



**UNIVERSITY OF MACEDONIA DEPARTMENT OF BALKAN, SLAVIC AND ORIENTAL
STUDIES**

**MASTER'S DEGREE IN POLITICS AND ECONOMICS OF CONTEMPORARY EASTERN
AND SOUTHEASTERN EUROPE**

Economics in Eastern and Southeastern Europe

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Dissertation topic:

**Evaluation of the competitiveness and the business environment in
Georgia: Challenges and perspectives**

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M01/15

August 2015

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Evaluation of the competitiveness and the business environment in Georgia: Challenges and perspectives

1. Abstract

The paper focuses on the competitiveness climate in Georgia after transition period, as well as the Georgian's business environment. In order to analyse the case of Georgia, I am doing to use the tools of following indices: (1) *Global Competitiveness Index – GCI*: Which help us to measure the national competitiveness, taking into account the microeconomic and macroeconomic foundations of national competitiveness; (2) *Easy Doing Business- EDB*: Which is looking at domestic small and medium-size (sms) companies that are the engines of growth and job creation for most economies around the world and measures the efficiency, accessibility and simplicity of regulations applying to them through their life cycle. In other words, I will highlight the causes, of having these indices results in each year, thought out analysing the pillars of the indices. Next, we will see if there is a correlation between “GCI and EDB”. Then, the challenges and perspectives in Georgia, and recommendations.

* **Keywords:** *Competitiveness, Easy doing business, business environment in Georgia, Challenges and perspectives in Georgia.*

2. Introduction

The concept of competitiveness has been emerged as a new paradigm in economic development in the last years. As it is known that Competitiveness captures the awareness of both the limitations and challenges posed by global competition at a time when effective government action is constrained by budgetary constraints and the private sector faces significant barriers to competing in domestic and international markets. At the same time National competitiveness is said to be particularly important for small open economies, which rely on trade, and typically foreign direct investment, to provide the scale necessary for productivity increases to drive increases in living standards.

Therefore, Global Competitiveness Report discovers the most comprehensive data set on competitiveness; assesses the comparative strengths and weakness of a large number of economies; Produced in collaboration with leading academics worldwide and a global network of partner (research) institutes.

Addition to that, the Global Competitiveness Report uses two kinds of data, which are (World Economic Forum, 2003)¹:

- (1) Executive Opinion Survey: It records the perspectives of business leaders around the world; Survey data is indispensable, particularly for variables where no reliable hard data sources exist;
- (2) Hard data generally available from international sources.

¹ World Economic Forum (2003) *"The Global Competitiveness Report 2002-2003"*, United States of America, PP. xi-xxiii; ISBN:0-19515981-0; https://books.google.gr/books?id=xGIXZZJZOoC&pg=PP13&lpg=PP13&dq=Executive+Summary+PETER+K.+CORNELIUS,World+Economic+Forum&source=bl&ots=UPnXKFZ77&sig=eGVU8qW7OPiwDQTC_v7PGXeIMP8&hl=en&sa=X&redir_esc=y#v=onepage&q=Executive%20Summary%20PETER%20K.%20CORNELIUS%20World%20Economic%20Forum&f=false

➤ *What competitiveness means?*

According to the World Economic Forum competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country (World Economic Forum, 2008; pp.3)². Also the level of productivity, in turn, sets the level of prosperity that can be earned by an economy.

Because productivity is the main driver of investment in an economy and investment, in turn, unambiguously determines the rate of growth of the economy, we say that:

- A more competitive economy is one that is likely to grow faster over the medium to long run;
- They try to shed light on “the factors, policies and institutions” that determine the sharply different growth experiences of 117 economies worldwide.

On the other hand, the second section will focus on the effect that a Georgia’s business regulatory environment has on the amount of foreign direct investment it attracts. Doing Business sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business.

Doing Business measures and tracks changes in regulations in 11 areas, in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation (World Bank Group, 2015; P.1-21)³.

The Doing Business methodology has limitations. Other areas important to business—such as an economy’s proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions.

For policy makers trying to improve their economy’s regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies.

Georgia is the case study in this dissertation, so we will observe clearly the situation in Georgia, at the same time we will evaluation of the competitiveness and the business environment in Georgia through two indices, which are ‘Global Competitiveness Index - GCI and Easy Doing Business- EDB’ in order to understand the situation in Georgia as well as to have a clear view of the business environment in Georgia, as well as to find if there a correlation between the two indices.

²World Economic Forum (2008) *“The Global Competitiveness Report 2008-2009”*, World Economic Forum, Geneva, PP. 3; ISBN:92-95044-11-8
<https://books.google.gr/books?id=4vUJSSo182sC&pg=PP16&lpg=PP16&dq=According+to+the+World+Economic+Forum+competitiveness+is+defined+as+the+set+of+institutions,+policies,+and+factors+that+determine+the+level+of+productivity+of+a+country+%28World+Economic+Forum,+2008%29.&source=bl&ots=DSeJT4vcBb&sig=tErtMBdxqQ2OYzHsrUTYN2aFdo&hl=en&sa=X&ei=dtOiVePdCoGE7gaz26COAQ&ved=oCDwQ6AEwBA#v=onepage&q=According%20to%20the%20World%20Economic%20Forum%20competitiveness%20is%20defined%20as%20the%20set%20of%20institutions%2C%20policies%2C%20and%20factors%20that%20determine%20the%20level%20of%20productivity%20of%20a%20country%20%28World%20Economic%20Forum%2C%202008%29.&f=false>

³ Augusto Lopez Claros (2015), “Doing Business in 2015” World Bank Group, Washington, DC, PP.1-21
<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Methodology/DB2016-Methodology-Expansion-Presentation.pdf>

3. Theoretical explanations

Georgia is a country in the Caucasus region of Eurasia. Located at the crossroads of Western Asia and Eastern Europe. The country is bounded to the west by the Black Sea (Global Investment & Business Central, USA; pp.9)⁴, to the north by Russia, to the south by Turkey and Armenia, and to the southeast by Azerbaijan. The exclaves of Abkhazia and South Ossetia are under Russian military occupation. 'Georgia covers a territory of 69,700 square kilometres (26,911 sq mi), and its population is almost 5 million'⁵.



Generally, as it is known, Georgia became independent in 1991, Georgia encountered problems such as ethnic conflicts and civil war. During the 1992-1995 periods, Georgian economy was in a very poor situation. Therefore, the country had no choice but to carry out swift and radical economic reforms, the gradual implementation of which significantly improved the situation, but failed to yield desired results, especially in terms of decreasing unemployment and poverty levels. The goals set out in existing strategic and programmatic documents, whose stated aim was to significantly reduce poverty and unemployment, remain largely unachieved. Addition to that as a result of analysis, weak competitiveness of the private sector, weak development of human capital and limited access to finances were identified as the critical problems hindering economic development.

However starting from 1995, Georgian economy began to show development signs. During last decade Georgia was in the permanent process of the development of new legislative framework (Europa Publishers,2004; pp.305)⁶. The government that came to power in Georgia after the 2003 Rose Revolution implemented a number of reforms that successfully, and remarkable increases in the economy with the Saakashvili government, due to the introduction of a political and economic stabilization program, which involved the strengthening of central authority, decline of crime rates and acceleration of privatization (Andghuladze, 2008; P.31)⁷.

⁴ Global Investment & Business Central (2013) "Georgia Country Study Guide -Strategic Information and Developments", Global Investment Central, USA, pp. 9; ISBN 1-43877443-5

<https://books.google.gr/books?id=hQWWBQAAQBAJ&pg=PA191&dq=Large+inflows+of+FDI+have+been+a+driving+factor+behind+rapid+economic+growth+in+Georgia+since+2003.&hl=en&sa=X&ei=xmSjVcecD8bT7QbWu6HwCQ&ved=0CCgQ6AEwAA#v=onepage&q=Large%20inflows%20of%20FDI%20have%20been%20a%20driving%20factor%20behind%20rapid%20economic%20growth%20in%20Georgia%20since%202003.&f=false>

⁵ http://en.wikipedia.org/wiki/Georgia_%28country%29

⁶ Europa Publishers (2004) "The Europa World Year Book", London, England ;: ISBN1-85743-253-3

https://books.google.gr/books?id=wGA4oUhAfgC&pg=PA305&dq=During+last+decade+Georgia+was+in+the+permanent+process+of+the+development+of+new+legislative+framework.&hl=en&sa=X&redir_esc=y#v=onepage&q=During%20last%20decade%20Georgia%20was%20in%20the%20permanent%20process%20of%20the%20development%20of%20new%20legislative%20framework.&f=false

⁷ This data Based on : S. Tamer Cavusgil, Gary Knight, John R. Riesenberger (2008) "International Business Strategy, Management, and the New Realities", United States of America , Chapter FDI : ISBN-13: 978-0-13-173860-7
<https://my.ug.edu.ge/ug/ci/public/pdf/iCJSS.pdf>

The global finance crisis in 2008 and 2009 have been affected the countries in Eastern Europe and South Caucasus (EESC); (OECD, 2011; pp.25)⁸, ‘especially Georgia’, leading to reduced investment, especially from abroad. However the state government and the business community in Georgia have worked together to grow the economy and create a high quality of life; as a result of that partnership, Georgia has been the economic leader of the South, one with an enviable logistics system, top tier research universities world class technical education, a robust agricultural sector, abundant natural resources and a positive global reputation—all of which contribute to our ability to attract, retain and grow both jobs and investment⁹. Therefore, the ensuing recession highlighted the need for the administration to focus on the structural elements of the economy, building on the successes already achieved in reforming the business environment.

According to the *Global Competitiveness Report* for the last 5 years; In year 2014-2015 the World Economic Forum ranked Georgia 69th among 144 countries (World Economic Forum,2014-2015) (72nd 2013-2014, 77th 2012-2013, 88th place in 2011-2012 and 90th in 2009-2010); (GCI, 2009-2015).

According to Global Competitiveness Index - (GCI) in Georgia, the ranks of the 12 pillars in year **2014/2015**, were as the following (GCI, 2014; pp.188)¹⁰:

Institutions	Infrastructure	Macro-economics	Health & Primary Education	Higher education & training	Goods market efficiency	Labor market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
48	59	48	63	92	60	41	76	67	103	113	121

In this paper, will describe comprehensively, the Global Competitiveness Index- (GCI) in Georgia, from 2002/2003 until 2014/2015. After that we will analyse the situation in every pillar by focusing on the result of last year, as well as give the reasons and explanation as well as recommendation.

On the other hand, the Black Sea is a region of vital interest to the foreign investor, because Georgia is a country that has many opportunities (natural resources and agribusiness sectors, infrastructure development, telecommunications and energy) for attracting FDI (Tea Kbiltsetskhlashvili, 2010; P.29)¹¹. Therefore, Georgia’s business regulatory environment has on the amount of foreign direct investment it attracts. And an attractive and liberal investment environment and an equal approach to local and foreign investors make the country an attractive destination for foreign direct investment

⁸ OECD (2011) “Competitiveness and private Sector Development: Eastern Europe and South Caucasus”, Pascal ISBN: 978-92-64-11231-5 <https://books.google.gr/books?id=AdTRyJoQ5SgC&pg=PA50&dq=Georgia+Competitiveness&hl=en&sa=X&ei=rAmIVdaHFszTUZbQgIgB&ved=0CCMQ6AEwAQ#v=onepage&q=Georgia%20Competitiveness&f=false>

⁹ Based on: <http://www.georgiacompetitiveness.org/>

¹⁰ This data Based on : World Economic Forum (2014) “The Global Competitions report 2014-2015”, World Economic Forum Geneva, Switzerland, pp. 188 ;ISBN-13: 978-92-95044-98-2 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

¹¹ İhsan Günaydın and Hilmi Erdoğan Yayla (2010) “What Others Manifest? The World Economy in the Theoretical Turbulence of Global Financial Crisis”, Gümüşhane University Press, Turkey, pp. 29 ; ISBN 978-605-61345-0-0 <http://icibe.gumushane.edu.tr/belgeler/papers.pdf>

(FDI). Large inflows of FDI have been a driving factor behind rapid economic growth in Georgia since 2003 (Global Investment & Business Central, USA; pp.191)¹².

Doing Business provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Other key factors which contribute to ensuring Georgia offers a solid base for successful businesses are (UHY, 2013; pp.1-26)¹³:

- (1) A stable economic development;
- (2) A liberal and free market-oriented economic policy;
- (3) The existence of only six taxes and reduced tax rates;
- (4) A reduced number of licences and permissions;
- (5) Dramatically simplified administrative procedures;
- (6) Preferential trade regimes with foreign countries;
- (7) An advantageous geographic location;
- (8) Well-developed, integrated and multimodal transport infrastructure;
- (9) An educated, skilled and competitive workforce.

From 2003–2011, FDI in Georgia amounted to USD 8 511.5 million. The highest volume of FDI – USD 2,015 million – was attained in 2007, with a 69.3% yearly growth. The high rate of investment was maintained until 2008 and then in 2009, FDI inflows were characterised by a decreasing trend. The main reasons for this decrease were the Russian-Georgian war and the global financial crisis. In 2009–2011, the largest shares of FDI were in the industrial sector (31.2%) amounting to USD 765 billion and in the real estate sector (15.8%) amounting to USD 389 billion. Georgia undertook a number of profound institutional reforms aimed at modernising the economy and improving the business climate. Such institutional reforms created an effective, professional and transparent public sector, which is motivated to protect the principles of democracy.

Addition to that, according to *Doing Business database*, the rankings are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking (World Bank Group, 2015; pp.6)¹⁴.

¹² Global Investment & Business Central (2013) "Georgia Country Study Guide -Strategic Information and Developments", Global Investment Central, USA, pp. 191; ISBN 1-43877443-5
<https://books.google.gr/books?id=hQWWBQAAQBAJ&pg=PA191&dq=Large+inflows+of+FDI+have+been+a+driving+factor+behind+rapid+economic+growth+in+Georgia+since+2003.&hl=en&sa=X&ei=xmSjVcecD8bT7QbWu6HwCQ&ved=0CCgQ6AEwAA#v=onepage&q=Large%20inflows%20of%20FDI%20have%20been%20a%20driving%20factor%20behind%20rapid%20economic%20growth%20in%20Georgia%20since%202003.&f=false>

¹³ Based on: UHY ARG Group (2013) "Doing Business in Georgia", Tbilisi, 0160, Georgia, pp.1-26; <http://www.uhy.com/wp-content/uploads/Doing-Business-in-Georgia.pdf>

¹⁴ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, pp.6 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

Georgia ranked 15 out of 189, and comparing Georgia with the Regional Average, Georgia has better performance; Georgia distance score is 79.46, however the average of the region scored 66.67 (World Bank Group, 2015; pp. 8)¹⁵. And the results of 10 pillars of Easy Doing Business- EDB’ in 2015, as the following table:

Starting a business	Dealing with construction permits	Getting electricity	Registering Property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
5	3	37	1	7	43	38	33	23	122

Nowadays, Georgia’s reputation as a business-friendly state has been demonstrated through both past economic success and numerous national rankings and accolades.

¹⁵ World Bank Group (2015) *Doing Business 2015 – Economic Profile 2015 Georgia*, The World Bank, Washington, pp.8 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

4. Methodology

Following our introduction, I mentioned that we are going to use two indexes in order to clarify and analysis the competitiveness as well as how ease doing business? In Georgia. Therefore our methodologies for the two indexes as the following:

➤ **Global Competitiveness Index - GCI**

As it is known that, the World Economic Forum has been studying the competitiveness of nations for nearly three decades. Since 1979, annual Global Competitiveness Reports have examined the factors enabling national economies to achieve sustained economic growth and long-term prosperity (World Economic Forum, 2008; pp.3)¹⁶.

In 2004 the World Economic Forum introduced the Global Competitiveness Index (GCI), a highly comprehensive index for measuring national competitiveness, taking into account the microeconomic and macroeconomic foundations of national competitiveness the Global Competitiveness Index (GCI) captures many of these determinants by including a weighted average of many different components, each measuring a different aspect of competitiveness¹⁷.

At the same time, these components are grouped into 12 pillars of economic competitiveness since 2007/8 (into 9 pillars in previous years). Each component is analyze d to thematic topics (research queries) based on studies (Executive Opinion Surveys) which are conducted yearly.

The concept of competitiveness thus involves static and dynamic components. Although the productivity of a country determines its ability to sustain a high *level* of income, it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's *growth potential*.

→ Under this index, the process of economic development evolves in three stages captured by the model (World Economic Forum, 2006)¹⁸:

1. **“Factor-driven stage”** Firms compete in prices, taking advantage of cheap factors.
2. **“Efficiency-driven stage”** Efficient production practices to increase productivity.



¹⁶ World Economic Forum (2008) *“The Global Competitions report 2008-2009”*, World Economic Forum Geneva, Switzerland, pp.3: ISBN13:978-92-95044-11-1 https://books.google.gr/books?id=4vUJSSo182sC&pg=PP16&lpq=PP16&dq=Since+1979,+annual+Global+Competitiveness+Reports+have+examined+the+factors+enabling+national+economies+to+achieve+sustained+economic+growth+and+long-term+prosperity.&source=bl&ots=DSeJT8wdEa&sig=KuEH9FqP8r17e9bUkdEvAeaXvc8&hl=en&sa=X&redir_esc=y#v=onepage&q=Since%201979%2C%20annual%20Global%20Competitiveness%20Reports%20have%20examined%20the%20factors%20enabling%20national%20economies%20to%20achieve%20sustained%20economic%20growth%20and%20long-term%20prosperity.&f=false

¹⁷ World Economic Forum (2008) *“The Global Competitions report 2008-2009”*, World Economic Forum Geneva, Switzerland, pp.13 Based on: http://debaty.org/docs/metodologia2008_ENG.pdf

¹⁸ Based on: World Economic Forum (2006) *“The Global Information Technology Report”*, World Economic Forum, Harvard University, Centre for International Development.

3. “*Innovation-driven stage*” Economies need to produce innovative products using sophisticated production methods.

In line with the economic theory of stages of development, the GCI assumes that economies in the first stage are mainly factor-driven and compete based on their factor endowments-primarily low-skilled labor and natural resources. Companies compete on the basis of price and sell basic products with their low productivity reflected in low wages. At this stage productivity is driven by pillars 1,2,3, and 4 (A. Kakouris, H. Fulford, 2013; pp.38)¹⁹.

As a country becomes more competitive, productivity will increase and wages will rise with advancing development. Countries will then move into the efficiency-driven stage of development, when they must begin to develop more efficient production processes and increase product quality. At this stage, competitiveness is increasingly driven by pillars 5, 6, 7, 8, 9, and 10 (World Economic Forum,2014)²⁰.

Finally, as countries move into the innovation-driven stage, wages will have risen by so much that they are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete with new and/or unique products, services, models, and processes. At this stage, competitiveness is driven by pillars 11 and 12 (World Economic Forum, 2014)²¹.

→ *How is the stage of development decided for each country?*

As it is known, there are two criteria used to allocate countries into stages of development (World Economic Forum, 2009; pp.8)²².

(1) The first criterion is the *level of GDP per capita at market exchange rates*: This widely available measure is used as a proxy for wages, as internationally comparable data for the latter are not available for all countries covered.

