GDP per capita over the last decade, the large share of labor still engaged in agriculture (around a fifth of employment) and the significant difference in the output per worker in agriculture and the rest of the economy suggests that the potential of structural transformation is not exhausted.

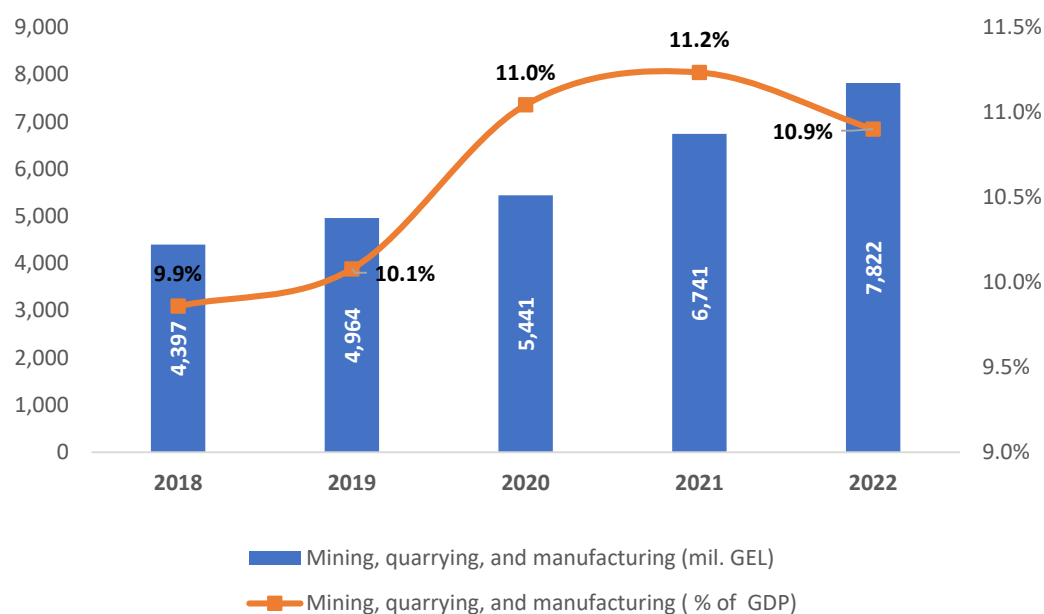
Capital accumulation and structural change drove Georgia's growth between 2010-2019; however, firm-level TFP performance has been weak. Capital accumulation explained 2 pp of the 4.6 percent GDP growth during 2010-2019. Overall TFP growth accounted for one third of output growth (1.5 pp of GDP per annum) and, demonstrating Georgia's structural change, was largely driven by the movement of labor from agriculture to services and industry. However, among a relatively large sample of non-agriculture firms, TFP in 2019 was actually 6.7 percent below its 2007 level, when estimated using firm data.⁷ Despite an improving employment rate during this period, the shrinking labor force meant that the contribution of

²⁵ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 45)

the stock of labor was negligible (0.6 pp, or 14 percent), while small gains in the human capital per labor added around 10 percent of the observed GDP growth (0.4 pp).²⁶

12. What should be done for the increase in the share of industry to facilitate a tangible growth in GDP?

Figure 4: Share of industry in GDP



Source: Geostat, IDFI

As the World Bank notes, the structural transformation taking place in the country is the least evident in industry. The data shows that industry is indispensable for long-term predicted sustainable growth.

Increasing the share of industry in GDP should be the result of reforms, not their goal. The higher the share of industry, the more sustainable the growth.

According to a study by ADB institute,²⁷ industry is the main driver of growth in middle-income economies. In some emerging economies, weak industry and a strong service sector may not bode well for sustaining long-term economic growth.

According to research, in middle-income economies, the industrial sector has three important characteristics. First, it stimulates services, not the other way around. A decrease in the growth rate of industry will negatively affect the growth rate of the service sector, both in the short term and in the long term. Second, the development of industry not only stimulates saving, but also

²⁶ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (pp. 8-10)

²⁷ <https://www.adb.org/sites/default/files/publication/184350/adbi-wp573.pdf>

accelerates technological development. Third, an increased share of industry can increase the use of human capital and economic institutions.

