



**International
Finance Corporation**
World Bank Group

Georgia Business Perception Survey 2012

Georgia Tax Simplification Project

April 20, 2012

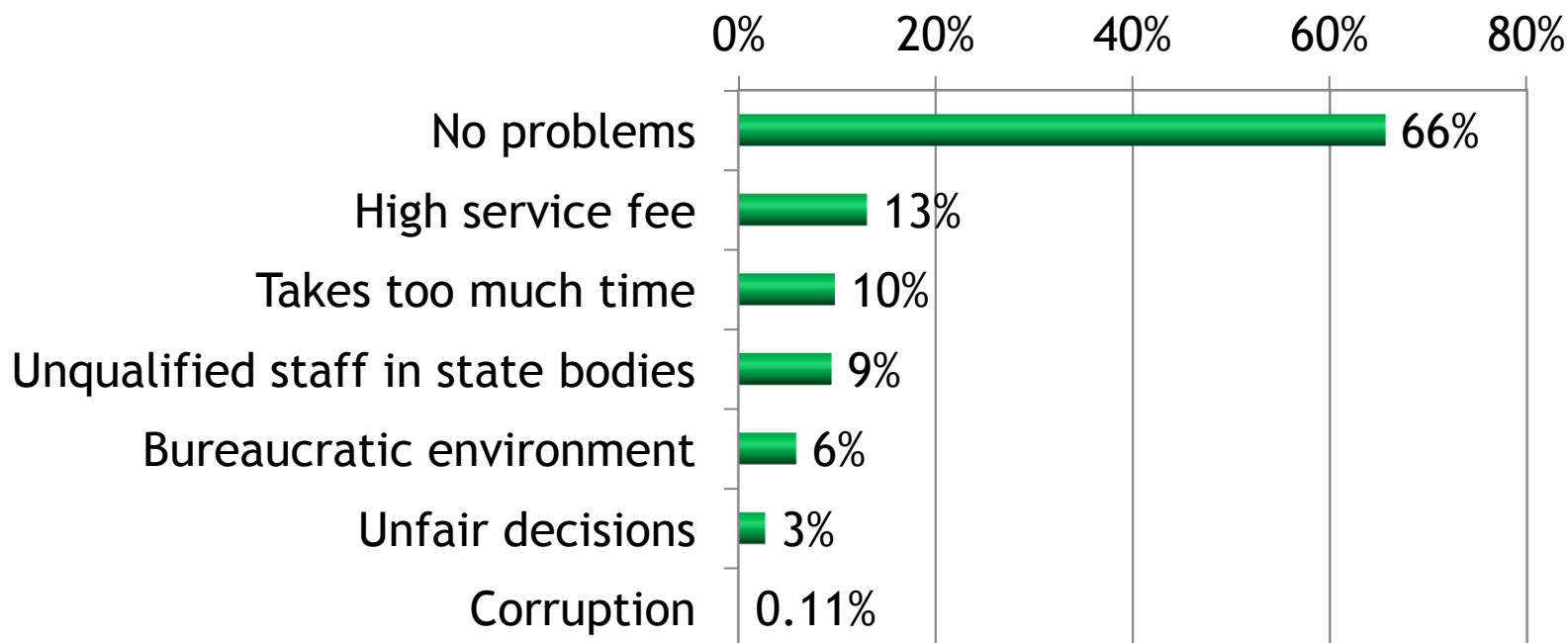
Brief Description of the Survey

- Survey Conducted in Jan-Feb 2012
- Owners and managers of 1029 active firms surveyed face-to-face:
 - 364 small (annual revenue $\leq 100,000$ GEL)
 - 398 medium (revenue between 100,000 and 1,500,000)
 - 267 large (revenue greater than 1.5 million)
- Stratified (by size, sector and region) random sampling design