Stage of Development	GDP per capita (in US\$)
Stage 1: Factor driven	< 2,000
Transition from stage 1 to stage 2	2,000–3,000
Stage 2: Efficiency driven	3,000–9,000
Transition from stage 2 to stage 3	9,000–17,000
Stage 3: Innovation driven	> 17,000

¹⁹ Based on: A. Kakouris, H. Fulford (2013) “*Proceedings of Education and Learning Issues in Entrepreneurship Workshop*”, National and Kapodistrian University of Athens, Greece, pp.38; ISBN: 978-960-466-126-8
https://books.google.gr/books?id=cJXvzEa77awC&pg=PA38&lpg=PA38&dq=In+line+with+the+economic+theory+of+stages+of+development,+the+GCI+assumes+the+t+economies+in+the+first+stage+are+mainly+factor-driven+and+compete+based+on+their+factor+endowments-primarily+low-skilled+labor+and+natural+resources.&source=bl&ots=nvuQUUagH&sig=aOPf8JZBpIA5XXvCuWoHSNF25w&hl=en&sa=X&redir_esc=y#v=onepage&q=In%20line%20with%20the%20economic%20theory%20of%20stages%20of%20development%2C%20the%20GCI%20assumes%20that%20economies%20in%20the%20first%20stage%20are%20mainly%20factor-driven%20and%20compete%20based%20on%20their%20factor%20endowments-primarily%20low-skilled%20labor%20and%20natural%20resources.&f=false

²⁰ Based on: World Economic Forum (2006) http://www3.weforum.org/docs/GCR2014-15/GCR_Chapter1.1_2014-15.pdf

²¹ Based on: World Economic Forum (2006) http://www3.weforum.org/docs/GCR2014-15/GCR_Chapter1.1_2014-15.pdf

²² Based on: World Economic Forum (2009) “*The Global Competitions report 2009-2010*”, World Economic Forum Geneva, Switzerland, pp.8; ISBN13:978-92-95044-25-8
https://books.google.gr/books?id=qsP_uVTHOIC&pg=PP21&dq=there+are+two+criteria+used+to+allocate+countries+into+stages+of+development.&hl=en&sa=X&redir_esc=y#v=onepage&q=there%20are%20two%20criteria%20used%20to%20allocate%20countries%20into%20stages%20of%20development.&f=false

(2) The second criterion measures the *extent to which countries are factor driven*: We proxy this by the share of exports of primary goods in total exports (goods and services) and assume that countries that export more than 70 percent of primary products are to a large extent factor driven; (measured using a five-year average) are to a large extent factor driven.

→ *Global Competitiveness Index with 12 pillars of Competitiveness, with more details:*

The GCI captures this open-endedness by providing a weighted average of many different components, each of which reflects one aspect of the complex reality that we call competitiveness; these components in 12 different pillars that we call the 12 pillars of Competitiveness²³.



These pillars are:

- 1- **Institutions:** The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate income and wealth in the economy. Addition to that the quality of institutions has a strong influence on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies (Robin Ramcharan, 2013; pp.8)²⁴.
- 2- **Infrastructure:** The existence of high-quality infrastructure is critical for ensuring the efficient functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in an economy²⁵. On the other hand, high-quality infrastructure reduces the effect of distance between regions, with the result of truly integrating the national market and connecting it to markets in other countries and

²³ Zhuplev, Anatoly (2014) "Geo-Regional Competitiveness in Central and Eastern Europe, the Baltic Countries, and Russia", United States of America, pp.168; ISBN:978-1-4666-6057-1 https://books.google.gr/books?id=8BOXBQAAQBAJ&pg=PA168&dq=The+GCI+captures+this+open-endedness+by+providing+a+weighted+average+of+many+different+components,+each+of+which+reflects+one+aspect+of+the+complex+reality+that+we+call+competitiveness%3B+these+components+in+12+different+pillars+that+we+call+the+12+pillars+of+Competitiveness.&hl=en&sa=X&redir_esc=y#v=onepage&q=The%20GCI%20captures%20this%20open-endedness%20by%20providing%20a%20weighted%20average%20of%20many%20different%20components%2C%20each%20of%20which%20reflects%20one%20aspect%20of%20the%20complex%20reality%20that%20we%20call%20competitiveness%3B%20these%20components%20in%2012%20different%20pillars%20that%20we%20call%20the%2012%20pillars%20of%20Competitiveness.&f=false

²⁴ Robin Ramcharan (2013) "International Intellectual Property Law and Human Security", Alliance University, India, pp.8; ISBN: 978-90-6704-889-6 https://books.google.gr/books?id=ucHwD62u14C&pg=PA8&lpg=PA8&dq=It+influences+investment+decisions+and+the+organization+of+production+and+plays+a+key+role+in+the+ways+in+which+societies+distribute+the+benefits+and+bear+the+costs+of+development+strategies+and+policies.&source=bl&ots=1sWY0R5GLn&sig=zj3pnZLuGIPRnEncBJRmfNGb38Q&hl=en&sa=X&redir_esc=y#v=onepage&q=It%20influences%20investment%20decisions%20and%20the%20organization%20of%20production%20and%20plays%20a%20key%20role%20in%20the%20ways%20in%20which%20societies%20distribute%20the%20benefits%20and%20bear%20the%20costs%20of%20development%20strategies%20and%20policies.&f=false

²⁵ Based on: <http://dwiarianto.blogspot.gr/2008/02/12-pillars-of-competitiveness.html>

regions; Extensive and high-quality infrastructure is an essential driver of competitiveness, significantly impacting economic growth and reducing income inequalities and poverty in a variety of ways. Infrastructure is: modes of transport, including quality roads, railroads, ports, and air transport, telecommunication networks and electricity supplies (World Economic Forum, 2009)²⁶.

- 3- **Macro-economy:** As it is known, the stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country. Although it is certainly true that macroeconomic stability alone cannot increase the productivity of a nation, it is not less true that macroeconomic disarray harms the economy²⁷. On the other hand, the government cannot provide services efficiently if it has to make enormous interest payments on its past debts. In sum, the economy cannot grow unless the macro environment is stable or favourable. In other words; for example, running fiscal deficits limits the government's future ability to react to business cycles (Labonte, 2010)²⁸. Also, firms cannot operate efficiently when inflation rates are volatile.
- 4- **Health and primary education:** Healthy workforce is vital to a country's competitiveness and productivity. Workers who are sick cannot function to their potential and are less productive. On the other hand Poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency. In addition to health, this pillar takes into account the quantity and quality of basic education received by the population, which is increasingly important in today's economy. Basic education increases the efficiency of each individual worker, making the economy more productive (World Economic Forum, 2008; pp.4)²⁹.
- 5- **Higher education and training:** Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products³⁰. This pillar measures secondary and tertiary enrolment rates, as well as, the quality of education as evaluated by the business community. At the same time, the extent of staff training is also taken into consideration because of the importance of vocational and continuous on-the-job training - which is neglected in many economies - for ensuring a constant upgrading of workers' skills (World Economic Forum, 2009; pp.5)³¹.

²⁶ Based on: World Economic Forum (2009) *"The Global Competitions report 2009-2010"*, World Economic Forum Geneva, Switzerland: ISBN13:978-92-95044-25-8 https://books.google.gr/books?id=qsP_uVTHOIC&pg=PP21&dq=there+are+two+criteria+used+to+allocate+countries+into+stages+of+development.&hl=en&sa=X&edit_esc=y#v=onepage&q=there%20are%20two%20criteria%20used%20to%20allocate%20countries%20into%20stages%20of%20development.&f=false

²⁷ Based on: <http://reports.weforum.org/global-competitiveness-report-2014-2015/methodology/>

²⁸ Marc Labonte (2010) *"CRS Report for Congress Prepared for Members and Committees of Congress The Size and Role of Government: Economic Issues"* CRS Report for Congress, Congressional Research Service 7-5700 ;RL32162; <https://www.fas.org/sgp/crs/misc/RL32162.pdf>

²⁹ World Economic Forum (2008) *"The Global Competitiveness Report 2008-2009"*, World Economic Forum, Geneva, PP. 4; ISBN:92-95044-11-8 <https://books.google.gr/books?id=4vUJSSo182sC&pg=PP16&lpg=PP16&dq=According+to+the+World+Economic+Forum+competitiveness+is+defined+as+the+set+of+institutions,+policies,+and+factors+that+determine+the+level+of+productivity+of+a+country+%28World+Economic+Forum,+2008%29.&source=bl&ots=DSeJT4vcBb&sig=1ErtMBdxqQ2OYzHsrUTYN2aFdo&hl=en&sa=X&ei=dtOivPdCoGE7gaz26CQAQ&ved=oCDwQ6AEwBA#v=onepage&q=According%20to%20the%20World%20Economic%20Forum%20competitiveness%20is%20defined%20as%20the%20set%20of%20institutions%2C%20policies%2C%20and%20factors%20that%20determine%20the%20level%20of%20productivity%20of%20a%20country%20%28World%20Economic%20Forum%2C%202008%29.&f=false>

³⁰ See as an example of a private sector-led initiative the "Wirtschaftsinitiative für Mitteldeutschland" in eastern Germany (Fear and Ketels 2006).

³¹ Based on: World Economic Forum (2009) *"The Global Competitions report 2009-2010"*, World Economic Forum Geneva, Switzerland: ISBN13:978-92-95044-25-8 https://books.google.gr/books?id=qsP_uVTHOIC&pg=PP21&dq=there+are+two+criteria+used+to+allocate+countries+into+stages+of+development.&hl=en&sa=X&edit_esc=y#v=onepage&q=there%20are%20two%20criteria%20used%20to%20allocate%20countries%20into%20stages%20of%20development.&f=false

- 6- Goods market efficiency: Healthy market competition, both domestic and foreign, is important in driving market efficiency and thus business productivity, by ensuring that the most efficient firms, producing goods demanded by the market, are those that survive. The countries which have efficiency in goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy. Addition to that Market efficiency also depends on demand conditions such as customer orientation and buyer sophistication (World Economic Forum, 2011; pp.7)³².

- 7- Labor market efficiency: As it is known, the efficiency and flexibility of the labour market are critical for ensuring that workers are allocated to their most efficient use in the economy, as well as are provided with incentives to give their best effort in their jobs. On the other hand, Labour markets must have the flexibility to shift workers from one economic activity to another rapidly and at low cost, and to allow for wage fluctuations without much social disruption (Management Association, Information Resources, 2012; pp.1479)³³. Also, efficient labour markets must ensure a clear relationship between worker incentives and their efforts, as well as equity in the business environment between women and men.

- 8- Financial market sophistication: An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses. Therefore, economies require sophisticated financial markets that can make capital available for private-sector investment from such sources as loans from a sound banking sector, properly regulated security exchanges, venture capital and other financial products. Addition to that, a proficient financial sector channels resources to the best entrepreneurs or investment projects rather than to the politically connected. A thorough assessment of risk is therefore a key ingredient. A modern financial sector develops products and methods so that small innovators with good ideas can implement them (World Economic Forum, 2008; pp.8)³⁴.

- 9- Technological readiness: This pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage information and communication technologies (ICT) in daily activities and production processes for increased efficiency and competitiveness.

³² Based on: World Economic Forum (2011) "The Global Competitiveness Report 2011-2012 ", World Economic Forum, Geneva, Switzerland, pp.7; ISBN-13: 978-92-95044-74-6 http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

³³ Management Association, Information Resources (2012) "Geographic Information Systems: Concepts, Methodologies, Tools, and Applications: Concepts, Methodologies, Tools, and Applications" United States of America, pp.1479; ISBN: 9781466620391

³⁴ World Economic Forum (2008) "The Global Competitiveness Report 2008-2009", World Economic Forum, Geneva, PP. 5; ISBN:92-95044-11-8 <https://books.google.gr/books?id=4vUJSSo182sC&pg=PP16&lpg=PP16&dq=According+to+the+World+Economic+Forum+competitiveness+is+defined+as+the+set+of+institutions,+policies,+and+factors+that+determine+the+level+of+productivity+of+a+country+%28World+Economic+Forum,+2008%29.&source=bl&ots=DSelT4vcBb&sig=1ErtMBdxqQzOYzHsrTYN2aFdo&hl=en&sa=X&ei=dtOivPdCoGE7gaz26CQAQ&ved=0CDwQ6AEwBA#v=onepage&q=According%20to%20the%20World%20Economic%20Forum%20competitiveness%20is%20defined%20as%20the%20set%20of%20institutions%2C%20policies%2C%20and%20factors%20that%20determine%20the%20level%20of%20productivity%20of%20a%20country%20%28World%20Economic%20Forum%2C%202008%29.&f=false>

ICT access and usage are key enablers of countries' overall technological readiness. In particular, considering that ICT has evolved into the "general purpose technology" of our time, ICT access and usage become fundamental to determine economies' overall level of technological readiness, given the critical spill overs of ICT to the other economic sectors and its role as efficient infrastructure for commercial transactions (World Economic Forum, 2010; pp.7)³⁵.

10- Market size: The size of the market affects productivity because large markets allow firms to exploit economies of scale. There is vast empirical evidence showing that trade openness is positively associated with growth. Thus, exports can be considered as a substitute for domestic demand in determining the size of the market for the firms of a country.

As the same time, by including both domestic and foreign markets in this pillar, it is given credit to export-driven economies and geographic areas (such as the EU) that are broken into many countries but have a single common market (World Economic Forum, 2012; pp.7)³⁶

11- Business sophistication: Business sophistication is conducive to higher efficiency in the production of goods and services. This leads, in turn, to increased productivity, thus enhancing a nation's competitiveness. At the same time, Business sophistication concerns the quality of a country's overall business networks, as well as the quality of individual firms' operations and strategies. This pillar is particularly important for economies in the innovation-driven stage of development, and it measures the quality of a country's business networks and supporting industries, as measured by the quantity and quality of local suppliers and the extent of their interaction (World Economic Forum, 2012; pp.7)³⁷.

12- Innovation: Innovation is important for economies as they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tend to disappear. Therefore, although substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving the human capital of the population, all these factors eventually seem to run into diminishing returns. On the other hand, although less-advanced countries can still improve their productivity by adopting existing technologies or making incremental improvements in other areas, for countries that have reached the innovation stage of development, this is no longer sufficient to increase productivity (World Economic Forum, 2014)³⁸.

³⁵ Based on: World Economic Forum (2010) "The Global Competitions report 2010-2011", World Economic Forum Geneva, Switzerland, pp.7 : ISBN 13: 978-92-95044-87-6 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

³⁶ Based on: World Economic Forum (2012) "The Global Competitiveness Report 2012-2013 ", World Economic Forum, Geneva, Switzerland, pp.7; ISBN- 13: 978-92-95044-35-7 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

³⁷ Based on: World Economic Forum (2012) "The Global Competitiveness Report 2012-2013 ", World Economic Forum, Geneva, Switzerland, pp.7; ISBN- 13: 978-92-95044-35-7 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

³⁸ This data Based on : World Economic Forum (2014) "The Global Competitions report 2014-2015", World Economic Forum Geneva, Switzerland ;ISBN-13: 978-92-95044-98-2 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

→ *What is the scale of Global Competitiveness Index³⁹?*

For the estimation of the overall *Global Competitiveness Index -GCI* score of each economy, initially, countries are classified according to the stage of economic development. Then, the score in every pillar is adjusted according to the weights attributed to each stage of economic development.

Pillars of competitiveness are grouped into 3 factor groups. Pillars are measured by the scores from 0 to 7, components by the scores from 0 to 100.

From 5.45 to 7 score (very high indicator)

From 4.51 to 5.44 score (high indicator)

From 3.51 to 4.50 score (Middle indicator)

From 3.01 to 3.50 score (low indicator)

From 0 To 3 score (very low indicator)

In other words, each country gets a score in each pillar, in a scale of 1 (minimum) to 7 (maximum). The 1 reflects the worst performance, while 7 reflects the best performance.

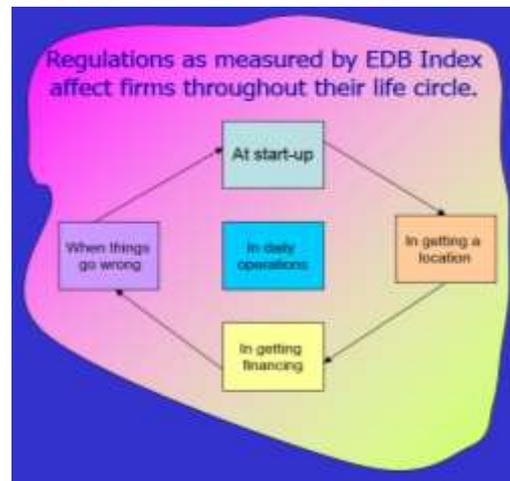
The overall GCI score for each country is calculated as the average of the scores in the 12 pillars. This overall score reflects the overall performance of the economy in terms of competitiveness.

An economy with an overall GCI score close to 7 means high competitiveness, while a score close to 1 means low competitiveness.

➤ **Easy Doing Business-EDB**

The *Doing Business* project, initiated by the World Bank in 2003⁴⁰. It looks at domestic small and medium-size (sms) companies that are the engines of growth and job creation for most economies around the world and measures the efficiency, accessibility and simplicity of regulations applying to them through their life cycle.

At the same time, a fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the cost of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse (Doing Business, 2009; pp. V)⁴¹.



³⁹ Based on: http://www.economy.ge/uploads/ek_ciprebshi/reitingebi/reitingebi_eng/gci.pdf

⁴⁰ Based on: <http://www.doingbusiness.org/about-us>

⁴¹ Based on: World Bank Group (2009) "*Doing Business 2010- Reforming through difficult times*", World Bank, Washington, DC 20433, pp. V; ISBN:978-0-8213-7961-5 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB10-FullReport.pdf>

The objective is: regulations designed to be efficient in their implementation, to be accessible to all who need to use them and to be simple in their implementation. On the other hand, the *EDB Index* does not measure all aspects of the business environment that matter to firms or investors - or all factors that affect competitiveness (Doing Business measures)⁴².

It does not account, for example, for an economy's proximity to large markets, the strength of its financial system, the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions.

→ *What are the 10 Pillars of Ease of Doing Business Index?*

1- Starting a business:

The data on starting a business are based on a survey and research investigating the procedures that a standard sms company needs to complete to start operations legally.

These include obtaining all necessary permits and licenses and completing all required inscriptions, verifications and notifications with authorities to enable the company to formally operate⁴³.



The time and cost required to complete each procedure under normal circumstances are calculated, as well as the minimum capital that must be paid in.

It is assumed that all information is readily available to the entrepreneur, that there has been no prior contact with officials and that all government and non-government entities involved in the process function without corruption (Veland Ramadani, Robert C Schneider , 2013) ⁴⁴.