13. What are we planning to do so that the dependency coefficient²⁸ of the elderly on the labor force does not increase?

According to the forecast of the World Bank, among the 51 countries with higher than average incomes, Georgia will move from 15th place in the world in 2018 to 10th by 2050.

14. What should be done so that households (families) will not prefer investing in real estate and jewelry to saving in financial instruments?²⁹

According to the study by the World Bank, household savings need to increase. Too few Georgian households save, due in part to the paucity of good jobs in the economy, but also the lack of diversity of savings options. Economic growth and job creation will help private. Pension reform is helping to increase savings, and additional savings could be mobilized through instruments like unemployment and disability insurance or life insurance products. Improving financial literacy, especially regarding the importance of decisions with longer-term implications (education, health) can also help. In addition, anecdotal evidence suggests that people save by purchasing real estate or jewelry. Maintaining financial sector stability and reforming tax policies (increased taxation of second home, unused land, and luxury goods) may help channel these alternative savings into the financial sector.

15. Why are we spending 0.17% of GDP on research and development in 2023³⁰, when the OECD average was 2.7% in 2020 and the EU average was 2.3% in 2021?

- Why does the R&D Innovation Council not issue any statements regarding this level of research and development?³¹

²⁸ According to Eurostat, the ratio is defined as the number of persons aged 65+ divided by 100 economically active persons aged 20 to 64. The ratio depends on the rates of death, birth, and migration.

<https://data.oecd.org/pop/old-age-dependency-ratio.htm>

²⁹ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 45)

³⁰ 2023 national budget

³¹ The R&D Innovation Council was established in 2015. Its members were the Prime Minister, members of the Cabinet of Ministers, the chairmen of the Innovations and Technology Agency and Geopatent, the director of the Shota Rustaveli National Science Foundation of Georgia, several business representatives and scientists.

The tasks of the Council are:

- Developing recommendations to ensure economic development of the country
- Facilitating the determination and implementation of priorities and programs based on them for the construction of the economy based on knowledge and innovation in the country;
- Promoting acquisition of financial resources from donor organizations and financial institutions for the creation of an innovative ecosystem;
- Supporting private sector participation in state information technology projects;
- Facilitating support for scientists of every field.

- Why is the research in the 2023 budget only in the areas of basic research, defense, and education?
- Why are the areas of research, including collaborative research, not defined?

Collaborative research means the collaboration of business, academia, and scientists in the area of technological and economic development³². The challenge here is that scientists work relatively slowly and spend a lot of time on research, while firms need timely solutions due to a changing environment. Scientists are eager to publish their work, while firms often want new patents, products, and privacy protections³³.

16. Why are the majority of Georgian companies (93%) unable to create or significantly improve new products (goods/services)?³⁴
17. Why is it that only a small number of firms invest in innovation, despite such innovation being important for their productivity growth?

Innovation is an important driver of productivity growth, but only a small proportion of firms engage in innovation, and the corresponding ecosystem is only now emerging. Firms' investments in ICT are limited to basic digital services, and in the absence of complementary labor skills, even these investments do not always translate into higher productivity. In addition, the innovation ecosystem is nascent, with limited incentives for research and development institutions (RDIs) to orient research towards commercialization and a relatively low stock of engineers and scientists. As a result, only 7 percent of firms introduced new or significantly improved goods or services³⁵.

To innovate, firms need to invest significant resources in machinery, equipment, and R&D, and devote time to improve the productive processes. Hence, promoting innovation also requires a diversified range of financial instruments that mirror the type of innovation and the stage of development of firms³⁶.

18. Why is allocative efficiency³⁷ at the level of companies weak despite a good business environment?

Organizational support of the activities of the Council is carried out by the Innovations and Technology Agency of Georgia

³² <https://issues.org/mowery/>

³³ <https://cmr.berkeley.edu/2018/04/collaborative-research-development/>

³⁴ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 10)

³⁵ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 10)

³⁶ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 59)

³⁷ Allocative efficiency is the state of the economy in which production matches consumer preferences; specifically, each good or service is produced until the moment when the last unit of the good produced provides marginal consumer utility, which, in turn, is equal to the marginal cost of production.