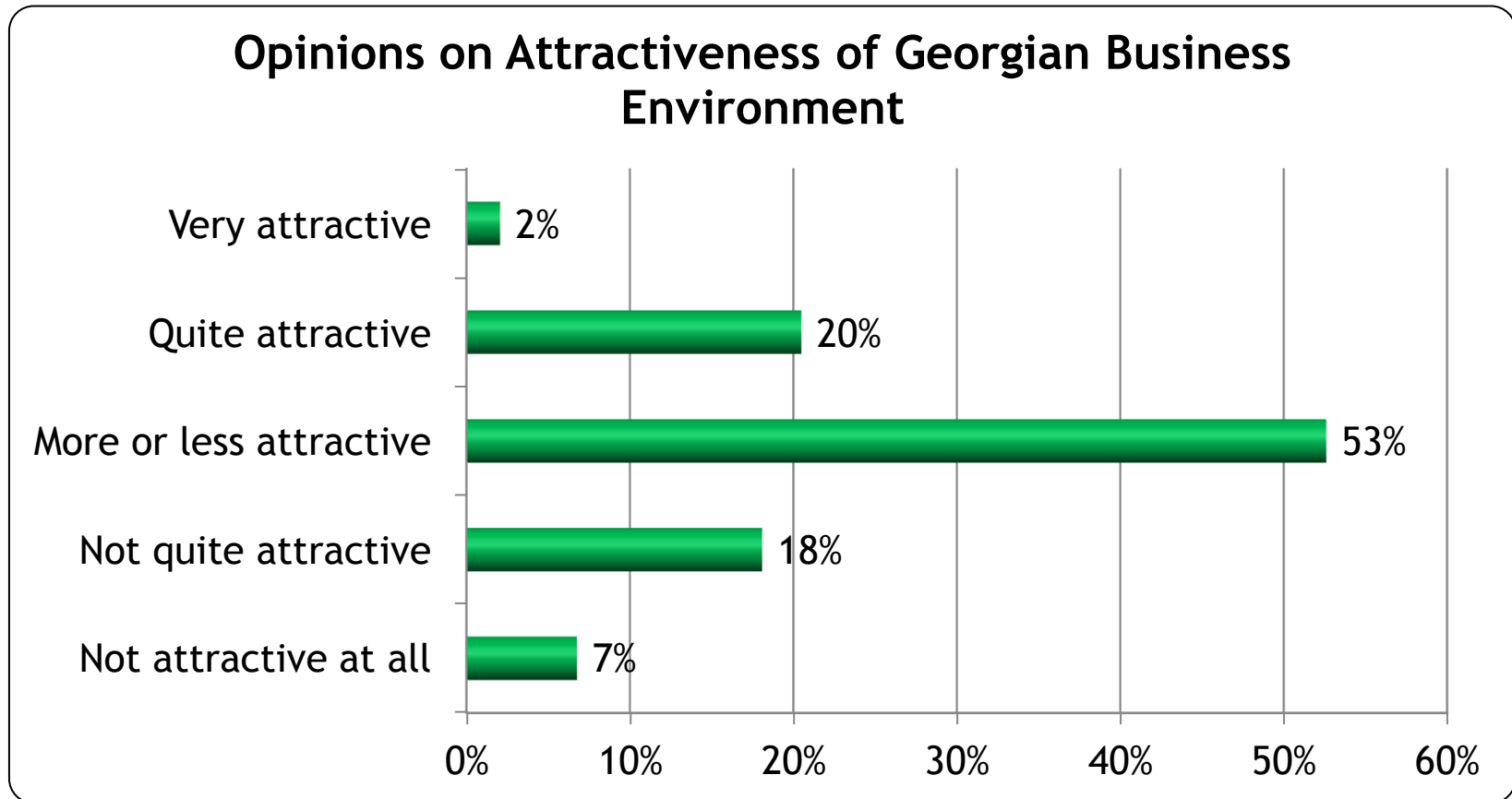
Almost two-thirds of all firms experience no problems in relations with state bodies

Only 1 respondent out of 920 (0.11%) mentioned corruption

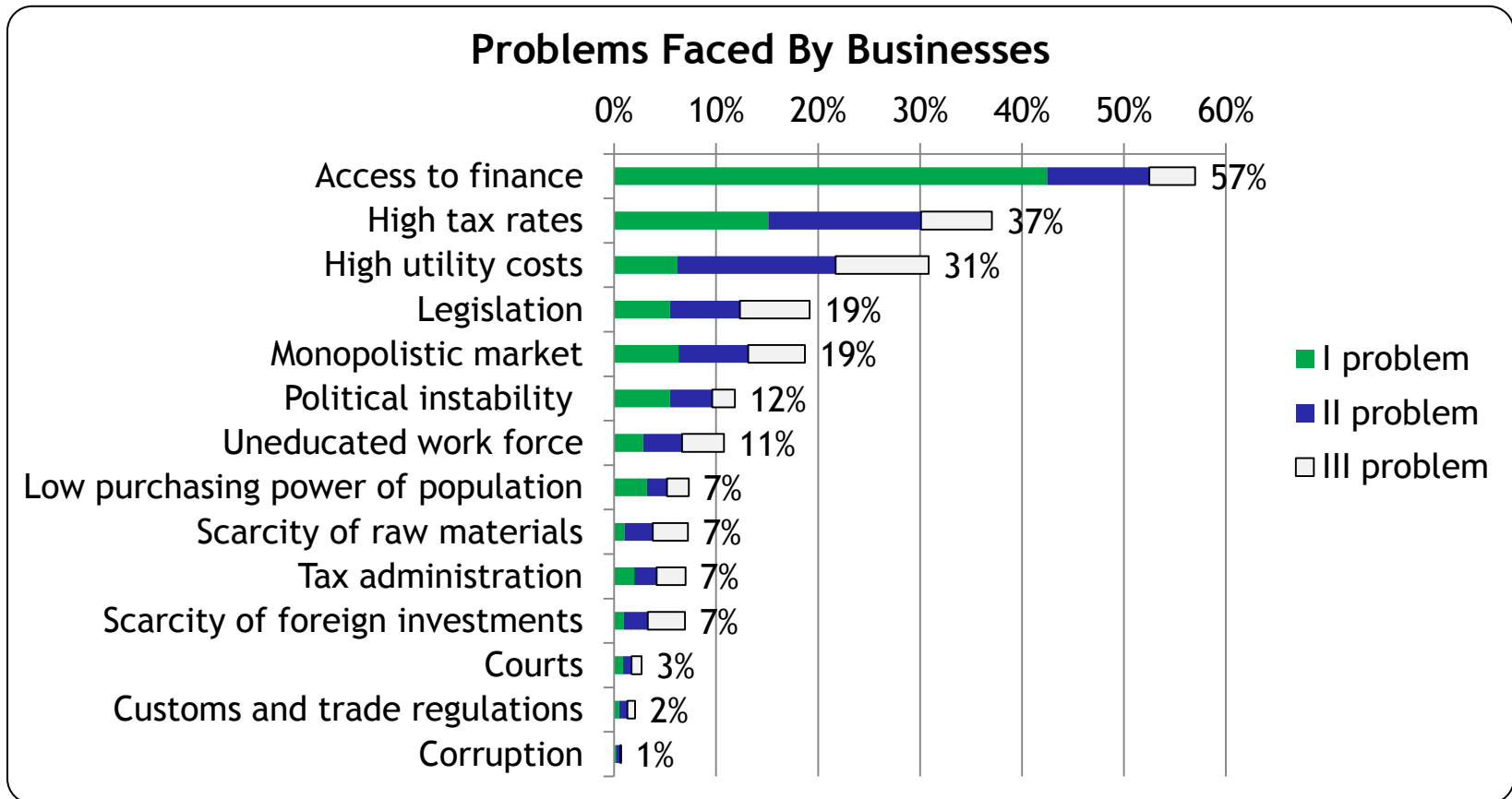
Problems in Relations with Budgetary Organizations