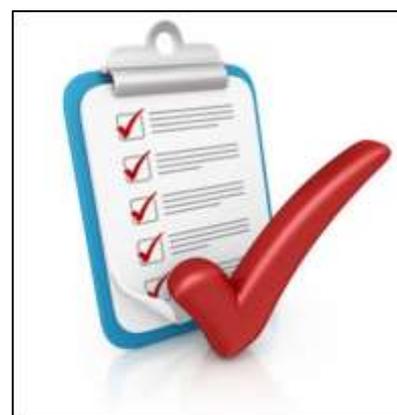
⁴² Based on: <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-Chapters/About-Doing-Business.pdf>

⁴³ Based on: <https://www.mcc.gov/pages/selection/indicator/business-start-up-indicator>

⁴⁴ Veland Ramadani, Robert C Schneider (2013) *Entrepreneurship in the Balkans: Diversity, Support and Prospects*, New York Dordrecht London, ISBN 978-3-642-36577-5

2- Dealing with construction permits:

The indicators on dealing with licenses record all procedures officially required for an entrepreneur in the construction industry to build a warehouse. These include submitting project documents (building plans, site maps) to the authorities, obtaining all necessary licenses and permits, completing all required notifications and receiving all necessary inspections (World Bank Group, 2014)⁴⁵.



Also, the indicators include procedures for obtaining utility connections, such as electricity, telephone, water and sewerage. The time and cost to complete each procedure under normal circumstances are calculated.

All official fees associated with legally completing the procedures are included. Time is recorded in calendar days. The survey assumes that the entrepreneur is aware of all existing regulations and does not use an intermediary to complete the procedures, unless required to do so by law.

3- Getting electricity:

Doing business measures the procedures, time and cost for a small business to get a new electricity connection for a standardized warehouse with standardized electricity needs. The warehouse is assumed to be located in the largest business city, in an area where electricity is most easily available. Around the world, electricity connections are provided by distribution utilities that often retain



monopolistic positions even in otherwise liberalized electricity markets. As a result, businesses and other customers have little choice (World Bank Group, 2015; pp.29)⁴⁶.

Studies have shown that poor electricity supply adversely affects the productivity of firms and the investments they make in their productive capacity. Researchers estimate that eliminating the electricity outages in Eastern Europe and Central Asia would increase GDP by 0.5%. It is therefore, essential for businesses to have reliable, good-quality electricity supply (World Bank Group, 2014)⁴⁷.

⁴⁵ Based on: <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

⁴⁶ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 29 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

⁴⁷ Based on: <http://www.doingbusiness.org/data/exploretopics/getting-electricity/why-matters>

4- Registering property (World Bank Group, 2012)⁴⁸:

Doing Business measures the ease of registering property based on a standard case of an entrepreneur who wants to purchase land and a building in the largest business city.

It is assumed that the property is already registered and free of title dispute. The data cover the full sequence of procedures necessary to transfer the property title from the seller to the buyer i.e. number of procedures to register property, time to register property (in calendar days) and official costs to register property (as a percentage of the property value) .



Every required procedure is included, whether it is the responsibility of the seller or the buyer or must be completed by a third party on their behalf.

5- Getting credit:

Credit registries—institutions that collect and distribute credit information on borrowers—can greatly expand access to credit. By sharing credit information, they help lenders assess risk and allocate credit more efficiently. Also, credit registries, free entrepreneurs from having to rely on personal connections alone when trying to obtain credit. Three indicators are constructed to measure the sharing of credit information⁴⁹:



(i) *Public registry coverage*, which reports the number of individuals and firms covered by a public credit registry as a percentage of the adult population.

(ii) *Private bureau coverage*, which reports the number of individuals and firms covered by a private credit bureau as a percentage of the adult population.

(iii) *Depth of credit information index*, which measures the extent to which the rules of a credit information system facilitate lending based on the scope of information distributed, the ease of access to information and the quality of information.

⁴⁸ Based on : <http://www.doingbusiness.org/reports/global-reports/-/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB12-Chapters/Registering-Property.pdf>

⁴⁹ Based on: <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1171488994713/3455847-1190819497139/dbsar2008credit.pdf>

6- Protecting investors (World Bank Group, 2013; pp. 1-3)⁵⁰:

The pillar measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The pillar distinguishes 3 dimensions of investor protections:

- (i) Approval and transparency of related-party transactions (extent of disclosure index),
- (ii) Liability of company directors for self-dealing (extent of director liability index),
- (iii) Shareholders' ability to obtain corporate documents before and during litigation (ease of shareholder suits index).



All indices range from 0 to 10, with higher values indicating more protections on greater disclosure.

→ More details

(i) The extent of disclosure index covers approval procedures, requirements for immediate disclosure to the public and shareholders of proposed transactions, requirements for disclosure in periodic filings and reports and the availability of external review of transactions before they take place.

(ii) The extent of director liability index covers the ability of investors to hold both (a) the director and the majority shareholder of a company and (b) the board of directors liable for damages, the ability to rescind the transaction, the availability of fines and jail time associated with self-dealing, the availability of direct or derivative suits and the ability to require the director to pay back his/her personal profits from the transaction.

(iii) The ease of shareholder suits index covers the availability of documents that can be used during trial, the ability of the investor to examine the defendant and other witnesses, shareholders' access to internal documents of the company, the appointment of an inspector to investigate the transaction and the standard of proof applicable to a civil suit against the directors.

⁵⁰ Based on: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-Chapters/protecting-minority-investors.pdf>

7- Paying taxes (World Bank Group, 2014)⁵¹:

This pillar records the taxes and mandatory contributions that a medium-size company must pay in a given year and also measures the administrative burden of paying taxes and contributions. It does this with 3 indicators:



(i) *Number of tax payments*, which takes into account the method of payment or withholding, the frequency of payment or withholding and the number of agencies involved for the standard case.

(ii) *Time*, which measures the hours per year necessary to prepare, file and pay the corporate income tax, value added or sales tax and labour taxes.

(iii) *Total tax burden*, which measures the amount of taxes payable by the company during the second year of operation. This amount, expressed as a percentage of commercial profit, is the sum of all the different taxes payable after accounting for various deductions and exemptions.

8- Trading across borders (World Bank Group, 2014)⁵²:

Countries that have efficient customs, good transport networks and fewer document requirements - making compliance with export and import procedures faster and cheaper - are more competitive globally.



(i) *Documents*, recorded include port filing documents, customs declaration and clearance documents, and official documents exchanged between the concerned parties.

(ii) *Time*, is recorded in calendar days, from start to finish of each procedure.

(iii) *Cost*, measures the fees levied on a 20-foot container in US \$. All the fees associated with completing the procedures to export or import the goods are included, such as costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or trade taxes.

⁵¹ Based on : <http://www.doingbusiness.org/data/exploretopics/paying-taxes>

⁵² Based on : <http://www.doingbusiness.org/methodology/trading-across-borders>

9- Enforcing contracts (World Bank Group, 2014)⁵³:

It tracks the efficiency of the judicial system in resolving a commercial dispute, (the seller business and the buyer business) following the step-by step evolution of a commercial sale dispute before local courts. Three indicators cover this pillar:



(i) *Number of procedures*, which includes all those that demand interaction between the parties or between them and the judge and the court officer.

(ii) *Time*, which counts the days from the moment that a plaintiff files the lawsuit in court until the moment of payment. Includes both days on which actions take place and the waiting periods between the actions.

(iii) *Cost*, which measures the official cost of going through court procedures, expressed as a percentage of the claim. Includes court costs, enforcements costs and attorney fees.

10- Resolving insolvency (former closing a business) (World Bank Group, 2014)⁵⁴:

Over the centuries economies have introduced a variety of legal mechanisms and institutions that allow lenders to recover their investment from the borrower without resorting to violence. Economies with good bankruptcy procedures are those that maximize the total value of recovered debt - to be divided among the debtor, the main creditors and possibly the shareholders - and make it possible to do so at a low cost. Economies with less efficient and more costly insolvency procedures generally have lower recovery rates.



This pillar measures the time, cost and outcome of insolvency proceedings involving domestic entities. The time required for creditors to recover their credit is recorded in calendar years. The cost of the proceedings is recorded as a percentage of the value of the debtor's estate. The recovery rate for creditors depends on whether the case study company emerges from the proceedings as a going concern or its assets are sold piecemeal.

⁵³ Based on : <http://www.doingbusiness.org/methodology/enforcing-contracts>

⁵⁴ Based on: <http://www.doingbusiness.org/methodology/resolving-insolvency>

5. Competitiveness in Georgia.

Georgia is one of the important cases concerning the Competitiveness issue. As it is known Georgia's economy over the last two years has performed very well. Addition to that prudent macroeconomic policies and structural reforms have resulted in robust growth rate, inflation in single digits, and significantly improved revenue to be undertaken while maintaining fiscal stability (IMF, 2006; pp. 9)⁵⁵. Additionally, Georgia has made substantial progress in creating a sound policy framework as well as the authorities strong record of accomplishment bodes, in order to implement the programs successfully.

As we have seen in our methodology, that since 2005 the GCI has been used by the world Economic Forum in its assessments of competitiveness. Therefore, according to the data

of Global Competitiveness Index –GCI, we are going to analyse the situation in Georgia from 2002/2003 until 2014/2015 regarding the competitiveness; keeping in mind that when overall of GCI score close to 7,00 means high competitiveness, while when the score close to 1,00 means low competitiveness.

The principles of national competitiveness have not been yet translated into concrete policy and legislative changes in Georgia, which is required to tackle the specific aspects of this model in a more effective way. Numerous reports provided by international organizations indicate an alarming inefficiency of institutional infrastructure, public policy, higher education and research institutions, which results in political crisis, economic instability, poverty, social disparity and brain-drain in Georgia (Ivaniashvili-Orbeliani George, 2009; pp. 80)⁵⁶.

Historically, the breakup of the Soviet Union brought a step in real GDP especially in Georgia, by most estimates the worst for any transition country. On the other hand, over the following decade the government succeeded in stabilizing price “Following early hyperinflation”, as well as in pricing liberalization, privatization of state-owned enterprises and a first phase of legal, fiscal and financial



⁵⁵ International Monetary Fund (2006) “Georgia: 2006 Article IV Consultation, Third Review under the Poverty”, IMF, Washington, D.C. 20431, pp.9; ISBN: 9781451880489 https://books.google.gr/books?id=sZ8RUzU_wUUC&pg=PA9&dq=Georgia+Competitiveness&hl=en&sa=X&ei=rAmIVdaHFszTUZhQgIgb&ved=0CB4Q6AEwAA#v=onepage&q=Georgia%20Competitiveness&f=false

⁵⁶ Ivaniashvili-Orbeliani George (2009) “Globalization and National Competitiveness of Georgia”, Caucasian Review of International Affairs, pp.80; Vol. 3 (1) http://www.cria-online.org/Journal/6/Done_Globalization%20and%20National%20Competitiveness%20of%20Georgia_Orbeliane.pdf

reform (OED, 2002)⁵⁷. In March 2003 the first thoughts about the European Neighbourhood Policy (ENP) were outlined by the European Commission in the ‘Communication on Wider Europe’ document (EC, 2004; pp.2)⁵⁸. It demonstrated the high priority that the Union accorded to shaping its future relations with its neighbours. On the other hand, ENP is an outcome of the Lisbon Strategy, which includes a variety of policy measures to enhance research, innovation and business development.

In **2003**, GCI did not have data regarding the Competitiveness in Georgia; however, since the Rose Revolution of 2003 the Georgian authorities have been pursuing a reform agenda aimed at transforming the country into a European democratic state. Addition to that, the implementation of the commitments in the areas of rule of law and independence of the judiciary would be important for the continued development of Georgia’s democratic institutions, at the same time to have Competitiveness in the institution, which is one of the basic Requirements to get increase the score of the Competitiveness (European Commission, 2014) ⁵⁹.

In early- **2004**, Georgia’s real exchange rate (RER) has started to appreciate; especially following years of steady weakening. At the same time, the county has witnessed very robust GDP growth rates, declining external indebtedness, and buyout demand in connection with its ambitions reform program. On the other hand, the course of the transition process, have experienced strong real exchange rate appreciation particularly in Central and Eastern Europe. As we can see from the graph that in 2004-2005 Georgia scored 3.14 in competitiveness. Therefore this appreciation did not always undermine the external competitiveness. However the real appreciation of the lari in **2004-2005** poses a threat to the external competitiveness of the Georgian economy; two recent competitiveness studies suggest that productivity of Georgia’s economy has been improved in 2004 -2005 cushioning the negative impact of the real appreciation on external competitiveness (IMF, 2006)⁶⁰.

In year **2005-2006**, the score of competitiveness in Georgia was 3.25, which shows that there is not real improvement relatively to the previous year. However, in 2005, the state of Georgia supports the Georgia Research Alliance (GRA) to bolster technology-based economic development by capitalizing on innovation research to increase the competitiveness; the goal of GRA is to help ensure that “Georgia will be ranked among the top in the nation with vibrant, sustainable, technology (OECD, 2007) ⁶¹. GRA succeed to manage a series of programmes; Addition to that, in the last past few years there has been noticeable increase in technology spending by the state government. So Georgia has made great studies in technology job growth over that last decade which helps to increase competitiveness.

⁵⁷ Jan Svejnar (2002) “Assistance to the Transition Economies: Were There Alternatives?”, The World Bank, Washington, D.C. ; <http://ieg.worldbank.org/Data/reports/svejnar.pdf>

⁵⁸ Commission Of The European Communities (2004) “Communication From The Commission, European Neighbourhood Policy, STRATEGY PAPER”, EU, pp.2 http://trade.ec.europa.eu/doclib/docs/2004/july/tradoc_117717.pdf

⁵⁹ Based on : European Commission (2014) “Implementation of the European Neighbourhood Policy in Georgia Progress in 2013 and recommendations for action”, Brussels, pp. 1-21; SWD(2014) 72 final; http://eeas.europa.eu/enp/pdf/2014/country-reports/georgia_en.pdf

⁶⁰ Based on : International Monetary Fund (2006) “Georgia: 2006 Article IV Consultation, Third Review under the Poverty”, IMF, Washington, D.C. 20431; ISBN: 9781451880489 https://books.google.gr/books?id=sZ8RUzU_wUC&pg=PA9&dq=Georgia+Competitiveness&hl=en&sa=X&ei=rAmIVdaHFszTUZbQgIgB&ved=0CB4Q6AEwAA#v=onepage&q=Georgia%20Competitiveness&f=false

⁶¹ Based on: OECD (2007) “OECD Reviews of Regional Innovation Competitive Regional Clusters National Policy Approaches: National Policy Approaches”, Paris, France, pp.324; ISBN: 978-92-64-03182-1 <https://books.google.gr/books?id=NMLVAgAAQBAJ&pg=PA335&dq=competitiveness+in+georgia+2005&hl=en&sa=X&ei=xPaLVYX7EImwUb2pg-gP&ved=0CB8Q6AEwAA#v=onepage&q=competitiveness%20in%20georgia%202005&f=false>

In **2006-2007**, the new Strategy of EU Paper which has been published, elaborated on these thoughts and laid foundation for the new policy as well as to increase the score of competitiveness of Georgia. It set out in concrete terms how the Union could work more closely with its neighbours to extend to them some of the benefits of enlargement. Today, the Commission provides an assessment of bilateral relations between the EU and Georgia, reflecting progress under the existing Partnership and Co-operation Agreement and describing the current situation in different areas including economic and social reforms that will create new opportunities for development and competitiveness (EECA 2004)⁶².

In addition to that on November 14 2006, the European Neighbourhood and Partnership Instrument (ENPI), the funding instrument of the ENP, which was launched, plays a crucial role in the development of a new innovation policy in Georgia (ENPI, 2005; pp. 1-17)⁶³. ENPI priorities “reflect the role of innovation systems in a country’s development”. At the same time, among other priorities, for instance, ENPI aims at facilitating the development of sound research and innovation policies in Georgia, which would help the country achieve and maintain sustainable economic growth and competitiveness.

Besides, some other ENPI priorities are indirectly relevant to the development of a national innovation system and strategy. Namely, they aim to improve the business environment, systematically review the reform strategy, reform the management system of education and science, and improve the quality of statistical data. Among the priorities included in the EU-Georgia Neighbourhood Policy Action Plan is the development of sound education, research and innovation policies in Georgia, which should help the country achieve and maintain sustainable economic growth. In particular (Ivaniashvili-Orbeliani George, 2007; pp. 8-10)⁶⁴:

- Develop a Research and Innovation policy directly relevant to the sustainable and equitable economic development policy objectives of Georgia;
- Further reform efforts in the field of education to promote human resources development;
- Foster co-operation with the aim of reforming higher education sector in the context of the Bologna Process;
- Reinforce participation of Georgian scientists/students/academics in international and exchange programmes;
- Encourage life-long and life-wide learning opportunities as well as further the reform efforts in the field of education, science and training to promote sustainable development of human resources and human capital;

⁶² EECA (2004) “Georgia-ICT Environment, Innovation Policies & International Cooperation EECA CLUSTER”, pp.16; http://ecaict.eu/images/uploads/pdf/EECA_counires_reports_NEW/ICT-Env_Inno-policies_and_Inter-coop_report_GEORGIA.pdf

⁶³ Based on: European Commission “European Neighbourhood and Partnership Instrument- Georgia NATIONAL INDICATIVE PROGRAMME 2007-2010”, pp. 1-17; http://ec.europa.eu/enp/pdf/financing-the-enp/georgia_national_indicative_programme_2007-2010_en.pdf

⁶⁴ Ivaniashvili, G. (2007) “Analyzing EU-Georgia Neighborhood Policy Action Plan: Modern Benchmarking Approaches to Knowledge Management and Innovations in Georgia”, (Norwegian Institute of International Affairs, pp. 8-10

The road from the past to the future should lead Georgia through the development and implementation of a strategy to improve the country's competitiveness.

Therefore, Georgia needs a strong strategic goal "a strategy of change and innovation" to be able to rise to the challenges of global competitiveness. A comprehensive multi-component plan of Georgia's strategic development should ultimately aim to bring the country's economic, political and social standards into line with Euro-Atlantic and EU norms (Ivaniashvili- Orbeliani George, 2007; pp. 8-10)⁶⁵. Addition to that the EU has created the model of how to cultivate innovation through quality education connected with research. If Georgia is to develop its capacity for innovation and competitiveness in an information-based economy, the country must be prepared to renew its national commitment to innovations and to reinforce the values of life-long learning. Special Georgian universities need to acquire increasing importance as an instrument of economic, social, and cultural development and also as a means of bringing about change in the community in which relationship between education, science and business is receiving increased attention.

As it is known the combined effects of the **2008** Russia-Georgia war and the global economic crisis hit Georgia hard, but the economy has since recovered strongly. In **2007-2008**, the competitiveness in Georgia reached 3.83 (GCI, 2008)⁶⁶, which is relatively higher comparing with year 2004-2005. At the same time, there were many processes in order to improve the competitiveness in Georgia; such as in **September 2007**, Monitoring Committee of the Parliamentary Assembly of the Council of Europe remarked, "In a remarkably short time, Georgia has made stunning progress in carrying out substantial economic, judicial, and state reforms (Kyle Alexander Beaulieu, 2008; pp. 19)⁶⁷. It has laid the foundations that should allow Georgia to become a prosperous liberal market economy and a fully-fledged democracy governed by human rights and the rule of law. Addition to that Georgia joined Asian Development Bank in **2007**, and the resident office was established in December 2008. The Interim Operational Strategy for **2008-2009** intensified there priority areas which are: (1) Improving municipal infrastructure; (2) Reducing road transportation constricts on economy activity; and energy infrastructure upgrading and development (European Bank for Reconstruction and Development, 2013; pp.22)⁶⁸.

