Georgia

In BEEPS V, the top three obstacles in the business environment identified by Georgian firms were political instability; electricity issues; and access to finance (Chart 1). SMEs and young, old and manufacturing firms were somewhat more concerned about competitors' practices in the informal sector than access to finance. The main obstacles have not changed since BEEPS IV.

Electricity concerns on the rise

Georgia has experienced high levels of **political instability** since the collapse of the Soviet Union, particularly during the 1990s. The October 2012 parliamentary elections and the October 2013 presidential elections were the first occasions since independence in 1991 on which power had been transferred to the opposition through a peaceful democratic election. Georgia is often plagued by squabbles between the new and outgoing governments.

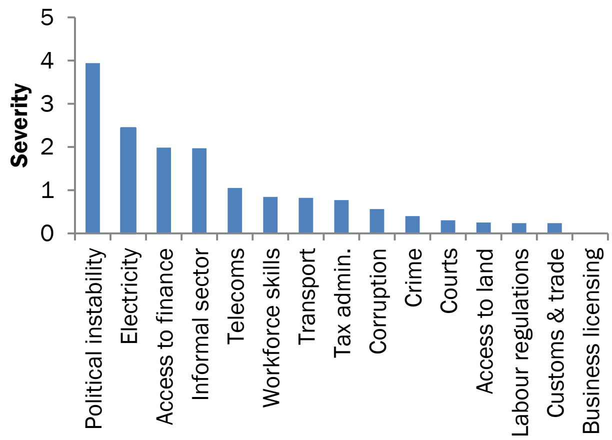
Electricity issues were the second most severe constraint named by Georgian firms. Although fewer firms experienced power outages – 26.1% in BEEPS V, compared with 41.4% in BEEPS IV– and they were shorter in duration on average, losses due to power cuts increased from 5% to 9% of total annual revenue, almost double the eastern Europe and the Caucasus (EEC) average of 4.8% (Chart 2). The main problem Georgia faces is related to the security of electricity supply: the large hydro power plants are in disputed areas or in areas close to disputed territories.

Access to finance was in third place. Almost 36% of the firms surveyed had a loan or a credit line (slightly below the BEEPS V average of 37.4%). The financial sector suffered a slow-down in the first half of 2013 due to business deleveraging and political uncertainty. More than 40% of loans to SMEs were in US dollars, while large enterprises financed themselves predominantly in local currency. This poses significant currency risks for those SMEs, especially non-exporters, that are not naturally hedged against exchange rate fluctuations.

Just over half – 54% – of Georgian firms reported to **compete against firms in the informal sector** in BEEPS V, exceeding the EEC average by roughly 20 percentage points (Chart 3). This share is the highest in EEC and has increased since BEEPS IV. For a number of years the World Bank's *Doing Business* report has ranked Georgia among the top performers in terms of ease of starting a business, so this finding indicates that other regulations matter as well.

Crime, theft and disorder moved from 6th place in BEEPS IV to 10th place in BEEPS V. The share of firms that experienced losses as a result of theft, robbery, vandalism or arson on their premises decreased substantially since BEEPS IV, and the losses were less than a third of those they experienced then: 2.2% of total annual revenue in BEEPS V compared with 7.6% in BEEPS IV.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Losses due to power outages

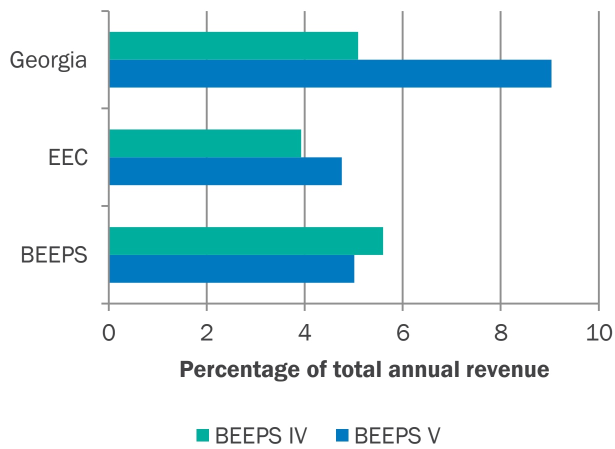
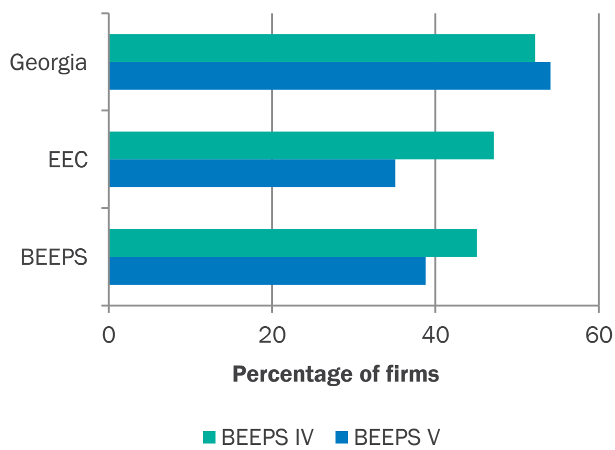


Chart 3. Competition from the informal sector



Survey fieldwork period: December 2012 – May 2013. EEC: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Small and medium-sized enterprises (SMEs) have 5-99 employees. Young firms are less than 5 years old.