Majority thinks Georgia business environment is more or less attractive

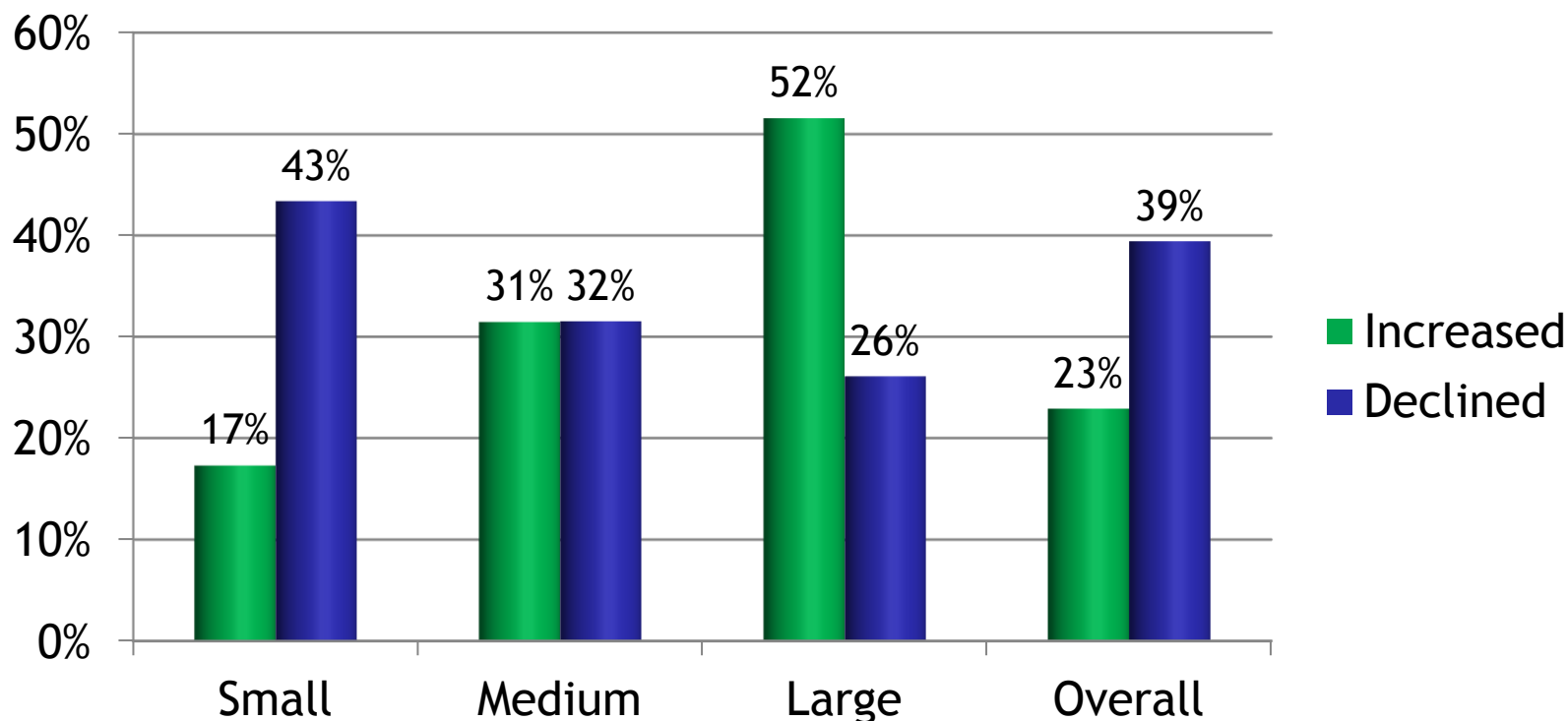


Access to finance, tax burden and utility costs are major problems; few complain regarding corruption and courts