On the other hand, the national allocation for Georgia is complemented by other forms of cooperation, in particular regional programmes under the ENPI which are addressed to all countries of the Eastern Partnership and focused on cross-cutting sectors such as energy, transport, and the environment as well as integrated border management (European Commission)⁶⁹. Furthermore, Georgia can benefit from projects funded by the Neighbourhood Investment Facility (NIF) where EU

⁶⁵ Ivaniashvili, G. (2007) "Analyzing EU-Georgia Neighborhood Policy Action Plan: Modern Benchmarking Approaches to Knowledge Management and Innovations in Georgia", (Norwegian Institute of International Affairs, pp. 8-10

⁶⁶ Based on: Global Competitiveness Index (2008); <http://www.weforum.org/pdf/GCRo8/GCRo8.pdf>

⁶⁷ Kyle Alexander Beaulieu (2008) "The Georgia-Abkhazia Conflict Critical Factors Shaping the Present Stalemate", University of North Carolina, Chapel Hill, pp. 19

⁶⁸ The European Bank For Reconstruction and Development (2013) "Strategy for Georgia", European Bank, pp.22 <http://www.ebrd.com/downloads/country/strategy/georgia.pdf>

⁶⁹ Based on: European Commission "European Neighbourhood and Partnership Instrument- Georgia NATIONAL INDICATIVE PROGRAMME 2007-2013"; http://eeas.europa.eu/enp/pdf/pdf/countrv/enpi_eastern_rsp_en.pdf

grants are blended with funds from European financial institutions, such as EBRD, to support investments and infrastructure financing in fields such as water and sanitation, energy efficiency, and the environment. However, the financial crises of the year **2008** had a significant effect on European economies. Small and medium sized enterprises (SNE) have been suffering from the decreasing consumer demand and the lack of external financing.

According to the Globalization and National Competitiveness of Georgia in **2009** (Ivaniashvili-Orbeliani George, 2009; pp. 1-16)⁷⁰; national competitive strategy requires sound government policies, technology transfer and innovations in national business activities, strong capacity of higher education and research institutions, which must be based on networking and synergetic partnerships. In the main time as we can see from the graph that Georgia's competitiveness scored 3.81 in **2009-2010** (GCI, 2009)⁷¹. On the other hand, the nation's innovation infrastructure helps to supply inputs to private enterprises, which helps to improve the Competitiveness; this infrastructure includes⁷²:

(1) *Scientific and research institutions* that serve as a major source of knowledge and include universities and research institutes, laboratories, non-profit think-tanks, R&D consortia, technology transfer centres and technological centres of excellence (Jusman Syafii Djamaal; pp. 58)⁷³;

(2) *Capital providers and markets* that finance innovation and the acquisition of new products and services. Venture capital and government research programs play a particularly important role in supporting technology-based entrepreneurs, start-ups and small business firms. Equity/stock markets provide an important incentive for innovation, reward innovators and determine the value of enterprises;

(3) *Education institutions* comprising secondary schools, colleges and universities, along with private sector training organizations, should provide the pool of leading-edge scientists, engineers, managers and the technical workforce. The skills, mobility and flexibility of the workforce are an important innovation input to both producers and customers of innovation;

(4) *Information infrastructure* provides enterprises with the important tools and communication platforms necessary for innovation. Global collaboration and open innovation systems rely on advances in computing, software applications and information networks; *Regional innovation* clusters are geographic concentrations of interconnected businesses, suppliers, and associated institutions in a particular field that share a common knowledge base, labor pools, markets or distribution channels.

However from **2010** until **2015**, there were many implementations in order to help Georgia to improve and increase competitiveness, as the following:

According to the report of Global competitiveness index, in year **2010-2011**; as we can observe from the graph, that Georgia scored 3.86; In 2010, one of the important strategies say that, in order to help

⁷⁰Ivaniashvili-Orbeliani George (2009) "Globalization and National Competitiveness of Georgia", *Caucasian Review of International Affairs*, pp.1-16; Vol. 3 (1) http://www.eria-online.org/Journal/6/Done_Globalization%20and%20National%20Competitiveness%20of%20Georgia_Orbeliane.pdf

⁷¹ Based on: Global Competitiveness Index; <http://www.weforum.org/pdf/GCR09/GCR20092010fullrankings.pdf>

⁷² This term industry cluster, also known as a business cluster or competitive cluster, was introduced and the term cluster popularized by Michael Porter in "The Competitive Advantage of Nations" (1990), pp. 69-75

⁷³ Based on: Jusman Syafii Djamaal "The role of key components of NIS in the National Ecosystem", pp.58 ; http://nis.apett.org/PDF/NIS_Forum_Report_P2_Jusman.pdf

Georgia to become more competitiveness, Georgia should gain competitive advantage not only in traditional industries, but also in high-quality, high-tech and highly productive manufacturing industries, as this is the only way for long-term and sustainable increase of competitiveness, growth of wages and revenues and substantial improvement of living standards. Such sectors include, for example, production of pharmaceutical products, telecommunications equipment, as well as tools and machine-tools. This means that more attention should be paid to production of high-technology and expensive goods. In recent years, demand for herbal medicines has significantly increased all around the world. Respectively, demand for medicinal plants has also increased.

However in **2011**, under the Economic Development Trends; after the contraction of 3.9 percent in 2009; the Georgian economy started to recover in 2010. In the course of the year, the growth forecast was adjusted upwards several times and it is now estimated to be between 6.3-6.5 at the end of 2010, which help the competitiveness rate to increase (IMF, 2011)⁷⁴. On the other hand, the staff report in Georgia shows that overvaluation of the exchange rate in place during the crisis was eliminated or at least become less pronounced. Acceleration in economic activity and increase competitiveness were reflected in the balance of payments figures.

And in year **2012-2013**, Georgia increased the scored of the competitiveness to be 4.01. Addition to that, in **2012**; Georgia's real Gross Domestic Product (GDP) has grown at a rate of 6.2% in 2012 and 3.2% in 2013, while the budget deficit has been reduced from 6.6% of GDP in 2010 to approximately 3.0% in **2013**. Current forecasts for GDP growth according to the Ministry of Finance is 5% in 2014 (European Commission, 2014; pp.10)⁷⁵. Thus, we can finger from the graph that, the scores of the Global Competitiveness index in 2013/2014 increased relatively to year 2004/2005.

In **2014**, in order to help the Georgian economy to improve for a long term, USAID programs in this area focus on improved economic governance, increased competitiveness, and the responsible management and development of Georgia's natural endowments, including agriculture and water resources, will contribute to sustainable commercial utilization of these endowments for growth and the benefit of the people of Georgia on an environmentally sustainable basis (USAID, 2012; pp.1-75)⁷⁶.

In **2014-2015**, Georgia scored 4.2 (GCI, 2014; pp.188)⁷⁷. Addition to that in April 28, 2015 – The World Bank Board of Executive Directors today approved an IBRD (International Bank for Reconstruction and Development) loan of US\$60 million for the First Programmatic Private Sector Competitiveness Development Policy Operation for Georgia. This is the first in a series of three Development Policy Operations (DPOs) aimed at strengthening shared prosperity and eliminating

⁷⁴ International Monetary Fund (2011) "Georgia: 2011 Article IV Consultation, Third Review under the Poverty", IMF, Washington, D.C. 20431, pp.9; ISBN: 9781455249275 <https://books.google.gr/books?id=Qto18FdsViMC&pg=RA1-PA30&dq=Competitiveness+in+Georgia+2011&hl=en&sa=X&ei=Hq6OVbjMA-L0yQOT7moCw&ved=0CDQQ6AEwBA#v=onepage&q=Competitiveness%20in%20Georgia%202011&f=false>

⁷⁵ Based on: European Commission (2014) "Commission Implementing Decision, on the Annual Action Programme 2014 in favour of Georgia to be financed from the general budget of the European Union", Brussels, pp. 10; https://ec.europa.eu/europeaid/sites/devco/files/aap-georgia-2014_en.pdf

⁷⁶ USAID (2012) "Country Development Cooperation Strategy Fiscal, Year 2013 – 2017 – Georgia", pp. 1-75; <http://www.usaid.gov/sites/default/files/documents/1863/GeorgiaCDCS.pdf>

⁷⁷ Based on : GCI report 2014 ; pp.188 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

extreme poverty in Georgia through policies that stimulate private sector productivity, foster investment and create a fair business environment that enables growth by small and medium enterprises (SMEs) and new firms. The development objective is to increase private sector competitiveness through second generation business environment reforms, financial sector deepening and diversification, and increasing firms' capacity to innovate and to export (World Bank, 2015)⁷⁸.

5.1 The Global Competitiveness Index- GCI for the BS-10 region in 2013/2014⁷⁹.

Global Competitiveness index – GCI; pillar scores, BS-10 countries and other regions, for year 2013/2014

Pillars	Basic Requirements				Efficiency Enhancers						Innovation	
	Institutions	Infrastructure	Macro-economics	Health & Primary Education	Higher education & training	Goods market efficiency	Labor market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
Armenia	3.32	3.33	4.41	5.90	4.18	4.34	4.49	3.91	3.74	2.73	3.82	2.99
Azerbaijan	4.06	4.06	6.42	3.07	4.00	4.27	4.72	3.80	4.17	3.60	3.97	3.45
Bulgaria	3.38	3.93	5.61	6.00	4.25	4.19	4.36	3.95	4.45	3.87	3.59	2.97
Georgia	4.00	4.31	4.91	5.75	3.79	4.29	4.59	3.91	3.83	2.96	3.47	2.68
Greece	3.49	4.79	2.82	6.10	4.81	3.93	3.77	2.86	4.62	4.37	3.84	3.08
Moldova	3.24	3.57	4.62	5.38	3.88	3.93	4.09	3.60	3.89	2.23	3.32	2.42
Romania	3.34	3.33	5.14	5.47	4.41	3.89	3.96	3.95	4.14	4.44	3.62	3.01
Russia	3.28	4.61	5.93	5.71	4.66	3.86	4.31	3.39	3.97	5.78	3.56	3.13
Turkey	4.08	4.45	4.62	5.86	4.29	4.52	3.74	4.40	4.05	5.30	4.36	3.47
Ukraine	2.99	4.07	4.20	5.84	4.75	3.81	4.18	3.46	3.28	4.60	3.68	3.03
BS-10	3.52	4.05	4.87	5.71	4.30	4.10	4.22	3.72	4.01	4.02	3.72	3.02
EU-28	4.48	5.10	4.84	6.23	5.14	4.59	4.42	4.26	5.20	4.31	4.59	4.06
USA	4.64	5.77	3.95	6.10	5.75	4.93	5.37	5.26	5.72	6.94	5.49	5.37
CHINA	4.24	4.51	6.29	6.06	4.23	4.32	4.63	4.32	3.44	6.85	4.31	3.89

Best performer Worst performer

According to the data of the Global Competitiveness index in year 2013-2014, this table shows us the scores of the 12 pillars, which help us to know how much we are competitive as a countries. Therefore this table focus particularly in the Black Sea region countries, European Union-28, USA and China.

Firstly, I would like to present you the data of Georgia, comparing with the counties which belong to the black see region.

Therefore in 2013-2014 the best performer in *Institutions* was Turkey, and the worst perform was in Ukraine. Greece had the best perform in *Infrastructure* pillar, however Georgia had better performer than Armenia as well as Romania. In third pillar which is *Macro-Economic*, Georgia scored better than Greece and worse than Azerbaijan. In the fourth pillar which is *Health & Primary Education* Georgia

⁷⁸ Based on: <http://www.worldbank.org/en/news/press-release/2015/04/28/world-bank-supports-georgias-efforts-to-increase-private-sector-competitiveness>

⁷⁹ The Table based: Dr. Harry Papapanagos (2014), 'section 3: International benchmarking indicators, Univeristy of Macedonia ,Economics Department, Thessaloniki, Greece.

behaved better than Moldova, Romania, Russia and Azerbaijan, at the same time Greece got the best performer in that year comparing with the countries in the Black sea region. However in year 2013-2014, Georgia had the worst performance in the Fifth pillar which is *High Education and Training* comparing with the countries in the Black sea region, on the other hand the best performer was in Greece. In pillar sixth which is *Goods Markets Efficiency* Georgia performer was better than Russia and worse than Turkey. The next pillar which is *Labour Market Efficiency*, Azerbaijan got in that year the best performer comparing with whole countries in the Black sea, and the worst performer was in Russia, which means Georgia performed better than Russia and some other countries.

In the eighth pillar which is *Financial Market Development*, Georgia performance was better than Greece and worse than Turkey. And in *Technological Readiness* Pillar, Georgia scored better than Ukraine and Armenia, however in that year Greece got the best score and the best performance comparing with the countries in the same region. Then *Market Size* Pillar, Georgia performer was better than Moldova and Armenia, however not better than Greece, Turkey and the rest of the Countries in the Black Sea region, taking into account that Russia had the best performance in this pillar. In the last two pillars which are *Business Sophistication* and *Innovation*, the best country performer was Turkey and the worst Moldova comparing with others.

Secondly, I would like to compare Georgia with the average of the Black Sea region, EU-28, USA and China.

1- Georgia via BS-10: Georgia performed better than the black Sea region, in the whole pillars except some, which are as the following: (1) *Technological Readiness* (2) *Market Size* (3) *Business Sophistication*.

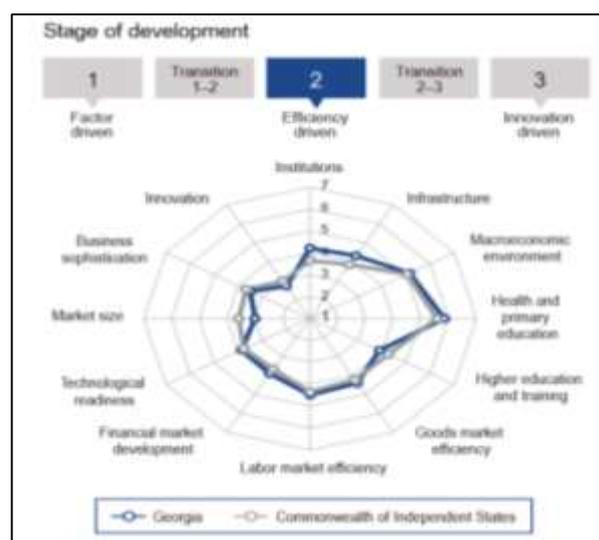
2- Georgia via EU-28: Georgia performed better performance than the EU-28 in some pillars which are: (1) *Macro-Economic*, (2) *Labour Market Efficiency*.

3- Georgia via USA: the scores of Georgia are low comparing with USA results in the whole pillars except one which is *Macro-Economic*.

4- Georgia via China: Georgia was better than China only in two pillars which are *Labour market efficiency* and *Technological Readiness*.

5.2 Georgia's Competitiveness in 2014/2015.

According to the report of Global Competitiveness Index- GCI in year 2014/2015, Georgia achieved the second stage of development, which is (Efficiency Driven)⁸⁰. And regarding the scores of the 12 pillars in 2013/2014 & 2014/2015 which measures the competitiveness; as we can see from the table below that, there are no real improvements in most of the pillars. Therefore in section no.8 I will provide some recommendations in order to improve the competitiveness in Georgia, as well as to get the last stage of development.



Year/ Pillars	Basic Requirements				Efficiency Enhancers						Innovation	
	Institutions	Infrastructure	Macro-economics	Health & Primary Education	Higher education & training	Goods market efficiency	Labor market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
2013/2014	4	4.31	4.91	5.75	3.79	4.29	4.59	3.91	3.83	2.96	3.47	2.68
2014/2015	4.2	4.3	5.1	5.8	3.9	4.4	4.5	3.9	3.8	3	3.5	2.7

⁸⁰ This data Based on : World Economic Forum (2014) "The Global Competitions report 2014-2015", World Economic Forum Geneva, Switzerland, pp. 188 ; ISBN-13: 978-92-95044-98-2 http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

6. Easy Doing Business in Georgia.

Georgia is one of the countries which had a fastest growing market economies among post-soviet countries with, liberal currency regime, stable exchange rate, inflation, predicted domestic and an investor friendly investment regime without any restrictions on profit repatriation. Addition to that, as it is known that Georgia one of the countries which are related to Europe & Central Asia regions, and categorized as county which has Lower middle income. This section will focus on the effect that a Georgia's business regulatory environment.

Therefore, *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. On the other hand, doing business measures and tracks changes in regulations in 11 areas, in the life cycle. Economies are ranked from 1 to 189 by the ease of doing business ranking. Addition to that, an economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

Doing Business measures and tracks changes in regulations in 11 areas, in the life cycle of a business, and those areas as the following: (1) starting a business, (2) dealing with construction permits, (3) getting electricity, (4) registering property, (5) getting credit, (6) protecting minority investors, (7) paying taxes, (8) trading across borders, (9) enforcing contracts and (10) resolving insolvency. The labour market regulation indicators (formerly employing workers) are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile. (World Bank Group, 2015; P.1-21)⁸¹.

The Doing Business methodology has limitations. At the same time, there are other areas important to the business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions.

In the main time, the policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies.

Therefore the *economy profile presents the Doing Business indicators of Georgia to:*

(1) To provide useful data to the economists and for investors, and recommendations; (2) To have a complete image concerning the businesses in Georgia; (3) Easy comparing and effective dictions, as well as to point out the strong and weak points of the Georgia environment.

⁸¹ Augusto Lopez Claros (2015), "Doing Business in 2015" World Bank Group, Washington, DC, PP.1-21
<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Methodology/DB2016-Methodology-Expansion-Presentation.pdf>

6.1 Easy Doing Business- EGB in the Black Sea region form 2006 until 2015⁸².

Easy Doing Business– EGB, in Black Sea region; from year 2006 until 2015.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Armenia	37	34	39	39	43	61	55	32	37	45
Azerbaijan	100	99	96	96	38	69	66	67	70	80
Bulgaria	59	54	46	46	44	57	59	66	58	38
Georgia	112	37	18	18	11	17	16	9	8	15
Greece	111	109	100	100	109	101	100	78	72	61
Moldova	88	103	92	92	94	99	81	83	78	63
Romania	71	49	48	48	55	65	72	72	73	48
Russia	97	96	106	106	120	124	120	112	92	62
Turkey	84	91	57	57	73	73	71	71	69	55
Ukraine	133	128	139	139	143	149	152	137	112	96
Countries	178	178	181	183	183	183	185	185	189	189

Source: World Bank, Easy of Doing Business Index, Report 2015.
 Note: (1) EDB ranks started in 2006. Pillars ranks started in 2003/2004; (2) Economies are ranked from 1 to 189 by the ease of doing business ranking.

Best performer (Yellow box) Worst performer (Red box)

According to the reports of Easy Doing Business from 2006 to 2015; as we can see from the table above that, in **2006** and **2007** Armenia had the best performer in the BS-10 region, however starting from **2008** until **2015**, Georgia succeed to perform the best in the BS-10 region. Addition to that, the worst performer was in Ukraine since **2006** until **2015**. And the question here is; How Georgia succeed continually to get the best performance in those eight years?

The answer divided to three parts:

Firstly, let's have an overview about the *market and easy doing business in Georgia* since 2003.