Weak firm-level productivity and allocative efficiency suggest that, despite a good business environment, Georgian markets are not functioning very efficiently and that firm capabilities are weak.

Georgia's good business environment was strongly emphasized in interviews held by the World Bank with businesses. However, the limited reallocation of market shares from less productive to more productive firms, as well as the exit of relatively more productive firms, point to the importance of deepening reforms that promote better market functioning and allow more productive firms to scale up and gain a larger share of the market. A few economy-wide and firm-specific issues could be contributing to these outcomes. Challenges to firm growth may be related to access to finance, the second biggest obstacle reported by businesses. In addition, promoting formalization could help, as informality is likely to explain the fragmentation of the enterprise sector and inability to scale up. Competition is key, especially in small markets like Georgia and given evidence that competitive pressures, while improving, may be weaker in certain sectors. In addition, the limited contribution of "within" productivity component points to weak firm capabilities, including firm-level innovation and managerial practices.³⁸

19. How do we ensure that we do not harm businesses that do not require subsidies when assisting their competitors that do?

Analysis of business support outcomes shows that, for example

- *The market is distorted even when you assist everyone*
- *The distortion is greater if you are selective with which companies you assist and which ones you do not.*

The analysis of business data shows that even when you know that the situation for which a business is subsidized will end, this subsidy, given to the business even once, implicitly affects their (including individual entrepreneurs) business decisions, namely:

- *Willingness to take on risks*
- *Volume of capital*
- *Reinvestment decisions, etc.*

We do not know how to avoid these market distortions. Do you?

20. What steps should be taken to maximize the use of free and preferential trade regimes without distorting the market?

Is it possible for the government to have figures for the utilization of the commodity nomenclature of these regimes on a weekly basis (a kind of running line)?

21. Why is competition low in certain sectors?

³⁸ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 58)

Firm-level data point to increased competitive pressures in product markets, though competition may be weaker in some sectors. Average markups of Georgian firms show a downward trend in recent years with regression results showing that TFP, rather than market share, drives markups. However, heterogeneity in markups between firms is large, and the trend in markups in services is still driven by a small number of firms with high markups and not by the median firm³⁹.