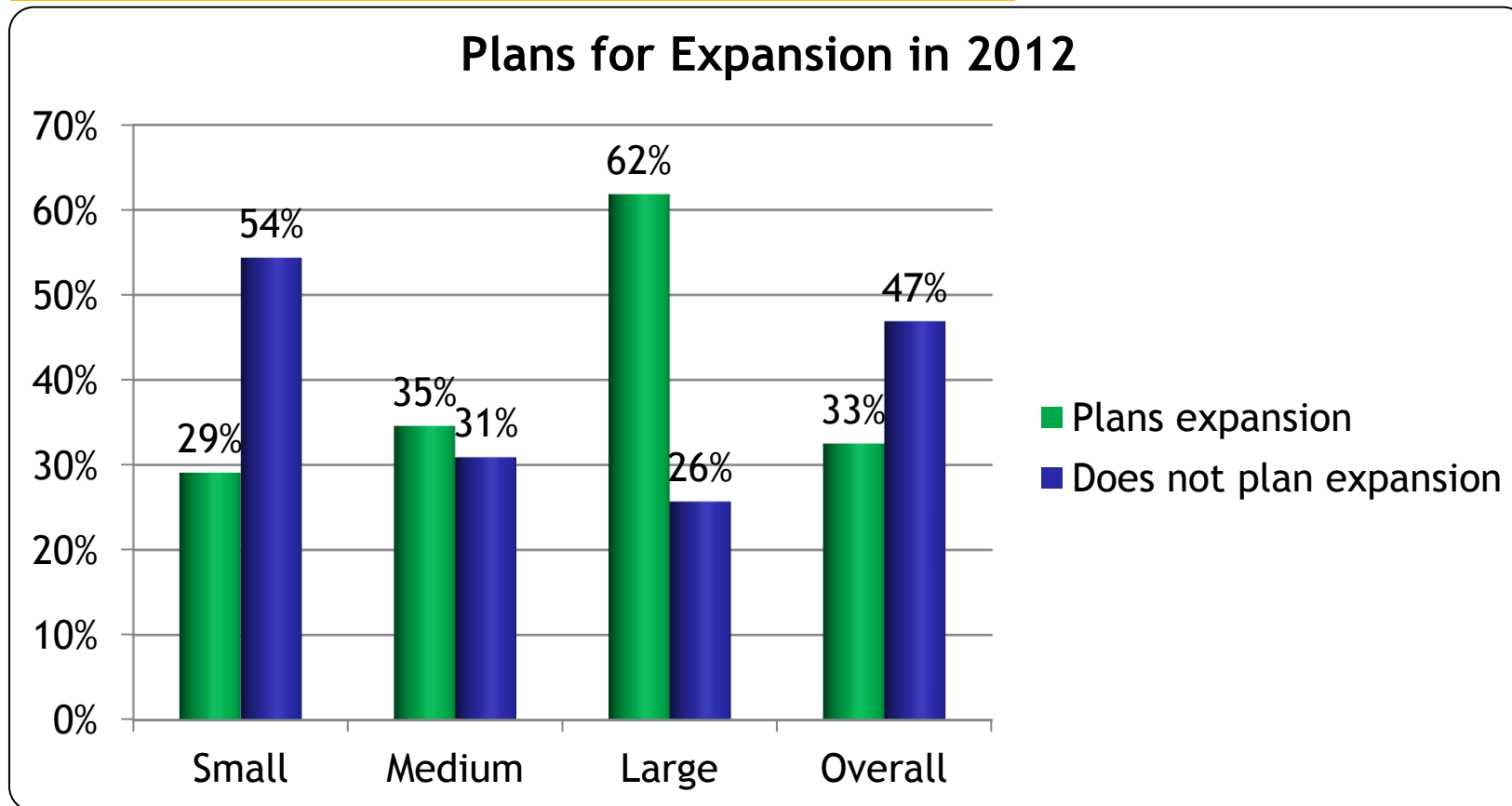
Larger firms have better growth results in 2011 compared to smaller firms, which were more likely to decline