- As it is known Georgia has experienced rapid economic growth since the Rose Revolution in **2003**. Additionally, Georgia has a small transitional market economy. At the same time, from **2003** forward, the World Bank has recognized Georgia as one of the world's fastest reforming economies and as a leader in fighting corruption.
- In **2004**, Georgia—the top reformer in 2004 (World Bank Group, 2006; pp.2)⁸³—made the most progress, and reforms to have better perform in easy doing business, and those progress as the following:
 - (1) Georgia reformed *Dealing with licenses*, by cutting a number of licensing regimes; for example, Georgia's Law on Issuance of Licenses and Permits reduces from 909 to 159 the types of activities subject to licensing. For example, the Ministry of Agriculture can issue

⁸² The Table based: Dr. Harry Papapanagos (2014), 'section 3: International benchmarking indicators, Univeristy of Macedonia ,Economics Department, Thessaloniki, Greece.

⁸³ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.2; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/-/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

only 2 types of licenses: for processing fish and producing baby food. Any activity not mentioned in the law does not need a license (World Bank Group, 2006; pp.22)⁸⁴.

- (2) Under *Hiring and firing workers*, Georgia reduced the notice period for redundancy dismissals from 8 weeks to 4 and suspended severance payments. This was after the president dismissed 15,000 traffic police, notorious for shaking down motorists for bribes (World Bank Group, 2006; pp.28-29)⁸⁵.
 - (3) Under *Registering Property*, the newly created Agency of Public Registry in Georgia offers expedited registration and combines other procedures to allow entrepreneurs to obtain a registry extract, certificate of property boundaries and proof of no other claims all at the same time. Georgia also cut fees and eliminated the transfer tax, reducing the costs of registration by 75% (World Bank Group, 2006; pp.34)⁸⁶.
 - (4) In 2004, 28 countries made major changes to their *tax systems*. Following a long-term trend, most countries cut corporate tax rates. For example, Georgia's new tax code levies a 20% income tax on businesses and a 12% flat tax (down from 20%) on personal income. In addition, social taxes were cut from 33% to 20% and the number of taxes from 21 to 9, and invoices and receipts were simplified (World Bank Group, 2006; pp.53)⁸⁷. As well as Georgia eliminated its turnover tax, which was levied on top of a VAT, as a part of its 2004 reform (World Bank Group, 2006; pp.55)⁸⁸.
 - (5) Under *Enforcing Contracts*, Georgia implemented case management in 15 pilot courts. In these courts the number of cases pending for more than a year dropped 23% by June 2005 compared with a year earlier. In contrast, the number of such cases fell by 5% in other courts, therefore this implementation helped to have better performance in easy doing business (World Bank Group, 2006; pp.69)⁸⁹.
- Between **January 2005** and **April 2006**, Georgia was the top reformer, it improved in 6 of the 10 areas studied by Doing Business; and those improves are (World Bank Group, 2007; pp.7)⁹⁰:
 - (1) It reduced the minimum capital required to *start a new business* from 2,000 lari to 200 (\$85).
 - (2) *Business registrations* rose by 55% between 2005 and 2006.

⁸⁴ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.22; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

⁸⁵ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.28-29; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

⁸⁶ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.34; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

⁸⁷ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.53; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

⁸⁸ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.55; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

⁸⁹ World Bank Group (2006) *Doing Business in 2006- Creating Jobs*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.69; ISBN 0-8213-5749-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB06-FullReport.pdf>

⁹⁰ Based on: World Bank Group (2006) *Doing Business in 2007- How to reform*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.7; ISBN-10: 0-8213-6488-X <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB07-FullReport.pdf>

- (3) Reforms in customs and the border police simplified border procedures. It took 54 days to meet all the administrative requirements to export in 2004—it now takes 13.
 - (4) Georgia also amended its procedural code for the courts, introducing specialized commercial sections of the courts and reforming the appeals process. The time to resolve simple commercial disputes fell from 375 days to 285.
 - (5) Georgia’s new *labor regulations* help workers move to better jobs. The social security contributions paid by businesses decreased from 31% of wages to 20%, making it easier for employers to hire new workers.
 - (6) Better *collection of corporate taxes*, which shot up by 300%, more than made up for the loss in revenues.
 - (7) And unemployment has fallen by 2 percentage points.
- Many reforms have been eliminated, between **April 2006** and **June 2007**, and as it is known, reformers simplified business regulations, strengthened property rights, eased tax burdens, increased access to credit and reduced the cost of exporting and importing. Therefore, in 2006/2007, Georgia succeeded to reform 6 areas in Easy doing business out of 10, which are (1) Starting Business, (2) Dealing with licenses, (3) Registering Property, (4) Getting Credit, (5) Protecting Investors, (6) Closing Business (World Bank Group, 2007; pp. 2)⁹¹. The reforms as the following:
 - (1) Georgia entered the top 10 on the ease of *starting a business* (World Bank Group, 2007, pp.9-13) ⁹², and the reforms was in Georgia as the following:
 - (i) Cut the minimum capital requirements;
 - (ii) Introduce a one-stop shop.
 - (iii) Standardize incorporation documents.
 - (iv) Cut antiquated formalities.
 - (v) Allow online start-up.
 - (2) Under *Dealing with licenses*, things have been changed. Georgia was one of the top reformers in business licensing in each of the past 3 years, reducing the types of activities subject to licensing from 909 to 159.
 In the construction industry (which Doing Business studies as an example of licensing) Georgia eliminated many of the approvals required to obtain a construction permit and introduced a one-stop shop for licensing, a “silence is consent” rule and statutory time limits—while maintaining procedures necessary for regulating in the public interest. The number of procedures needed to build a warehouse dropped to 12. And the time required fell by nearly 3 months. This approval process for building a warehouse in

⁹¹ Based on : World Bank Group (2007) “*Doing Business in 2008*”, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.2; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/-/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

⁹² Based on : World Bank Group (2007) “*Doing Business in 2008*”, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.9-13; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/-/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

Georgia is now more efficient than in all EU countries except Denmark (World Bank Group, 2007, pp. 14-22)⁹³.

- (3) Under *property registration*, Georgia cut the requirement to use notaries in property registration (World Bank Group, 2007, pp. 24-28)⁹⁴, The 5 most effective reforms were in Georgia, were as the following:
 - (i) Simplify and lower fees;
 - (ii) Introduce fast-track procedures;
 - (iii) Make the registry electronic;
 - (iv) Take registration out of the court;
 - (v) Make the use of notaries optional.

- (4) Under *Getting Credit*; Georgia added payment information from electricity and telecommunications companies. Addition to that, in year 2006/2007 the most popular reform in Georgia; expanded set of information collected in credit registry (World Bank Group, 2007, pp. 29-30)⁹⁵.

- (5) Under *Protecting Investors*; the most popular reforms in Georgia were: (1) Defined duties for directors and controlling shareholders; (2) Increased disclosure requirements (World Bank Group, 2007, pp. 34-38)⁹⁶.

- (6) Under *Closing Business*; five countries in Eastern Europe and Central Asia join China as top reformers in year 2006/2007; Georgia, the number 2 reformer, passed a new law that maximizes the value of debtors' assets, sets shorter time limits, regulates bankruptcy trustees and strengthens creditors' rights. In place of a liquidation process that takes 3.5 years on average, the law establishes bankruptcy procedures that should take less than 1 year in the event of reorganization and just 6 months if the business is slated for liquidation. That would allow Georgia to enter the top 10 list on the speed of resolving bankruptcy (World Bank Group, 2007, pp. 54-58)⁹⁷.

⁹³ Based on : World Bank Group (2007) "*Doing Business in 2008*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.14-22; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

⁹⁴ Based on : World Bank Group (2007) "*Doing Business in 2008*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.24-28; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

⁹⁵ Based on : World Bank Group (2007) "*Doing Business in 2008*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 29-33; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

⁹⁶ Based on : World Bank Group (2007) "*Doing Business in 2008*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 34-38; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

⁹⁷ Based on : World Bank Group (2007) "*Doing Business in 2008*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 54-58; ISBN: 978-0-8213-7231-9 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB08-FullReport.pdf>

- In year **2007/2008**; Georgia was not one of the top ten best reformers, however Georgia succeeded to reform some areas in doing business; for example:
 - (1) Georgia eliminated the minimum capital requirement altogether. It also cut the requirement for a company seal and made the use of notaries optional (World Bank Group, 2008, pp.11)⁹⁸;
 - (2) Under the Employing workers, Georgia made big changes in those areas in 2005 and 2006 and also introduced changes in notice periods and severance payments optional (World Bank Group, 2008, pp.19-23)⁹⁹. Addition to that, the reforms in Georgia in year 2007/2006, were as the following:
 - (i) Made working hours more flexible;
 - (ii) Eased restrictions on fixed-term contracts;
 - (iii) Reduced dismissal costs;
 - (iv) Removed requirements for dismissals.
 - (3) Georgia have reduced the time required to register property by eliminating long and unnecessary procedures (World Bank Group, 2008, pp.24-28)¹⁰⁰. On the other hand, other reforms, such as overhauls of the entire property registration system, can take years. Consider the top reformer in property registration for 2007/08.
 - (4) Under *Getting Credit*, Georgia amended its civil code in June 2007 to allow parties to agree that collateral can be sold without court intervention. Guatemala passed a law in October 2007 establishing a special regime for registering security interests in movable property. The law went into effect in January 2008 (World Bank Group, 2008, pp.29-33)¹⁰¹.
 - (5) In 2007, other reform was under *Protecting Investors*, is that Georgia amended its securities legislation by adding provisions regulating disclosure and approval of transactions between interested parties (World Bank Group, 2008, pp.34-38)¹⁰².

⁹⁸ Based on : World Bank Group (2008) *Doing Business in 2009*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 11; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

⁹⁹ Based on : World Bank Group (2008) *Doing Business in 2009*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 19-23; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

¹⁰⁰ Based on: World Bank Group (2008) *Doing Business in 2009*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 24-28; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

¹⁰¹ Based on : World Bank Group (2008) *Doing Business in 2009*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 29-33; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

¹⁰² Based on : World Bank Group (2008) *Doing Business in 2009*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 34-38; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

(6) Under *Paying Taxes*, Georgia reduced the corporate income tax from 20% to 15% and abolished the social tax. As it is known, the most common reforms though reducing tax payment are(World Bank Group, 2008; pp. 39-43)¹⁰³:

- (i) Reduced profit tax rates;
- (ii) Simplified process of paying taxes;
- (iii) Eliminated taxes;
- (iv) Revised tax code;
- (v) Reduced labor tax or contribution rates.

(7) Under *Trade Across Borders* in 2007, Georgia implemented a risk management system, reducing the share of merchandise inspected to 10% (World Bank Group, 2008; pp. 44-84)¹⁰⁴.

- In year **2008/2009**; Georgia was not one of the top ten best reformers, however following the reforms for the previous years, helped the Georgian economy to grow approximately 12 percent in 2007 based mainly on strong inflows of foreign investment and government spending. Because of the August **2008** war with Russia and subsequent global credit crisis, growth in 2008 slowed to roughly 2.1 percent. And in **2009** the economy shrunk by 4 percent. Addition to that, according to a firm survey in 2008, senior managers in Georgia spend only 2% of their time dealing with regulatory requirements—and 92% of firms report spending less than 10% of their time on such requirements(World Bank Group, 2010; pp. 21)¹⁰⁵.
- In year **2009/2010**, Some reforms have been made in different areas in Georgia in order to improve doing business, and those process and reforms as the following (World Bank Group,2010)¹⁰⁶:
 - (1) *Getting credit*; Georgia improved access to credit by implementing a central collateral registry with an electronic database accessible online.
 - (2) *Protecting investors*; Georgia strengthened investor protections by allowing greater access to corporate information during the trial.
 - (3) *Enforcing contracts*; Georgia made the enforcement of contracts easier by streamlining the procedures for public auctions, introducing private enforcement officers and modernizing its dispute resolution system.

¹⁰³ Based on : World Bank Group (2008) *“Doing Business in 2009”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 39-43; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/-/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

¹⁰⁴ Based on : World Bank Group (2008) *“Doing Business in 2009”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 44-48; ISBN:978-0-8213-7609-6 <http://www.doingbusiness.org/-/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf>

¹⁰⁵ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp. 21; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/-/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

¹⁰⁶ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/-/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

(4) *Closing a business*; Georgia improved insolvency proceedings by streamlining the regulation of auction sales.

* *Addition to that:*

(5) In Georgia a 2009 survey found that the new start-up service center helped businesses save an average of 3.25% of profits—and this is just for registration services. For all businesses served, the direct and indirect savings amounted to \$7.2 million.

(6) *Under Register Property*; In Georgia in 2009 nearly 13% of transactions at the registry were expedited. Addition to that, Georgia now allows property transfers to be completed through 500 authorized users, notably banks. This saves time for entrepreneurs. A third of people transferring property in 2009 chose authorized users, up from 7% in 2007 (World Bank Group, 2010; pp.32-38)¹⁰⁷.

(7) Georgia implemented an access to internal corporate information; A November 2009 amendment to the civil procedure code allows parties to question their opponents during trial. The judge can interfere when the questions are inappropriate or irrelevant. Improved score on the ease of shareholder suits index by 2 points (World Bank Group, 2010; pp. 48)¹⁰⁸.

(8) *Under the trade across borders*; as it known, policy makers can avoid bigger problems down the road by involving stakeholders throughout the process. Implemented correctly, trade facilitation reforms can yield big cost savings. Such reforms in Georgia reduced the customs clearance time for a commercial truck by a day (World Bank Group, 2010; pp.75)¹⁰⁹. On the other hand, in Georgia improvements in customs clearance procedures, coupled with greater trade, contributed to a 92% increase in value added tax revenue (60–65% of which is collected at the border) between 2005 and 2009(World Bank Group, 2010; pp.63-68)¹¹⁰.

(9) Also, Georgia combined the state and private models, introducing private bailiffs in 2008 alongside the state bailiffs to increase enforcement capacity. Since 2009 the Georgian Ministry of Justice has issued 38 licenses to private enforcement agents. (World Bank Group, 2010; pp.71)¹¹¹

¹⁰⁷ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.32-38; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

¹⁰⁸ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.48; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

¹⁰⁹ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.75; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

¹¹⁰ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.63-68; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

¹¹¹ Based on : World Bank Group (2010) *“Doing Business in 2011”*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.71; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

- (10) Under *Enforcing Contracts*; In Georgia private enforcement officers were introduced alongside state enforcement agents, increasing enforcement capacity. And debtors can now pay creditors the outstanding debt before the closing of an auction to avoid the sale of their assets. In order to make enforcement of judgment more efficient (World Bank Group, 2010; pp.70)¹¹².
- In year **2010/2011**, according to the report of *Doing Business*, some reforms have been made in different areas in Georgia in order to improve doing business, such as (World Bank Group, 2011)¹¹³:
 - (1) *Starting a business*; Georgia simplified business start-up by eliminating the requirement to visit a bank to pay the registration fees.
 - (2) *Getting credit*; Georgia expanded access to credit by amending its civil code to broaden the range of assets that can be used as collateral.
 - (3) *Protecting investors*; Georgia strengthened investor protections by introducing requirements relating to the approval of transactions between interested parties.
 - (4) *Paying taxes*; Georgia made paying taxes easier for firms by simplifying the reporting for value added tax and introducing electronic filing and payment of taxes.
 - In year **2011/2012**, according to the report of *Doing Business*, some reforms have been made in different areas in Georgia in order to improve doing business, such as (World Bank Group, 2013)¹¹⁴:
 - (1) *Registering property*; In Gabon registering property became more difficult because of longer administrative delays at the land registry.
 - (2) *Getting electricity*; Georgia made getting electricity easier by simplifying the process of connecting new customers to the distribution network and reducing connection fees.
 - (3) *Getting credit*; Georgia strengthened its secured transactions system through an amendment to the civil code allowing a security interest to extend to the products, proceeds and replacements of collateral.

¹¹² Based on : World Bank Group (2010) "*Doing Business in 2011*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433, pp.70; ISBN: 978-0-8213-7960-8 <http://www.doingbusiness.org/-/media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>

¹¹³ Based on: World Bank Group (2012) "*Doing Business in 2012- Doing Business in a more transparent world*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433; ISBN: 978-0-8213-8833-4 <http://www.doingbusiness.org/-/media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

¹¹⁴ Based on: World Bank Group (2013) "*Doing Business in 2013- Smarter Regulations for Small and Medium-Size Enterprises*", The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433; ISBN (paper): 978-0-8213-9615-5 <http://www.doingbusiness.org/-/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf>

- (4) *Paying taxes*; Georgia made paying taxes easier for companies by enhancing the use of electronic systems and providing more services to taxpayers.
 - (5) *Trading across borders*; Georgia reduced the time to export and import by creating customs clearance zones.
 - (6) *Enforcing contracts*; Georgia made enforcing contracts easier by simplifying and speeding up the proceedings for commercial disputes.
 - (7) *Resolving insolvency*; Georgia expedited the process of resolving insolvency by establishing or tightening time limits for all insolvency-related procedures, including auctions.
- In year **2013/2014**; one reform has been implemented in Getting credit, which was that Georgia improved its credit information system by implementing a new law on personal data protection¹¹⁵.

Secondly, the Georgian market has *challenges* to help doing business in Georgia, Which are:

- I. The Georgian Government has committed itself to further reducing obstacles to doing business in Georgia. It has already reduced all but a few tariffs to zero, and in 2008 it reduced both personal and corporate income taxes by 5 percent to a 20 percent tax rate. The dividend tax was also decreased from 10 percent to 5 percent. However, the Georgian government recently levied an 18 percent VAT on imports.
- II. The main challenges to doing business in Georgia are linguistic and cultural differences. Most business is conducted in Georgian, official laws and regulations are printed in Georgian, and products must be labelled in Georgian. However, many Georgians involved in international business speak English and its use is becoming more widespread.
- III. Communications and marketing skills are still developing, and personal connections are of great importance.
- IV. Laws and regulations, especially in the areas of tax and customs, can be subject to uneven and arbitrary interpretation and enforcement by government employees and courts. A good local attorney is indispensable for anything other than simple transactions.

¹¹⁵ Based on: World Bank Group (2013) *Doing Business in 2014 - Understanding Regulations for Small and Medium-Size Enterprises*, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433; ISBN (paper): 978-0-8213-9984-2
<http://www.doingbusiness.org/-/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-full-report.pdf>

3-Thirdly, the *market opportunities* played an important point in easy doing business in Georgia:

- I. Despite a slowdown in the economy following the August 2008 war with Russia and the global financial crisis, among countries in the region Georgia remains an attractive market, and expects growth of around 3 percent in 2013.
- II. The government has increased its focus on developing the tourism and agriculture sectors and international donors are looking to support these sectors as well. Furnishings and equipment for these sectors will be in demand.
- III. Construction of roads, energy distribution infrastructure, water systems, hotels, and office space is booming across Georgia, presenting opportunities for producers of building equipment and materials and providers of architectural and engineering services. The Government has used a significant portion of the \$4.5 billion in international assistance pledged in 2008 and more recent concessional loans to update infrastructure.
- IV. Information technology, systems, and software are needed to support new business growth.