22. Why is management practice in Georgian firms lagging behind its peers?⁴⁰

22.1. Why are there significant differences in managerial practice across companies?⁴¹

23. Why do we have high rates of business failure (i.e. low business survival rate) in Georgia?⁴²

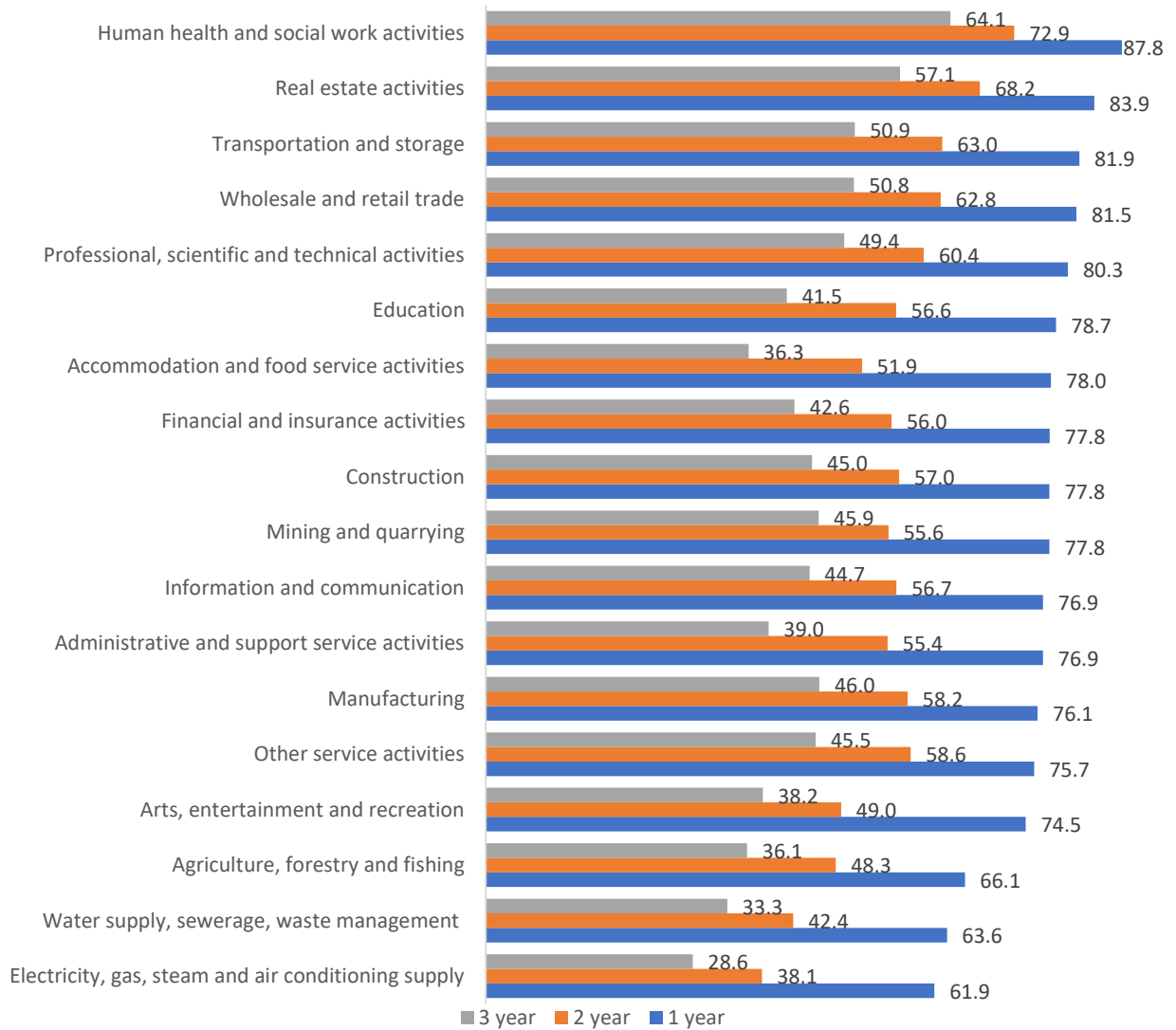
Figure 5: Business survival rate (%), by area of activity

³⁹ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 59)

⁴⁰ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 60)

⁴¹ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 60)

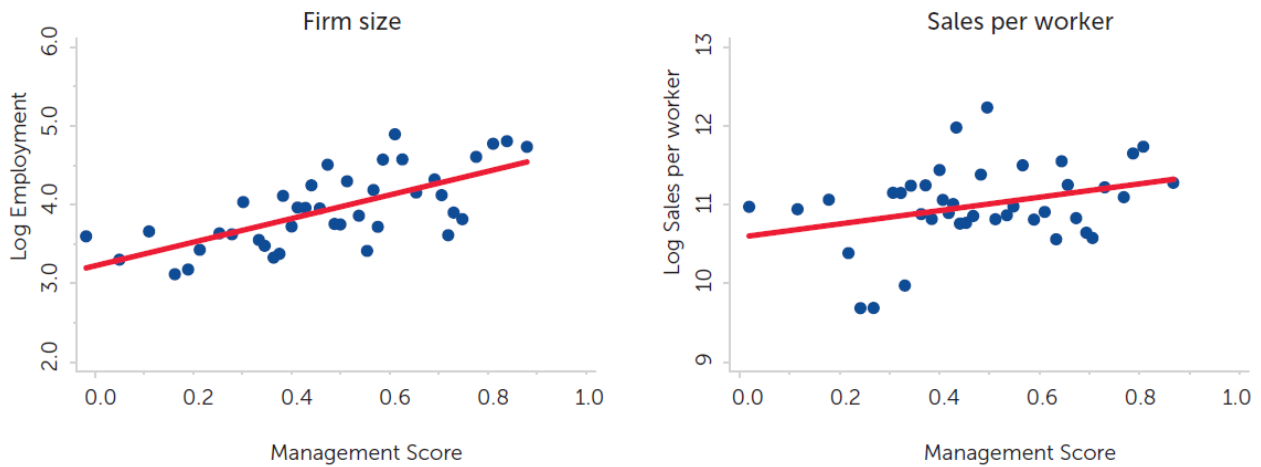
⁴² Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 60)