Business Growth in 2011 Compared to 2010



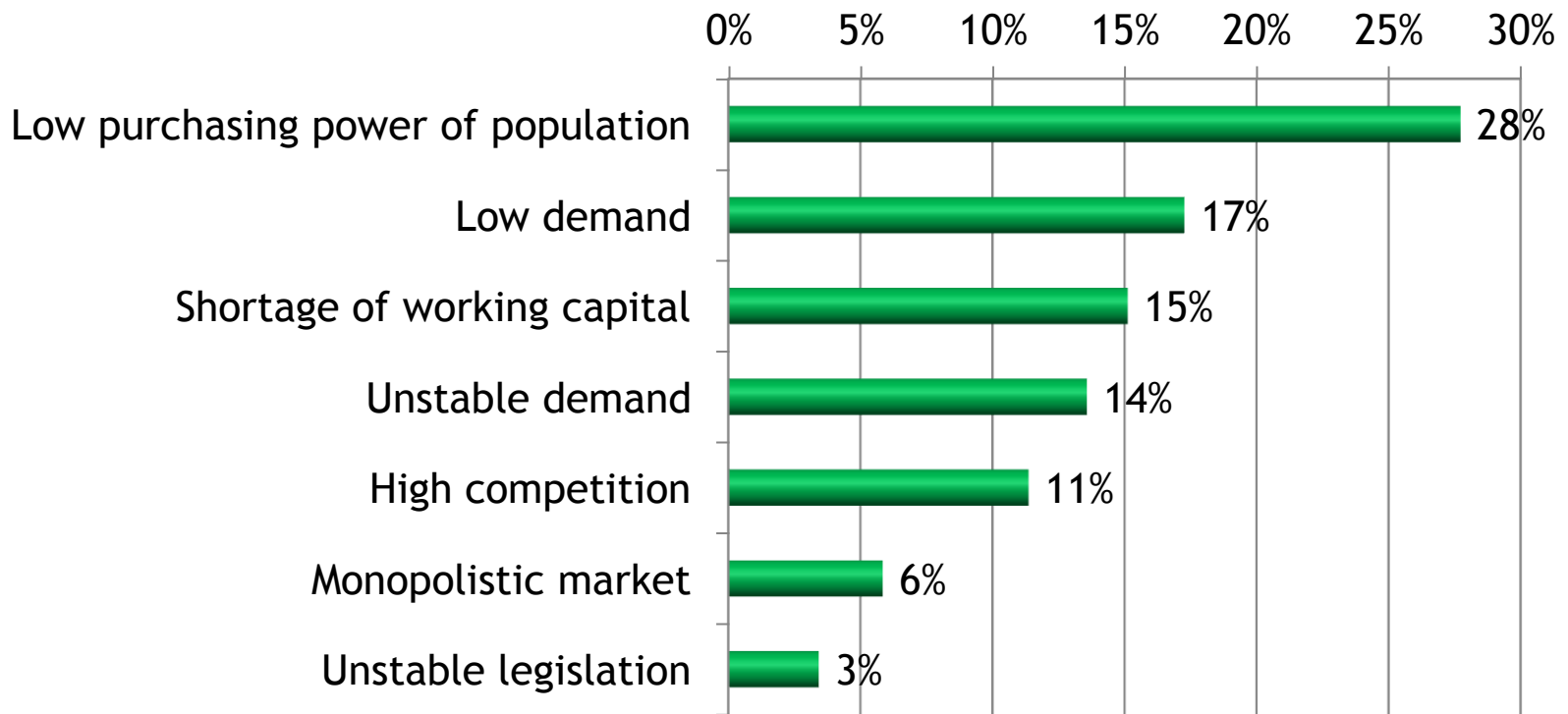
Larger firms are also more optimistic regarding future expansion

Majority plans expansion by their own funds (52%) and loans (37%)



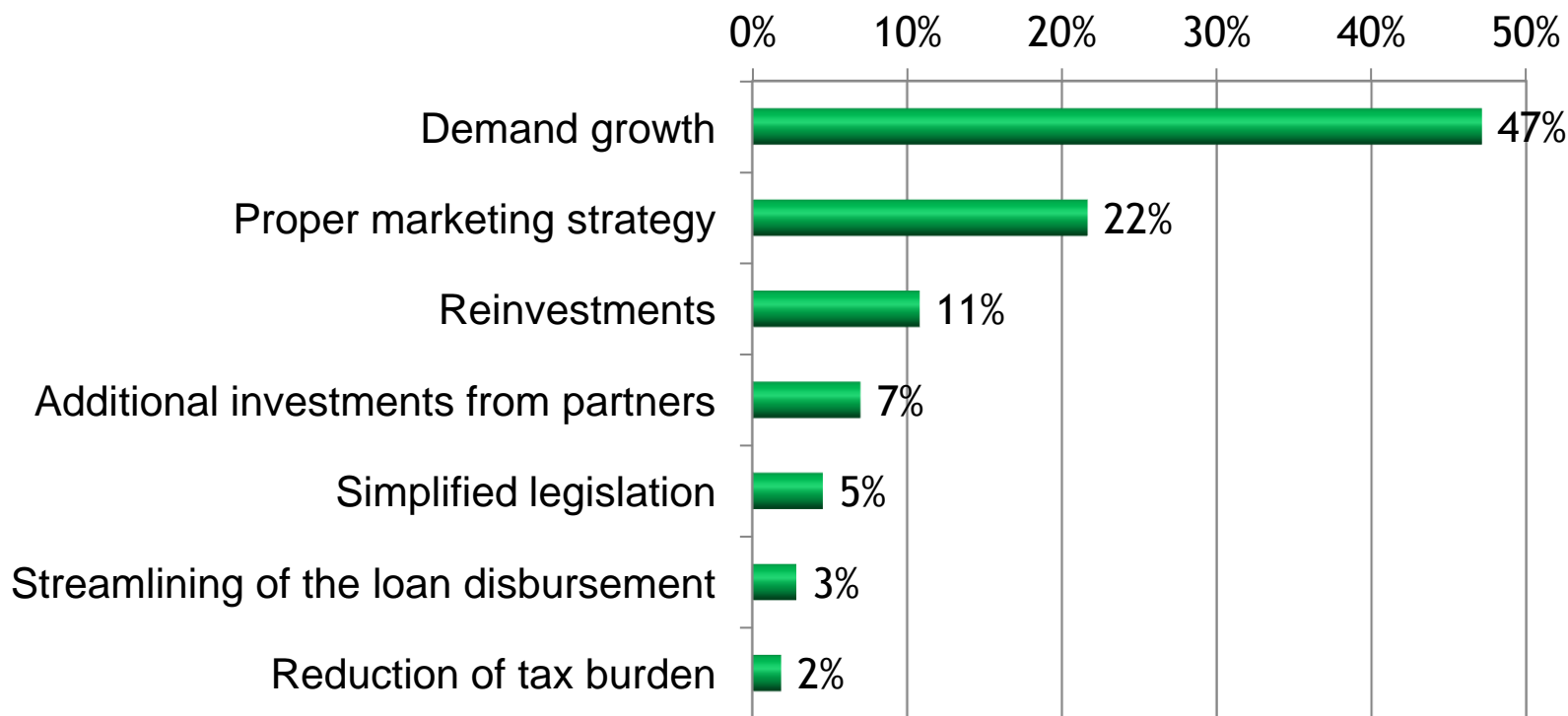
Demand-side problems are a major cause of business decline