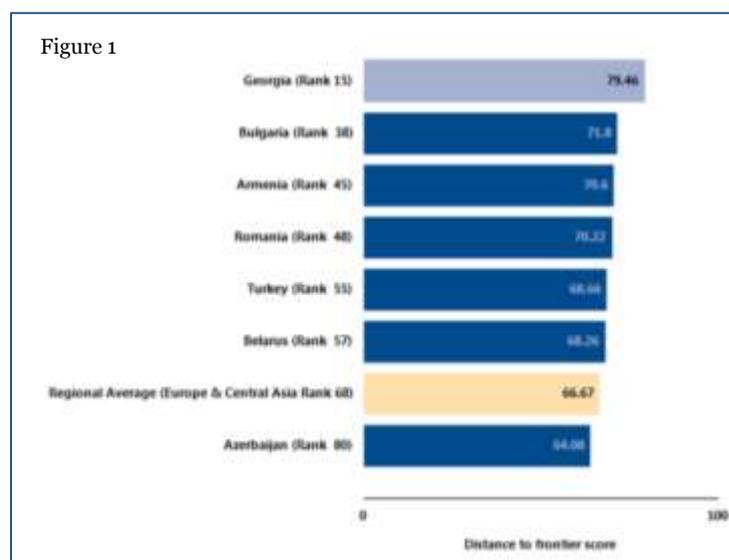
6.2 Where Georgia stands today in 2015? And is doing business in Georgia going beyond efficiency?

→ The business environment of Georgia.

→ Comparing Georgia with other economies rank on the ease of doing business.

As we can see for the (figure 1). According to Doing Business database, the rankings are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking.

Georgia ranked 15 out of 189, and comparing Georgia with the Regional Average, Georgia has better performance; Georgia distance score is 79.46, however the average of the region scored 66.67 (World Bank Group, 2015; P. 8)¹¹⁶.



¹¹⁶ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/gjawn/doing%20business/documents/profiles/country/GEO.pdf>

→*Distance to frontier on Doing Business topics- Georgia in 2015* (World Bank Group, 2015; P. 9)

As has been mentioned at the beginning that 10 topics included in the ranking in Doing Business. So have a look to (figure 2), we can see the scores are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF).



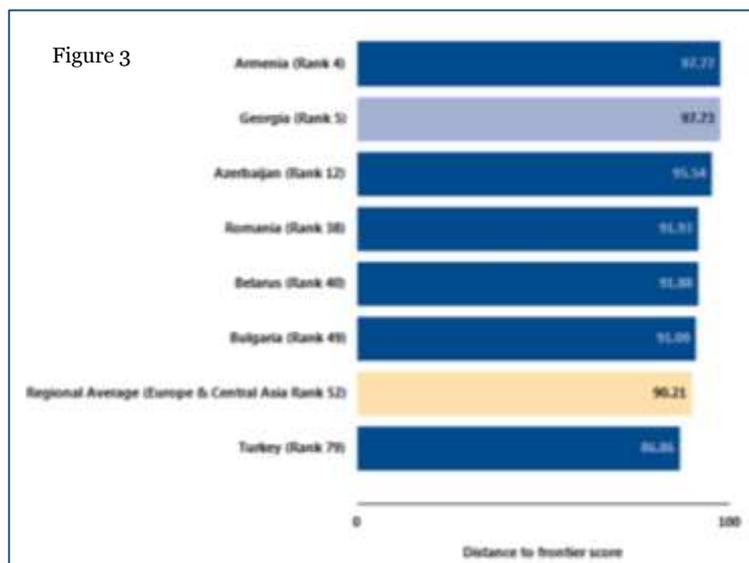
The Scale: Score 0 centre (worst performance), Score 100 outer edge (best performance).

6.2.1 Starting Business in Georgia.

Doing Business measures the ease of starting a business in an economy. The methodology of *Starting a business indicators measure, what*¹¹⁷?

- Procedures to legally start and operate a company (number);
- Time required to complete each procedure (calendar days);
- Cost required to complete each procedure (% of income per capita);
- Paid-in minimum capital (% of income per capita).

The rankings for comparator economies and the regional average ranking, (figure 3) provide other useful information for assessing how easy it is for an entrepreneur in Georgia to start a business. Globally, Georgia stands at 5 in the ranking of 189 economies on the ease of starting a business which has better performance comparing with the Average region; however Armenia ranked better than Georgia, according to the Doing Business database (World Bank Group, 2015; P. 18).



¹¹⁷ Based on: <http://www.doingbusiness.org/methodology/starting-a-business>

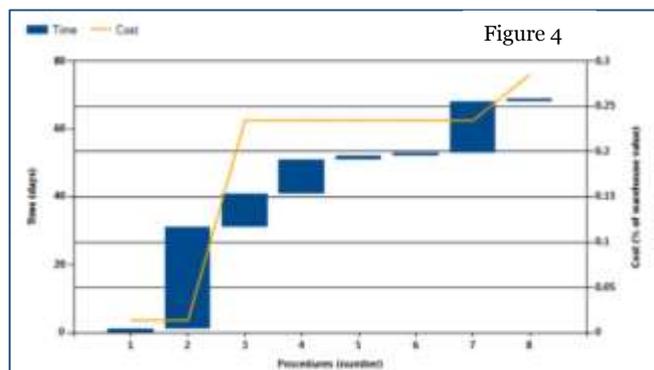
6.2.2 Dealing with the Construction Permits

Doing Business records the procedures, time and cost for a business in the construction. *What the Dealing with construction permits indicators measure*¹¹⁸?

- Procedures to legally build a warehouse (number): licenses, permits and certificates.
- Time required to complete each procedure (calendar days).
- Cost required to complete each procedure (% of warehouse value).

→ *What does it take to build a warehouse in Georgia?*

According to data collected by Doing Business, dealing with construction permits there requires 8.0 procedures, takes 68.5 days and costs 0.3% of the warehouse value, (figure 4) (World Bank Group, 2015; P. 23)¹¹⁹.

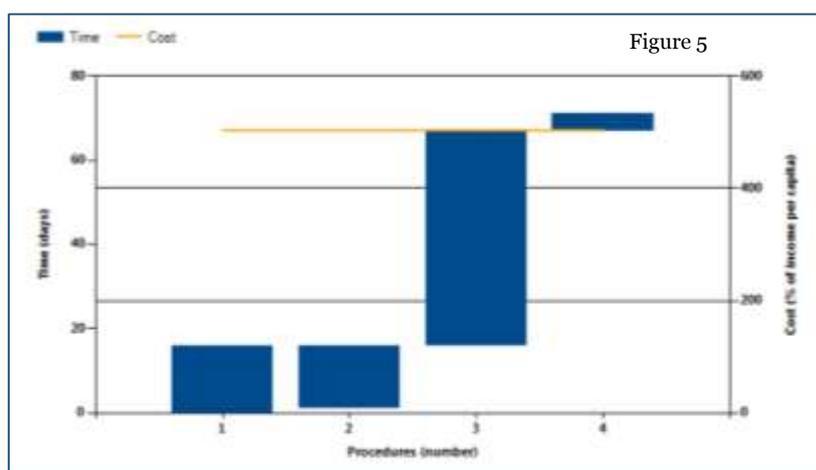


3.1.3 Getting Electricity

Doing Business records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them.

→ *What it takes to obtain an electricity connection in Georgia* (World Bank Group, 2015; P. 29-31)¹²⁰?

According to data collected by Doing Business, getting electricity there requires 4.0 procedures, takes 71.0 days and costs 503.8% of income per capita (figure 5).



¹¹⁸ Based on: <http://www.doingbusiness.org/methodology/dealing-with-construction-permits>

¹¹⁹ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 23 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

¹²⁰ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 29-31, DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

The steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility are as the following in the example of Telasi JSC in Tbilisi city (World Bank Group, 2015; P. 32-35)¹²¹ :

- 1- Submit an application for an electricity connection to Telasi and await technical conditions and project design; It takes 16 calendar days in order to be completed.
- 2- The Second step is to obtain an external review of the site carried out by Telasi; It takes 7 calendar days in order to be completed.
- 3- The third step is await completion of the external connection works by Telasi; It takes 51 calendar days in order to be completed.
- 4- Await and obtain meter installation and electricity starts flowing is the fourth step which takes 4 calendar days to be completed.

Globally, Georgia stands at 37 in the ranking of 189 economies on the ease of getting electricity, however the region average 120 which means that Georgia has better performance than the region average.

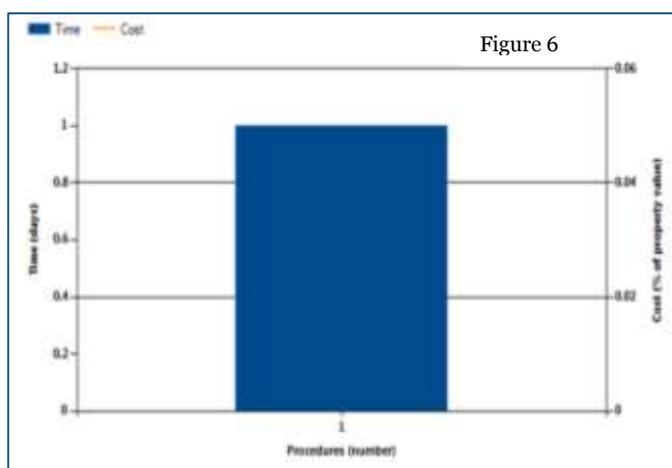
6.2.4 Registering Property

Doing Business records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name.

→What the Registering Property indicators Measure¹²²?

- Procedures to legally transfer title on immovable property (number).
- Time required to complete each procedure (calendar days).
- Cost required to complete each procedure (% of property value).

→What does it take to complete a property transfer in Georgia (World Bank Group, 2015; P. 37-38)¹²³?



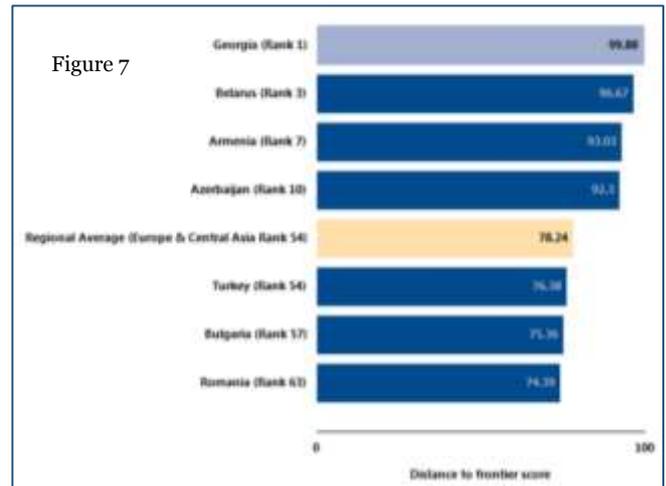
According to data collected by Doing Business, registering property there requires 1.0 procedures, takes 1.0 days and costs 0.1% of the property value (figure 6).

¹²¹ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 32-35 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

¹²² Based on: <http://www.doingbusiness.org/methodology/registering-property>

¹²³ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 37-38 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

Addition to that Georgia stands globally at 1 in the ranking of 189 economies on the ease of registering property, which is the best performance comparing with others, and particularly with the Regional Average which ranked 54, (figure 7).



6.2.5 Getting Credit

Doing Business assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 indicators (World Bank Group, 2015; P. 41):

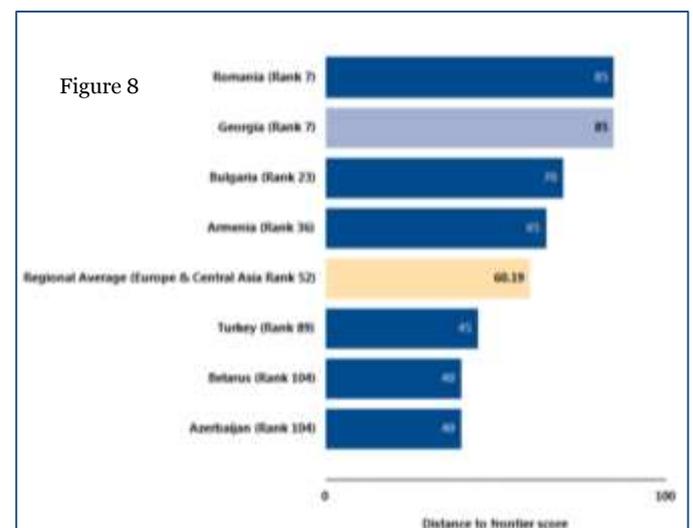
1- The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a credit registry or a credit bureau.

2- The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws.

The economy has a score of 8 on the depth of credit information index and a score of 9 on the strength of legal rights index

→How Georgia and comparator economies rank on the ease of getting credit (World Bank Group, 2015; P. 42-47)¹²⁴?

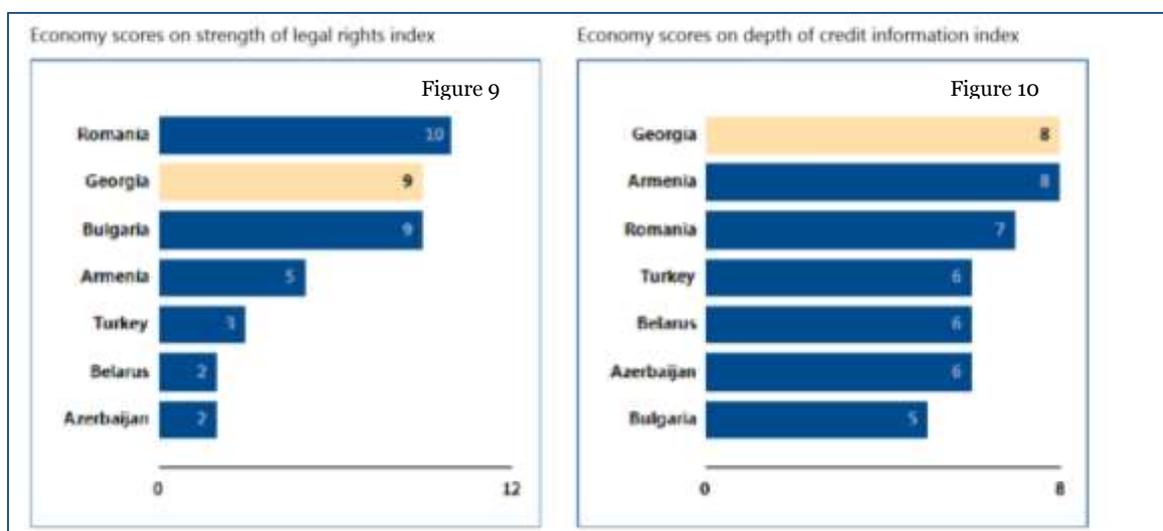
Globally, Georgia stands at 7 in the ranking of 189 economies on the ease of getting credit, which is not better than Romania, however it is better than the Regional Average which is stand at 52 (figure 8).



¹²⁴ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 42-47 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/-/media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

→How strong are the legal rights for borrowers and lenders in Georgia? ; see figure 9;

→How much credit information is shared and how widely in Georgia?; see figure 10



6.2.6 Protecting minority investors

Doing Business measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another

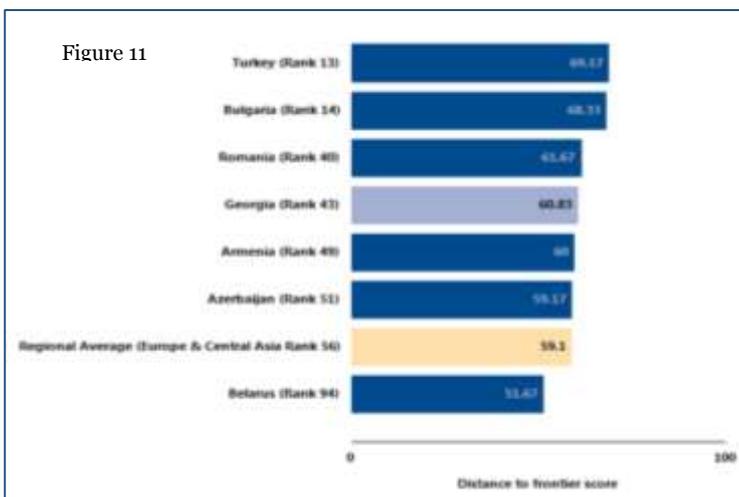
→What the Protecting Minority Investors Indicators measure?¹²⁵

Extent of disclosure index (0–10)	Extent of shareholder rights index (0–10.5)
Review and approval requirements for related-party transactions	Shareholders' rights and role in major corporate decisions
Internal, immediate and periodic disclosure requirements for related-party transactions	
Extent of director liability index (0–10)	Strength of governance structure index (0–10.5)
Minority shareholders' ability to sue and hold interested directors liable for prejudicial related-party transactions	Governance safeguards protecting shareholders from undue board control and entrenchment
Available legal remedies (damages, disgorgement of profits, fines, imprisonment, rescission of transactions)	
Ease of shareholder suits index (0–10)	Extent of corporate transparency index (0–9)
Access to internal corporate documents	Corporate transparency on ownership stakes, compensation, audits and financial prospects
Evidence obtainable during trial	
Allocation of legal expenses	
Extent of conflict of interest regulation index (0–10)	Extent of shareholder governance index (0–10)
Sum of the extent of disclosure, extent of director liability and ease of shareholder suits indices, divided by 3	Sum of the extent of shareholder rights, strength of governance structure and extent of corporate transparency indices, divided by 3
Strength of minority investor protection index (0–10)	
Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices	

¹²⁵ Based on : <http://www.doingbusiness.org/data/exploretopics/protecting-minority-investors/what-measured>

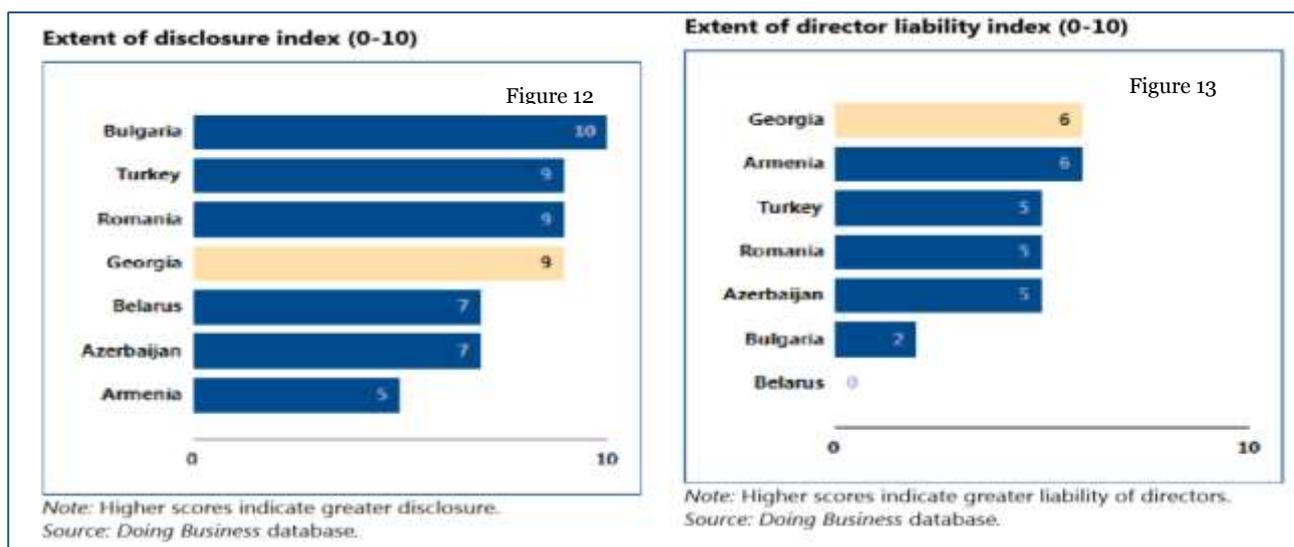
→How Georgia and comparator economies perform on the strength of minority investor protection index (World Bank Group, 2015; P. 48-58)¹²⁶?