Source: Geostat, IDFI

Management is key to improving company performance, but many Georgian companies are poorly managed. Implementing better management practices has a positive impact on employment, sales, and labor productivity. However, management practices in Georgian companies lag behind companies in its peer countries. In addition, the quality of management practices varies widely across companies. High business failure rates (i.e. low survival rates) also indicate that managerial skills in these companies are limited.

Figure 6: The correlation between a company's work and its management



Source: *Charting Georgia’s Future, Competitive, Connected, Capable*, The World Bank, (p. 60)

Note: The quality of management score is the average of the scores from the 8 questions of the World Bank Enterprise Survey (WBES), where each question is normalized to a 0-1 scale. The survey includes all WBES companies in 2019 that answered at least 4 of the 8 questions and have a positive employment and sales rate. The size of the survey is 275 companies. The dependent variable is the management quality score.

The average Georgian firm is family-managed and performs poorly on key management aspects, such as performance monitoring and dealing with production disruptions. In addition, many entrepreneurs appear to be “pushed” into economic activity due to lack of other opportunities, rather than being “pulled” by profits, independence, or autonomy (Kuriakose, 2013), and they may also lack the needed entrepreneurial skills. Together, these factors result in one of the lowest rates of firm survival in Europe⁴³.

Table 1: Management score in Georgian and comparator countries firms

Questions	Georgia	Bulgaria	Poland	Romania	Serbia
What happens when a problem arises?	0.663	0.879	0.904	0.873	0.894
# of key performance indicators (KPI)	0.293	0.556	0.59	0.523	0.572
Time frame of operational targets	0.617	0.592	0.677	0.607	0.607

⁴³ *Charting Georgia’s Future, Competitive, Connected, Capable*, The World Bank, (p. 10)

Criteria for non-managers' promotion	0.821	0.82	0.829	0.84	0.915
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Source: World Bank Enterprise Survey (WBES), 2019

Note: The management quality score ranges from 0 to 1 (a higher score indicates better management performance) for companies with 50-5,000 employees.

24. What needs to be done for the proper development of the ICT sector?

- Why don't Georgian companies invest in ICT innovations that will, unlike simple digital services and labor skills, have the potential for high productivity?⁴⁴
- What benefits did the significant tax benefits given to international ICT companies from 2020 bring us?

25. How do we properly promote exports?

25.1. Why are companies not oriented at exporting their products to the international market?⁴⁵

It is a fact that only a handful of companies export and export relations do not last. In 2019, Georgia used only 4.2 percent of its export market potential.

25.2. Why not "analyze" potential exporters and offer them effective ways to overcome information asymmetry in foreign markets?

Government support programs with clear indicators to measure improvements in productivity and competitiveness can help overcome information asymmetry in foreign markets. This would also mean supporting firms to adopt international certification for their products and services, something that even less demanding export markets are increasingly looking for. A stronger export promotion function, including through an efficient network of foreign offices, can help potential exporters benefit from greater availability of information to overcome the information asymmetry and discovery costs associated with seeking access to external markets.⁴⁶

25.3. Why are no investments being made in logistical projects?⁴⁷

Specialized logistics facilities are not available to support value-added and trade operations. Georgia should upgrade the Caucasus Transit Corridor (CTC⁴⁸), manage it in real time and

⁴⁴ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 10)

⁴⁵ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 62-63)

⁴⁶ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 63)

⁴⁷ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 65)

⁴⁸ Caucasus Transport Corridor.