Reasons for Business Decline

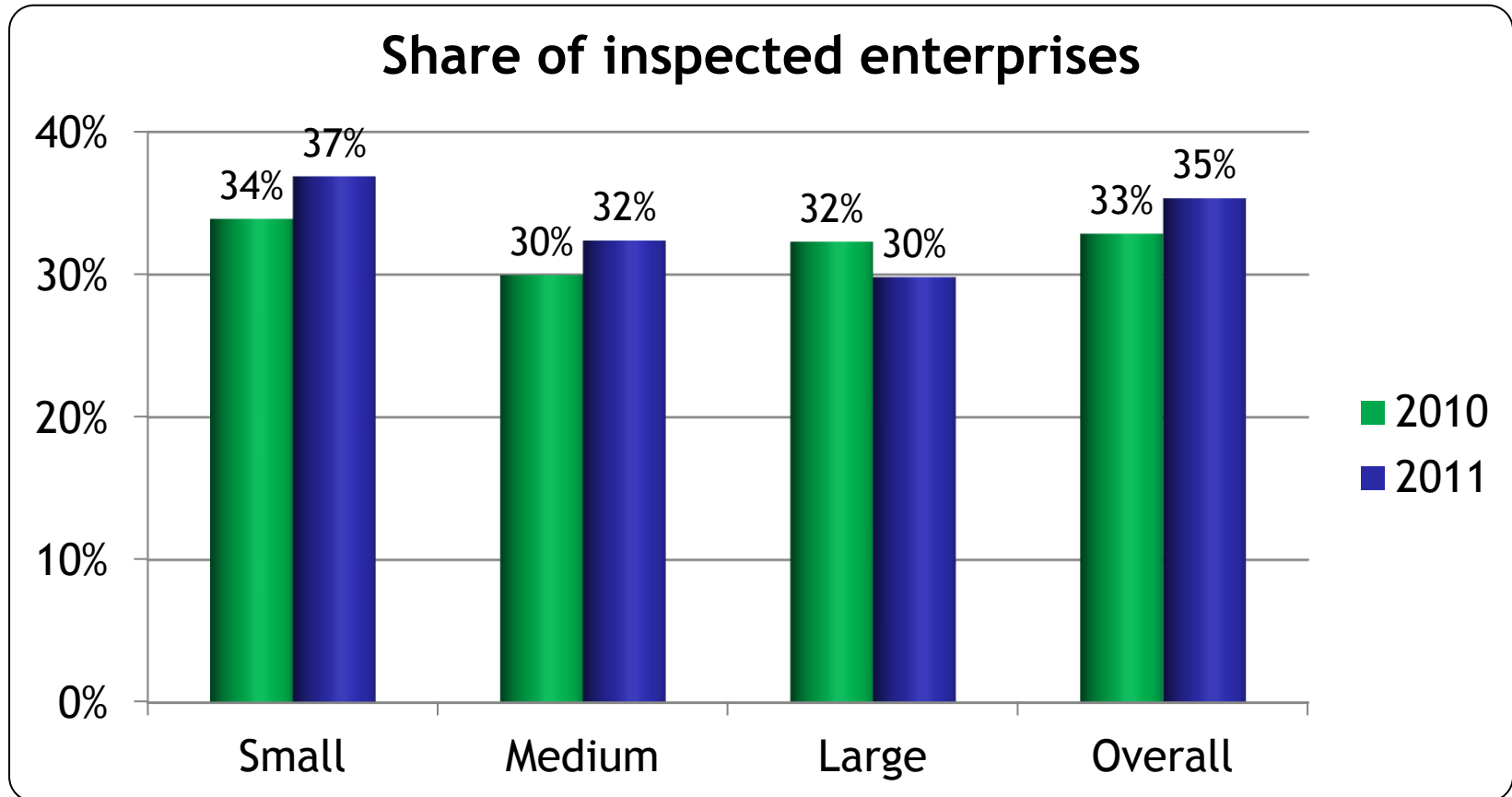


Similarly, increased demand is a major reason for business growth

Reasons for Business Growth

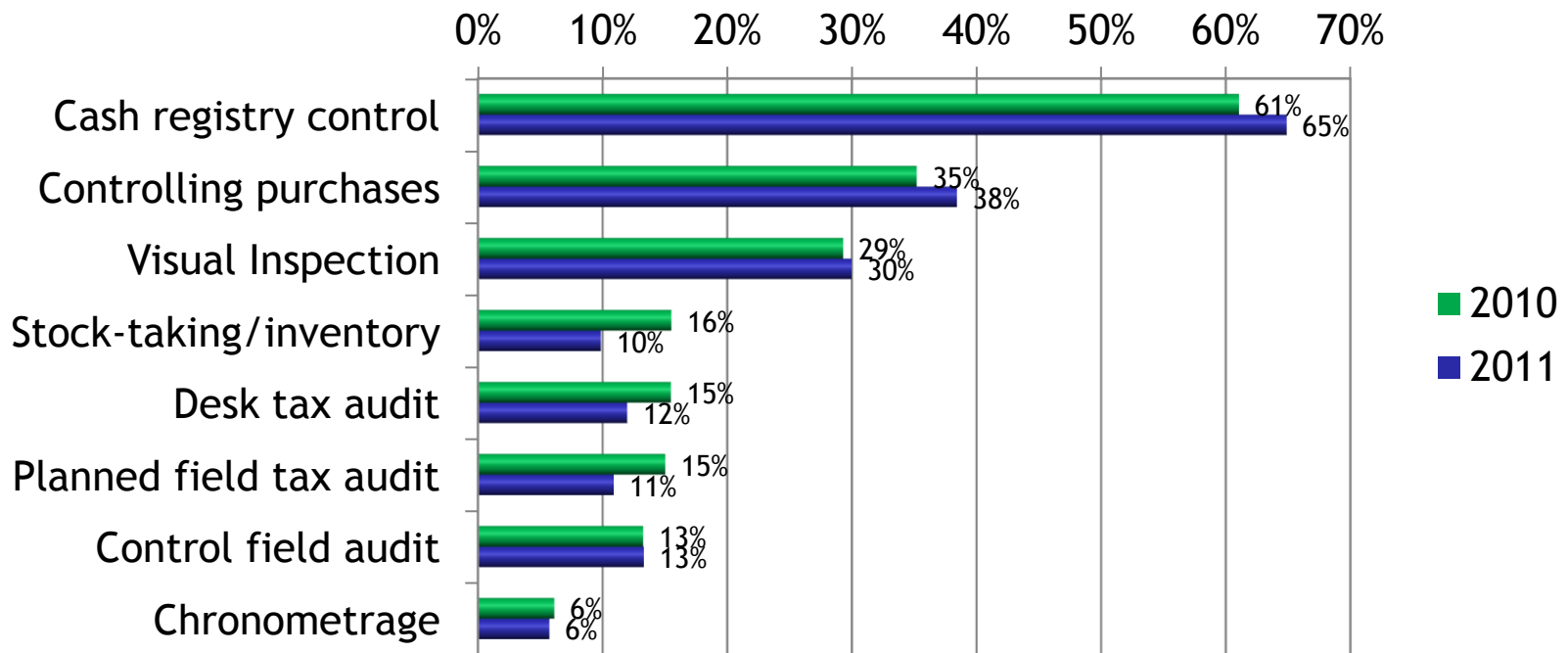