According to the Doing Business database. Georgia stands at 43 in the ranking of 189 economies on the strength of minority investor protection index, keeping in mind that the indicator does not measure all aspects related to the protection of minority investors. Which mean that Georgia perform better than the regional Average (Figure 11) .



Other interesting question related to the protecting minority investors, which are:

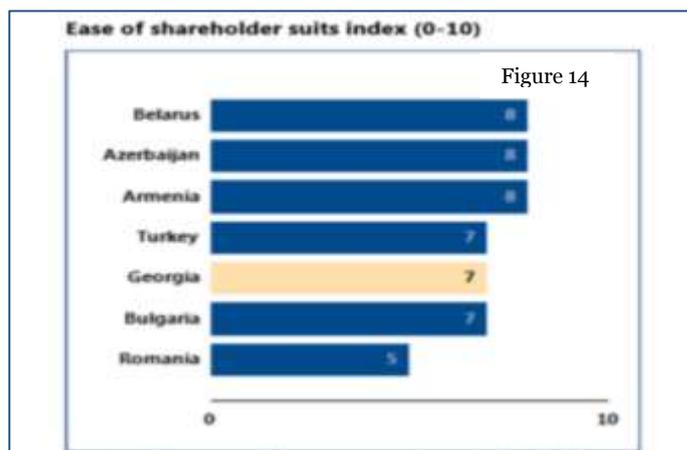
→How extensive are disclosure requirements in Georgia? See figure 12; How extensive is the liability regime for directors in Georgia? See figure 13



¹²⁶ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 48-58 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/-/media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

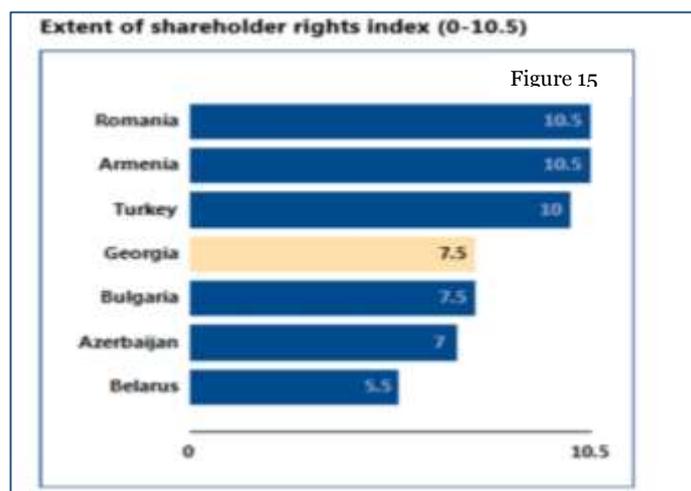
→How easy is accessing internal corporate documents? See figure 14

Georgia Scored 7, and as we can see in (figure 14) that Belarus, Azerbaijan, and Armenia have higher score, which means that those higher score countries can indicate greater minority shareholder access to evidence before and during trial than Georgia.

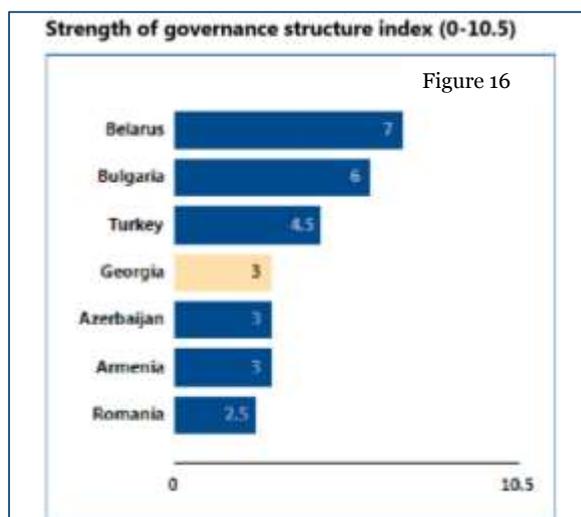


→How extensive are shareholder rights? See figure 15

According to the Doing Business database, by looking to the (figure 15), we can see the Romania, Armenia, and Turkey performing better than Georgia, and those counties have a higher score, which means that they have stronger the protection.



→How strong is the governance structure? See figure 16



According to the Doing Business database (figure 16), we can see the Belarus, Bulgaria, and Turkey performing better than Georgia, and those counties have a higher score, which means that they have more stringent governance.

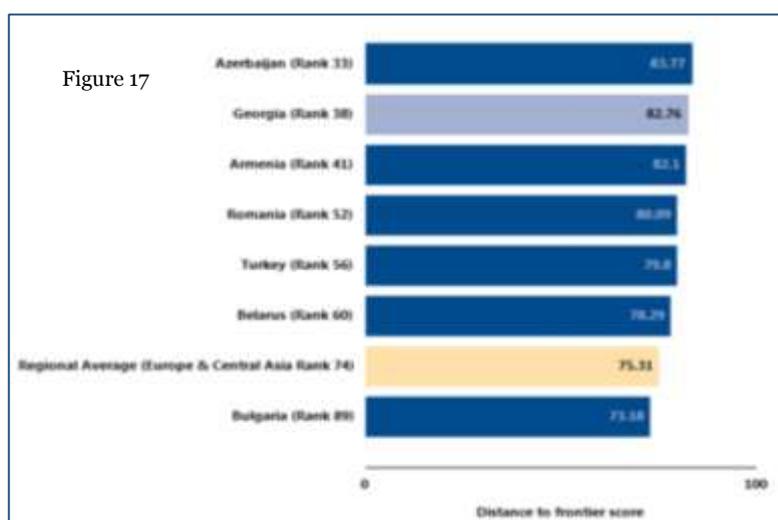
6.2.7 Paying Taxes

As we know that Doing business measure taxes. *What the paying taxes indicators Measures¹²⁷?*

- Tax payments for a manufacturing company in 2013 (number per year adjusted for electronic and joint filing and payment): Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax).
- Time required to comply with 3 major taxes (hours per year) : Computing the (1) tax payable, (2) tax return forms, (3) tax accounting books, if required.
- Total tax rate (% of profit before all taxes).

→How Georgia and comparator economies rank on the ease of paying taxes (World Bank Group, 2015; P. 60-62)¹²⁸?

According to the Doing business Database Georgia ranked 38 out of 189, and comparing it with the regional Average which is 74, we can it that Georgia performing better (Figure 17).



6.2.8 Trading Across Borders

Doing Business measures the time and cost that associated with exporting and importing.

→*What the Trading across borders indicators measure¹²⁹?*

- Documents required to export and import (number): Bank documents, Customs clearance documents, Transport documents;
- Time required to export and import (days);
- Cost required to export and import (US\$ per container).

¹²⁷ Based on: <http://www.doingbusiness.org/methodology/paying-taxes>

¹²⁸World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 60-62 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

¹²⁹ Based on: <http://www.doingbusiness.org/methodology/trading-across-borders>

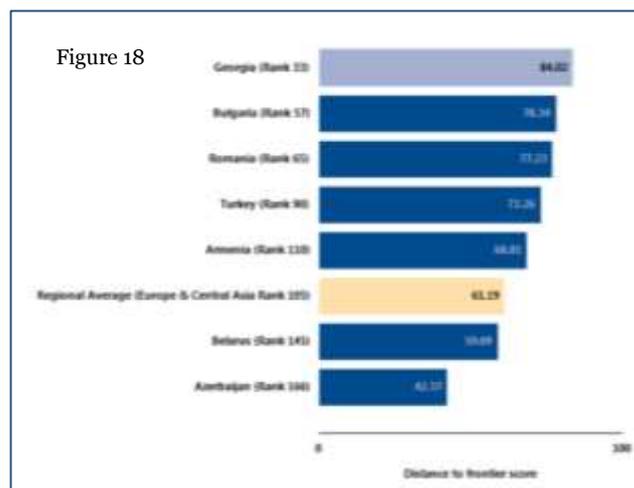
→What does it take to export or import in Georgia (World Bank Group, 2015; P. 64-67)¹³⁰?

According to data collected by Doing Business,

- Exporting a standard container of goods requires 4 documents, takes 9.0 days and costs \$1355.0.
- Importing the same container of goods requires 4 documents, takes 10.0 days and costs \$1595.0

→How Georgia and comparator economies rank on the ease of trading across borders?

Globally, Georgia stands at 33 in the ranking of 189 economies on the ease of trading across borders, (Figure 18).



6.2.9 Enforcing Contracts

Doing Business measures the efficiency of the judicial system in resolving a commercial dispute before local courts. Following the step-by-step evolution of a standardized case study, it collects data relating to the time, cost and procedural complexity of resolving a commercial lawsuit.

→What the enforcing contracts Indicators measure¹³¹?

- Procedures to enforce a contract through the courts (number).
- Time required to complete procedures (calendar days).
- Cost required to complete procedures (% of claim).
-

→How efficient is the process of resolving a commercial dispute through the courts in Georgia (World Bank Group, 2015; P. 69-74)¹³²?

According to data collected by Doing Business, contract enforcement takes 285.0 days, costs 29.9% of the value of the claim and requires 33.0 procedure.

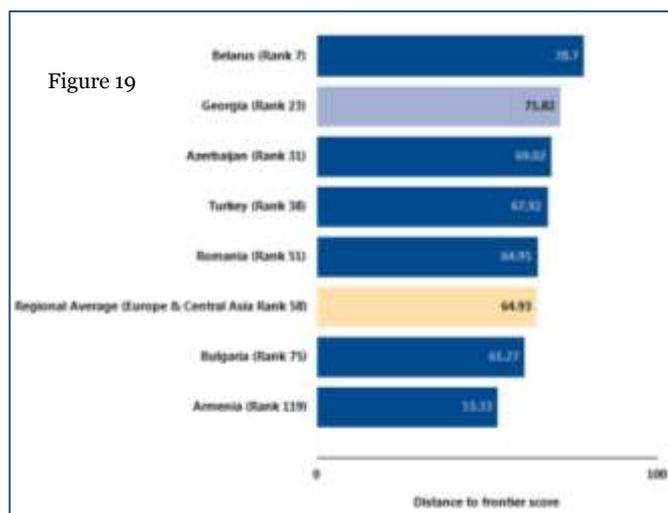
¹³⁰ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 64-67 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

¹³¹ Based on : <http://www.doingbusiness.org/methodology/enforcing-contracts>

¹³² World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 69-74 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

→How Georgia and comparator economies rank on the ease of enforcing contracts?

Globally, Georgia stands at 23 in the ranking of 189 economies on the ease of enforcing contracts. The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Georgia (Figure 19).

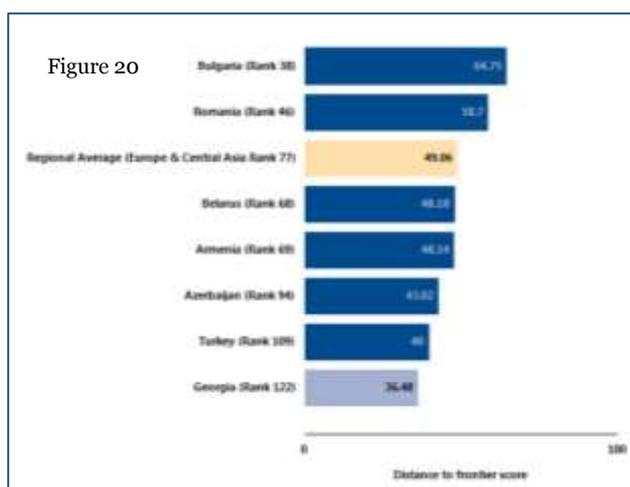


6.2.10 Resolving Insolvency

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic legal entities. *What the Resolving Insolvency indicators Measure¹³³?*

- Time required to recover debt (years).
- Cost required to recover debt (% of debtor's estate).
- Outcome.
- Recovery rate for creditors.
- Strength of insolvency framework index (0-16).

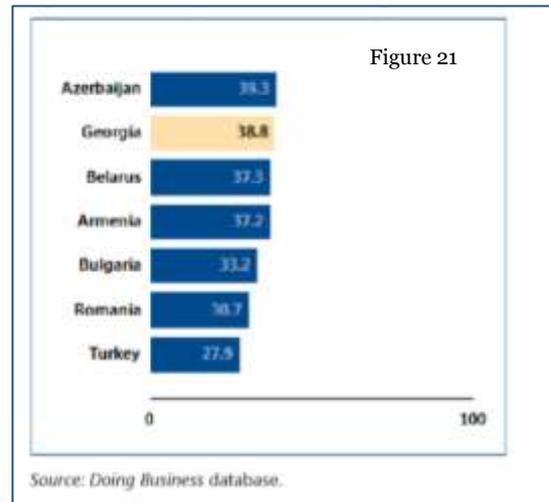
→ How Georgia and comparator economies rank on the ease of resolving insolvency (World Bank Group, 2015; P. 76-79)¹³⁴? See (Figure 20)



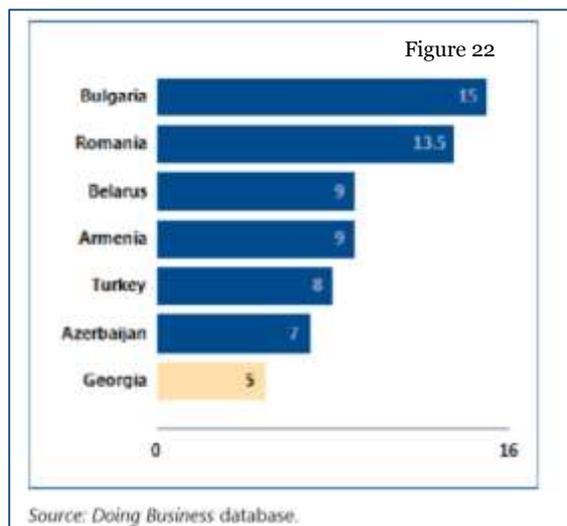
¹³³ Based on : <http://www.doingbusiness.org/methodology/resolving-insolvency>

¹³⁴ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, PP. 76-79 DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/-/media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

→Recovery Rate (0-100) – Georgia; see (Figure 21)



→Strength of insolvency framework index (0-16) – Georgia; see (Figure 22)



7. Is there a correlation between Easy Doing Business- EGD and Global Competitiveness Index- GCI?

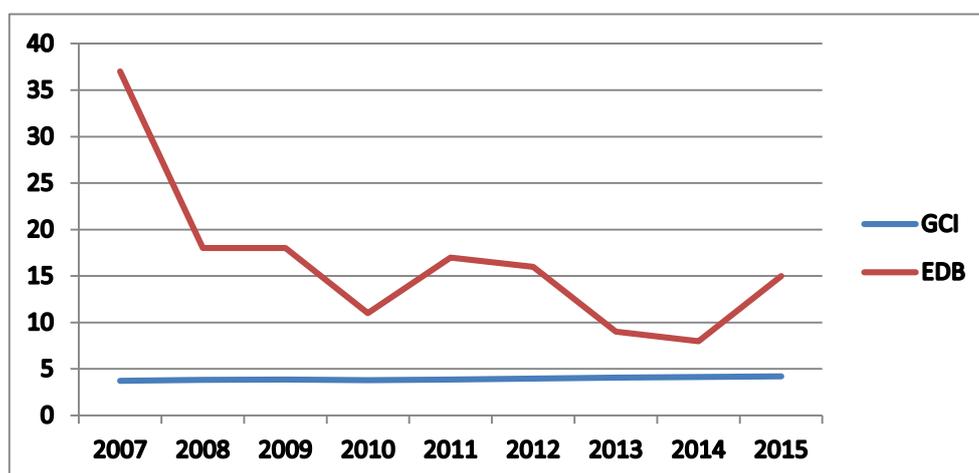
As we have seen, Doing Business measures business regulations for local firms. The project focuses on small and medium-size companies operating in the largest business city of an economy. Based on standardized case studies, it presents quantitative indicators on the regulations that apply to firms at different stages of their life cycle. But, why does Doing Business focus on the regulatory environment for small and medium-size enterprises?

Because these enterprises are key drivers of competition, growth and job creation, particularly in developing economies.

There is one approach in order to test whether Doing Business serves as a proxy for the broader business environment and for competitiveness, which is to look at the correlations between the Doing Business rankings and other major economic benchmarks. Also, closest to Doing Business in what it measures is the set of indicators on product market regulation compiled by the Organisation for Economic Co-operation and Development (OECD). These indicators are designed to help assess the extent to which the regulatory environment promotes or inhibits competition.

Therefore, in order to test the correlation from 2007 until 2015, between those two indexes “Easy Doing Business- EGD and Global Competitiveness Index- GCI”, I have used SPSS program to find if there is a correlation, and the results as the following:

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
EDB- Ranks	37	18	18	11	17	16	9	8	15
GCI - Scores	3.73	3.83	3.86	3.81	3.86	3.95	4.07	4.15	4.2



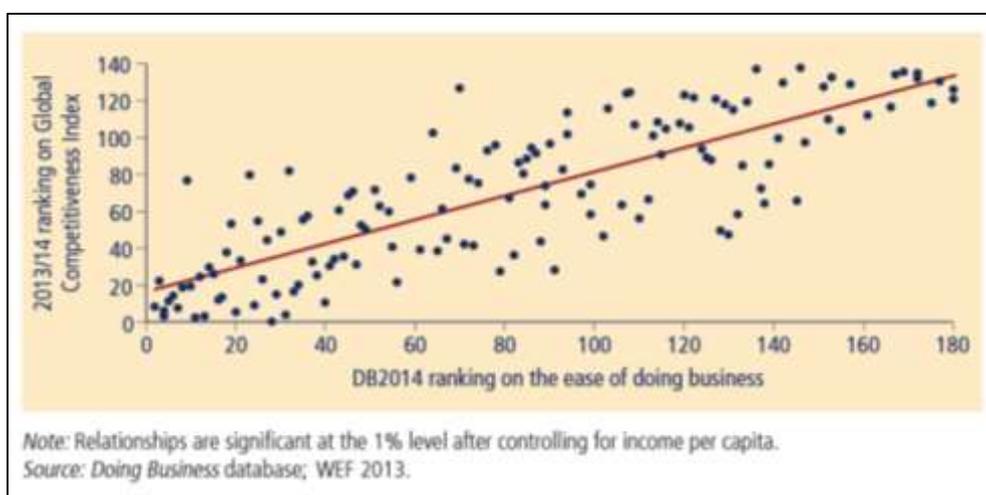
By using the data of the two indexes, as it is shown in the table above; according to the results of SPSS, we can observe that, there is a high negative correlation by (0,630) between the Doing Business rankings and the rankings on the World Economic Forum’s Global Competitiveness Index from 2007

until 2015, a much broader measure capturing such factors as macroeconomic stability, aspects of human capital, the soundness of public institutions and the sophistication of the business community. Self-reported experiences with business regulations, such as those captured by the Global Competitiveness Index, often vary much more within economies (across respondents in the same economy) than across economies high correlation such as this one can therefore coexist with significant differences within economies (World Bank).