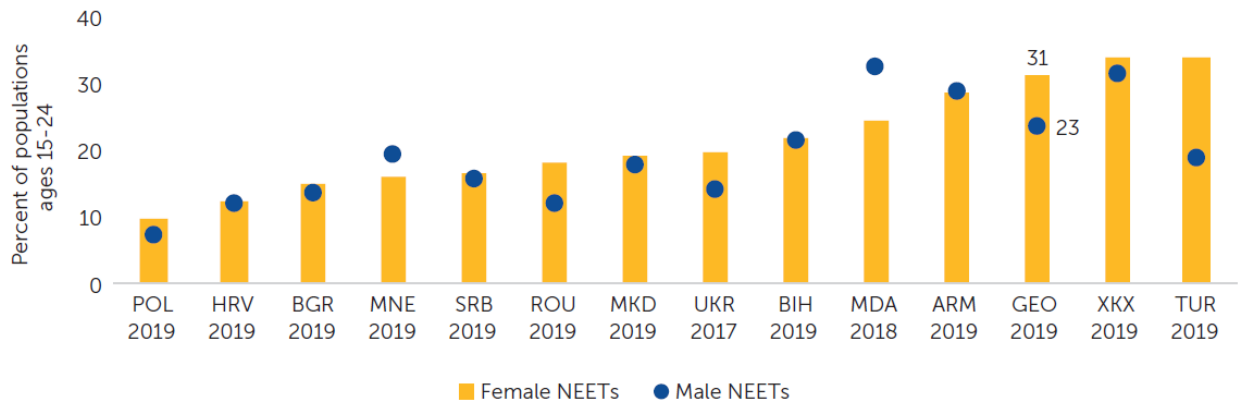
connect it to a network of transport and logistics centers. Currently, the corridor is a collection of various transport assets with limited logistical connectivity.

25.4. How do we properly facilitate export of services?

Today 80% of the country's services export is in tourism and transport.⁴⁹ Global innovative and "social" (health, education) services are becoming easier to trade on the one hand, and on the other hand, the number of jobs is increasing, while these services are being exported less, which directly points to opportunities to increase the export of services. It is important to develop a Services Trade Restrictiveness Index (STRI⁵⁰) and to decide how to make services more tradable in sectors of higher potential (digital content, accreditation, visa policy)⁵¹.

26. In the case of Georgia, why is the rate of young people (especially women) who are not engaged in education, employment or training (NEET)⁵² higher than the same rate in European countries with a similar development level?⁵³

Figure 7: NEET rates for youth 15-24 years old in Georgia and peers



Source: *Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 71)*

27. Why is the unemployment rate of youth (15-24) significantly higher (39%)⁵⁴ than the ECA average indicator⁵⁵(16%)?

The youth (15-24 age group) unemployment rate is very high (39 percent) compared to the ECA average (16 percent) and the rate of peer countries (Czech Republic, 6 percent; Estonia, 11 percent).

⁴⁹ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 64)

⁵⁰ <https://www.oecd-ilibrary.org/docserver/fee5c901-en.pdf?expires=1682591089&id=id&accname=guest&checksum=ED1A9F3B110054A0F9E23CB2CBA98B41>

⁵¹ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 64)

⁵² Not in education, employment or training

⁵³ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 71)

⁵⁴ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 69)

⁵⁵ ECA – Europe and Central Asia

28. What losses in education are due to the fact that

- most children are directly enrolled in school, without going through preschool education?
- the quality of teaching at the pre-school educational level cannot ensure the preparation of children for school?

28.1. Why is preschool education not considered necessary?

Preschool education is not required. Too few kids attend early childhood education; as a result, they enter the general education system unprepared to learn. The general education system then fails to instill good foundational skills⁵⁶.

29. What steps can the government and the National Bank take for the development of the capital market?

- Promoting lending alternatives, e.g. buying corporate bonds according to the experience of the US central bank (the Fed)?
- What should be done in order for Georgian companies to gain the trust of foreigners?

Compare the volumes of bonds and shares (equity securities) issued by Georgian companies. Issuance of equity securities is one of the main signs of this increase in confidence.

30. What can be done to facilitate cooperation in agriculture?

- Changes in the law?
- Reform of the Agency for Development of Agricultural Cooperatives?

⁵⁶ Charting Georgia's Future, Competitive, Connected, Capable, The World Bank, (p. 69)