One third of firms are inspected by Revenue Service annually



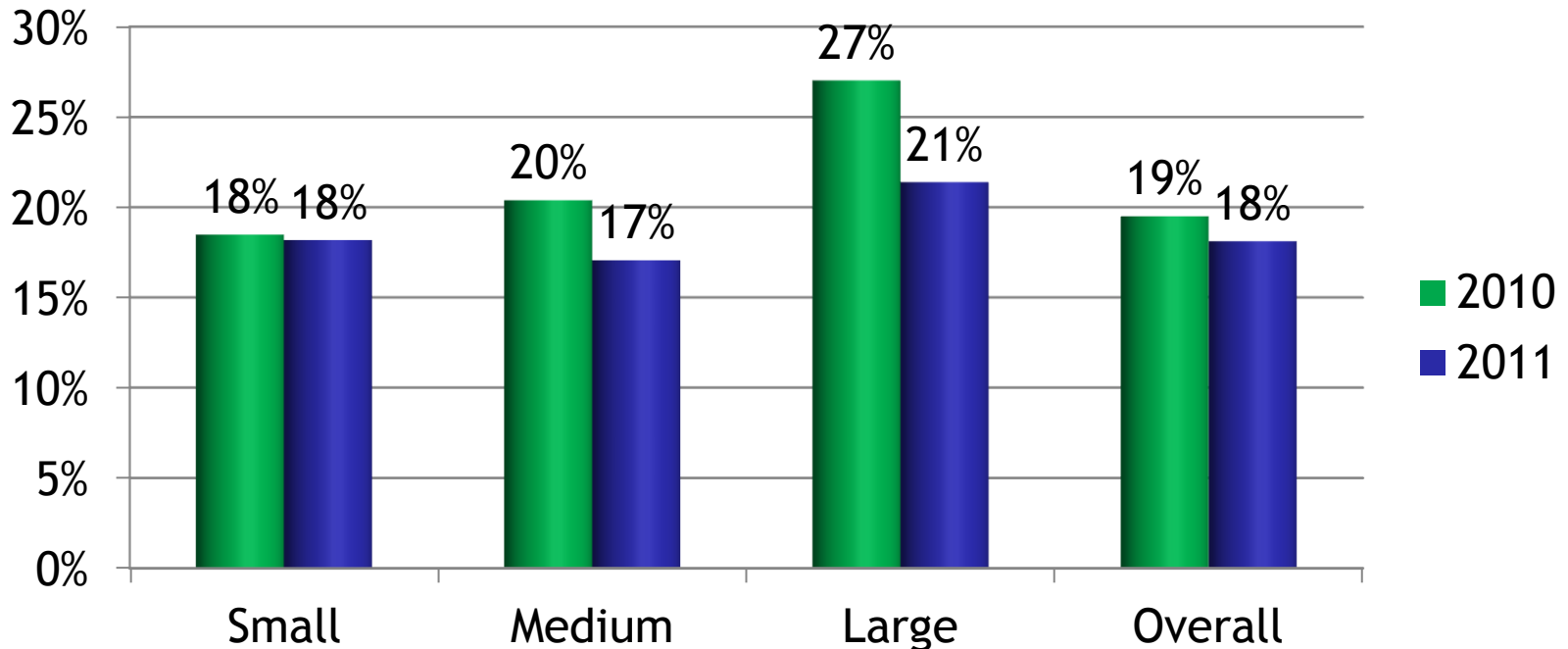
Most of the inspections are controlling purchases and cash registry control