Correlations			
		GCI	EDB
GCI	<i>Pearson Correlation</i>	1	-0,630*
	<i>Sig. (2-tailed)</i>		,034
	<i>N</i>	8	8
EDB	<i>Pearson Correlation</i>	-0,630*	1
	<i>Sig. (2-tailed)</i>	,034	
	<i>N</i>	8	8

*. Correlation is significant at the 0.05 level (2-tailed).

Addition to that, according to the report of Easy Doing Business in 2014; we can see from the graph below that, There is a high correlation (0.84) between the Doing Business rankings and the rankings on the World Economic Forum’s Global Competitiveness Index in year 2013/14, as well as a much broader measure capturing such factors as macroeconomic stability, aspects of human capital, the soundness of public institutions and the sophistication of the business community. Keeping in mind that, the World Economic Forum’s Global Competitiveness Report uses Doing Business data sets on starting a business, employing workers, protecting investors and getting credit (legal rights), representing 7 of a total of 113 different indicators (or 6.19%) (World Bank, 2013)¹³⁵.



¹³⁵ Based on : World Bank Group (2013) “Doing Business in 2014 -Understanding Regulations for Small and Medium-Size Enterprises”, The International Bank for Reconstruction and Development, World Bank, Washington, D.C. 20433; ISBN (paper): 978-0-8213-9984-2 <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-full-report.pdf>

8. Results and recommendation

Based on the above analysis, we can make several recommendations for the pillars which are belong to the two indexes that: The studies have shown that institutional reforms in Georgia are not enough to improve the country's competitiveness significantly.

The following problems are considered to be the major ones: (1) Political instability and conflict zones in the country; (2) High interest rates for loans; (3) Gaps in tax legislation; (4) Lack of appropriate infrastructure; (5) Irrelevance of qualification; (6) Inflation.

Nevertheless, the World Economic Forum recognizes that Georgia has made progress in several sectors and directions, such as institutions, macroeconomic indicators, higher education, labor market efficiency and others. On the other hand, according to the World Bank Report, I would like propose some recommendations in order to have better scores and ranks in the Georgian Competitiveness (World bank, 2013; pp. 1-52)¹³⁶:

1. As a small and open economy, Georgia's growth prospects are directly linked to its ability to produce and sell goods and services competitively in the global marketplace (World Bank, 2013). All the most successful developing countries, especially smaller ones, have achieved high and sustained growth by pursuing an export led growth strategy. Why? Not only because exports inject income to a national economy, but also because of positive spill over effects from exporting. In particular, export-led growth can lead to: economies of scale due to access to large markets; exposure to global best practices and competitive pressure; access to better and cheaper inputs; productivity upgrading through reallocation of production factors; and positive spill overs into the domestic economy through linkages and demand effects.
2. Export led growth provides also a strong motivation to reform the domestic industries which will continue to account for the vast majority of employment. Georgia's main domestic industries include agriculture, retail/wholesale, construction, transportation, health and education. Since economic growth is accounted for by productivity improvements by workers in all industries, export-led growth can play a key role in raising these productivity levels (World Bank, 2013).
3. In which products and industries will Georgia most likely be able to find a competitive advantage? Our analysis aims to methodically identify the most promising areas for Georgia's export diversification, and to provide some initial pointers to the constraints in achieving this objective. This is designed to be a first stage in a continuing process, which should include thorough engagement of the private sector, and identifying the most important reforms and catalytic investments to be made by government (World Bank, 2013).

¹³⁶ Based on: The world bank (2013) "Georgia Competitive Industries Preliminary Sector Diagnostic", World Bank, for the first 4 items, pp. 1- 52; <https://openknowledge.worldbank.org/handle/10986/16069>

** These challenges were identified by the World Bank Trade Competitiveness Diagnostic study, prepared under this Project by Jose Guilherme Reis, Jose-Daniel Reyes, and Gonzalo Varela from the International Trade Department of Poverty Reduction and Economic Management Network (PRMTR).

→ Main constraints to Georgia's Export Competitiveness

4. Georgia's export performance over the last decade can be described as dynamic albeit volatile. The sectoral composition of exports experienced some changes over this period. Within goods, minerals remained as the most important group of products exported, where Georgia has a revealed comparative advantage; but some sectors gained importance in the Georgian basket, such as (in order of importance) metals, chemicals, stone and glass, tourism, logistics and transportation, and textiles and clothing. In services, exports have grown relatively fast, led by a boom in tourism—the subsector that now accounts for the largest share of service export revenue (João Amador; Sónia Cabral, 2008)¹³⁷.
5. There are four key challenges for export competitiveness in Georgia: diversification, survival, productivity and sophistication (World Bank, 2011)¹³⁸:
 - I. First, the country needs to encourage export diversification, especially in products and services that embody higher levels of value addition.
 - II. Second, the country requires improving the likelihood of survival of export relationships in international markets.
 - III. Third, in order to keep exploiting the sector where the country has a comparative advantage and to diversify into high value added products, Georgia needs to find ways to increase the productivity of its economy. A policy aimed at upgrading the productivity of the Georgian economy would not only translate into better prices in international markets but also into higher chances of successfully competing and surviving in international markets.
 - IV. Finally, the country needs to increase products and export sophistication, including via diversification into higher value added products and services. This can be achieved through increased innovation, knowledge and technology transfer and absorption, while will require large investments into skills and technologies.
6. As defined in Trade Competitiveness Diagnostic Study, the four main constraints to export growth and competitiveness are (World Bank,2013)¹³⁹:
 - I. lack of clear vision and strategy for economic reform priorities and private sector development;
 - II. limited access to finance;
 - III. skills imbalances, and

¹³⁷ João Amador; Sónia Cabral (2008) "The Portuguese Export Performance In Perspective: A Constant Market Share Analysis" Economic Bulletin; https://www.bportugal.pt/en-US/BdP%20Publications%20Research/AB200813_e.pdf

¹³⁸ World Bank Group (2011) "Trade Competitiveness Diagnostic Toolkit", The International Trade Department, V.1; <http://siteresources.worldbank.org/INTRANETTRADE/Miscellaneous/22955722/TCDtoolkitvJune2011.pdf>

¹³⁹ Based on: The world bank (2013) "Georgia Competitive Industries Preliminary Sector Diagnostic", World Bank; <https://openknowledge.worldbank.org/handle/10986/16069>

IV. Lack of information about export markets and traditional market support for MSMEs and exporters.

7. Addition to that, we have to make some reforms in order to improve the competitiveness in such areas, like:

☑ Policies to improve competitiveness: Choosing the right policy depends on identifying the cause of the lack of competitiveness. The causes of poor competitiveness vary between countries and over time (George Higson, 2010; pp.65)¹⁴⁰.

☑ Improving labour productivity: Labour productivity can be improved by increasing spending on education and training to help develop skills and close any skills gap. However, this is expensive and takes time. Government may also promote a more flexible labour market, such as reducing trade union power, encouraging part-time work, and encouraging new business start-ups. However, this also takes time and the increase in flexibility can reduce worker security and lead to lower wages (Faridah Djellal, Faiz Gallouj, 2009)¹⁴¹.

☑ Improving competition in product markets: The level of competition in product markets can also be improved by deregulation to reduce barriers to entry, though this has its limits as some regulation is needed to protect consumers and employees from unfair practices. Finally, reducing monopoly power through regulation and competition policy are strategies that can be effective in creating a more dynamic and competitive micro-economy. However, it can be argued that monopoly power helps generate some dynamic efficiency, and the advantages of economies of scale might be lost if monopolies are broken up¹⁴².

☑ Improving the level of investment: Competition may be increased by investment grants and subsidies, and by tax incentives to encourage new product development. Keeping interest rates low is also a strategy that would encourage investment. In addition, keeping them as stable as possible would increase certainty and reduce risk. However, the danger with too low interest rates is that they could trigger an increase in household spending (C) causing demand pull inflation, which would worsen, rather than improve, competitiveness. Finally, investment may be stimulated by reducing the *interest rate elasticity* of investment, which means it is easier to raise interest rates without a negative effect on

¹⁴⁰ Based on: George Higson (2010) "Global Economy- An introduction to International Economies and Economic Development" Online book, U.K., pp.65; <https://books.google.gr/books?id=8goTQg9s7UgC&pg=PA65&lpg=PA65&dq=Policies+to+improve+competitiveness:+Choosing+the+right+policy+depends+on+identifying+the+cause+of+the+lack+of+competitiveness.+The+causes+of+poor+competitiveness+vary+between+countries+and+over+time.&source=bl&ots=A5zkK4Uyx&sig=h7mHdLx3JdmOEsvaqvzI0t2WlFo&hl=en&sa=X&ved=0CCYQ6AEwAwVChM18M0m2cvdxgIVQm8UCh2akw5u#v=onepage&q=Policies%20to%20improve%20competitiveness%3A%20Choosing%20the%20right%20policy%20depends%20on%20identifying%20the%20cause%20of%20the%20lack%20of%20competitiveness.%20The%20causes%20of%20poor%20competitiveness%20vary%20between%20countries%20and%20over%20time.&f=false>

¹⁴¹ Based on : Faridah Djellal, Faiz Gallouj (2009) "Measuring and Improving Productivity in Services: Issues, Strategies and Challenges", USA, pp.25 ; ISBN: 9781847202697 <https://books.google.gr/books?id=y2DMrncQpwYC&pg=PA25&dq=Improving+labour+productivity&hl=en&sa=X&ved=0CB4O6AEwAGoVChMInpixqM7dxgIVjDwUCh39vwav#v=onepage&q=Improving%20labour%20productivity&f=false>

¹⁴² Based on: <http://sarfed.org/Competitiveness%20for%20economic%20growth.pdf>

investment. This could be achieved by investment grants and tax relief on investment (World Bank, 2006)¹⁴³.

☑ *Creating a stable macro-economic environment*: Also central to an effective strategy to improve competitiveness, is strategy inflation under control. This can be achieved through a combination of monetary and fiscal measures. However, higher interest rates can also deter investment, and could damage competitiveness in the long run. A stable exchange rate would also create less uncertainty, and would give firms more confidence to invest.

On the other hand, according the report of **Easy doing Business in 2015** in Georgia¹⁴⁴; I would like to stress that, as we have seen that 6 pillars out of 10 were had a worst performance, which are as the following: (1) Getting Electricity; (2) Protecting Investors; (3) Paying Taxes; (4) Trading Across Borders; (5) Enforcing Contracts; (6) Resolving Insolvency. The question is how we can help and reform those Pillars, to perform better?

☑ *Improving the level of Getting Electricity*: In Georgia the National Commission on Energy and Water Regulation, through a resolution adopted in November 2011, also introduced a new process and a revised fee structure. The changes reduced the number of procedures by 1, the time by a quarter and the cost by a fifth. Therefore, we can improve the level of Getting Electricity; by getting electricity easier by simplifying the process of connecting new customers to the distribution network and reducing connection fees (World Bank, 2013; pp.64-67)¹⁴⁵.

☑ *Improving the level Protecting Investors*: As it is known, when investors finance firms, they typically obtain certain rights or powers. Addition to that, the legal protection of investors as a potentially useful way of thinking about corporate governance. Therefore, strong investor protection may be a particularly important manifestation of the greater security of property rights against political interference in some countries. Empirically, strong investor protection is associated with effective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms. (World Bank, 1999)¹⁴⁶. As we have seen before that, Georgia strengthened investor protections by introducing requirements relating to the approval of transactions between interested parties, as well as by allowing greater access to corporate information during the trial, and by amending its securities law to enhance approval and disclosure requirements for related-party transactions. However Georgia needs to improve the level of Protecting Investors through reforms; for example Georgia has protect the rights of outside investors, including both shareholders

¹⁴³ Based on: Kristin Hallberg (2006) "Improving Investment Climates: An Evaluation of World Bank Group Assistance", the World Bank Group, Washington DC 20433, ISBN10:0-8213-6282-8
https://books.google.gr/books?id=M5sWhAWz2ZAC&pg=PA32&dq=Improving+the+level+of+investment+and+hl=en&sa=X&ved=0CB4Q6AEwAGoVChMI_Z-WSNDdxgIVgYgsCh36rQvJ#v=onepage&q=Improving%20the%20level%20of%20investment&f=false

¹⁴⁴ World Bank Group (2015) "Doing Business 2015 – Economic Profile 2015 Georgia", The World Bank, Washington, DC 20433; ISBN (paper): 978-1-4648-0351-2; <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/GEO.pdf>

¹⁴⁵ Based on: The World bank Group (2013), pp.64-47; <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-Chapters/Getting-electricity.pdf>

¹⁴⁶ The World Bank Group (1999) "Investor Protection: Origins, Consequences, Reform", The World Bank, Washington, DC 20433
http://www1.worldbank.org/finance/assets/images/Fs01_web1.pdf

and creditors, in order to expand financial markets, to facilitate external financing of new firms, to move away from concentrated ownership, and to improve the efficiency of investment allocation¹⁴⁷.

☑ **Paying Taxes:** Georgia succeed to implement such reforms in order to have better results, and those reforms as the following: (1) In 2009: Georgia made paying taxes less costly for companies by reducing the corporate income tax rate and abolishing the social tax; (2) In 2013: Georgia made paying taxes easier for companies by enhancing the use of electronic systems and providing more services to taxpayers; (3) In 2012: Georgia made paying taxes easier for firms by simplifying the reporting for value added tax and introducing electronic filing and payment of taxes. Addition to that Georgia still working hard to have better performance in this pillar (World Bank Group, 2013; pp.)¹⁴⁸.

☑ **Trading Across Borders:** Georgia has made the greatest progress toward the frontier in regulatory practice in trading across borders since 2005. However in order Georgia to have better performance, Georgia has to be improved in: (1) The electronic submission and processing; (2) improve customs administration, for example to have facilitates of overnight processing of customs declarations by extending the hours for lodging customs entries; (3) Introduced electronic single window and unique payment system integration customs, as well as control agencies; (4) Last but not least improve risk-based inspections (World Bank Group, 2013; pp.86-89)¹⁴⁹.

☑ **Improving the level Enforcing Contracts:** The enforcing contracts topic assesses the efficiency of the judicial system by following the evolution of a commercial sale dispute over the quality of goods and tracking the time, cost and number of procedures involved from the moment the plaintiff files the lawsuit until payment is received. Georgia has made several reforms in the last 5 years, For example: (1) In 2013: Georgia made enforcing contracts easier by simplifying and speeding up the proceedings for commercial disputes. (2) In 2011: Georgia made the enforcement of contracts easier by streamlining the procedures for public auctions, introducing private enforcement officers and modernizing its dispute resolution system. On the other hand, I would like to recommend Georgia to work on new reforms, such as: (1) Introduce or expand computerized case management system, to submit legal documents through the court's website, deliver judgments electronically and consult legal records remotely; (2) introduce separate procedural rules for small, simple and complex claims, in other words to Increase procedural efficiency at main trial court; (3) Make enforcement of judgment more efficient (World Bank Group, 2012; pp.1-9)¹⁵⁰. In order to improve the level of Enforcing Contracts, in the next years.

¹⁴⁷ NBER (1999) "Investor Protection: Origins, Consequences, and Reform", NBER working paper series, Cambridge, MA 02138, pp.22; <http://www.nber.org/papers/w7428.pdf>

¹⁴⁸ Based on : World Bank Group (2013); <http://www.doingbusiness.org/data/exploretopics/paying-taxes/reforms>

¹⁴⁹ Based on : World Bank Group (2013), pp. 86-89 <http://www.doingbusiness.org/~ /media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-Chapters/Trading-across-borders.pdf>

¹⁵⁰ Based on: World Bank Group (2012), pp.1-9 <http://www.doingbusiness.org/reports/global-reports/~ /media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB12-Chapters/Enforcing-Contracts.pdf>

☑ Improving the level Resolving Insolvency: I would like to ask an important question, which is; why does a good insolvency regime matter? And the answer is keeping viable businesses operating is among the most important goals of bankruptcy systems. A good insolvency regime should inhibit premature liquidation of sustainable businesses¹⁵¹. And as we have seen from the results of Easy doing business report in 2015, that Georgia needs to improve the level of Resolving Insolvency, Georgia needs to:

(1) Create new legislations and legal actions;

(2) Reduce the informal arrangements between the company or the person with the creditors; such as making alternative payment arrangements;

(3) Reduce the procedures, have shorter time, and decrease the cost.

¹⁵¹ See Djankov and others (2008).

9. Conclusion

As we have seen, this paper focused particularly in Georgia as a case study. It focused in the scores and the ranks of two indices “Global Competitiveness Index - GCI and Ease Doing Business- EDB”, in order to measure the competitiveness and the business environment. On the other hand it gave us a clear view about challenges and perspectives, as well as the correlation between the two indices.

Therefore, the case of Georgia as the following; Georgia became independent in **1991**, Georgia encountered problems such as ethnic conflicts and civil war. During the **1992-1995** periods, Georgian economy was in a very poor situation. Therefore, the country had no choice but to carry out swift and radical economic reforms. However starting from **1995**, Georgian economy began to show development signs. During last decade Georgia was in the permanent process of the development of new legislative framework. The government that came to power in Georgia after the **2003** Rose Revolution implemented a number of reforms that successfully, and remarkable increases in the economy with the Saakashvili government, due to the introduction of a political and economic stabilization program, which involved the strengthening of central authority, decline of crime rates and acceleration of privatization. In **2008 and 2009**, the global finance crisis have been Georgia. Then, Georgia succeed to have the best Business environment compering with, the BS-10 and others in general.

As we learned, that the concept of competitiveness involves static and dynamic components. Although the productivity of a country determines its ability to sustain a high *level* of income, it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy’s *growth potential*. Georgia experienced many improvements in competitiveness, in the last decades after many reforms. According to the *Global Competitiveness Report*; Georgia in year 2014-2015 ranked 69th out of 144 countries. As well as, Georgia achieved the second stage of development, which is (Efficiency Driven).

Also, as we have seen the *economy profile of Georgia* presents the Doing Business indicators of Georgia; it provided useful data to the economists and for investors, and recommendations, in order to have a complete image concerning the businesses in Georgia, as well as to know the strong and the weak points of the Georgia environment. According to the *Easy Doing Business Report* in 2015; Georgia ranked 15 out of 189. Addition to that, Georgia’s reputation as a business-friendly state has been demonstrated through both past economic success and numerous national rankings and accolades.

In the main time, we tested if there is any correlation between the two indices “GCI and EDB” from year 2007 until 2015; using the SPSS program, so we achieved that, there is a high negative correlation by (0,630) between the Doing Business rankings and the rankings on the World Economic Forum’s Global Competitiveness Index in those 9 years.

To Sum, Georgia is one of the best countries which belongs to a free economy and one of the successful stories; Georgia has Lower middle income, which is help the country to have more investors and investments; I stressed some recommendation for Georgia, regarding the pillars which need to be reformed, in both indices (GCI and EDB), in order to have a better scores in the Business Environment, and higher level of competitiveness and ranks.

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