Share of Enterprises that Underwent Each Type of Inspections



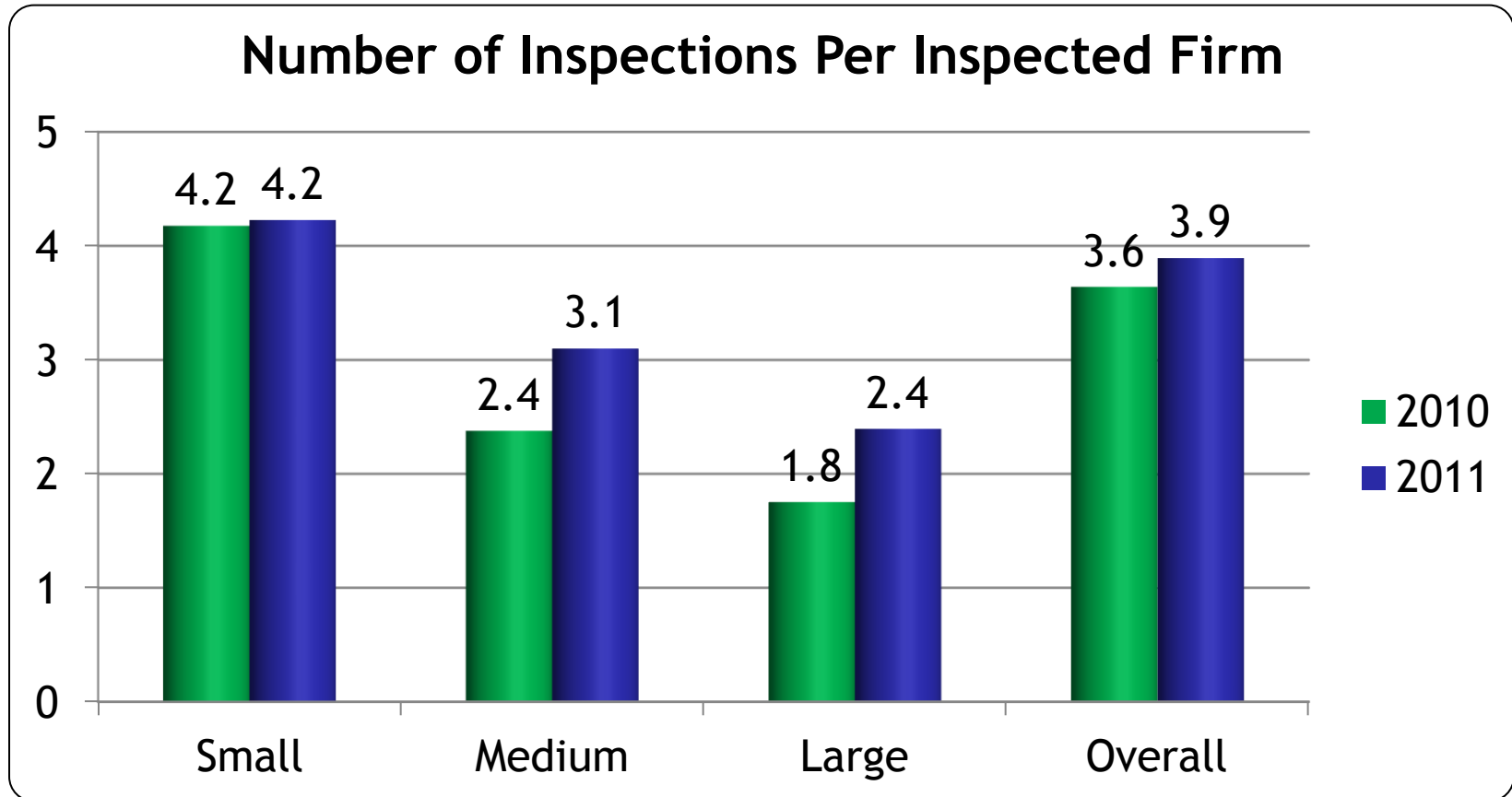
Other types of inspection (unrelated to cash registers) are conducted almost in 20% of firms

Share of Enterprises that Underwent Inspection Unrelated to Cash Registry



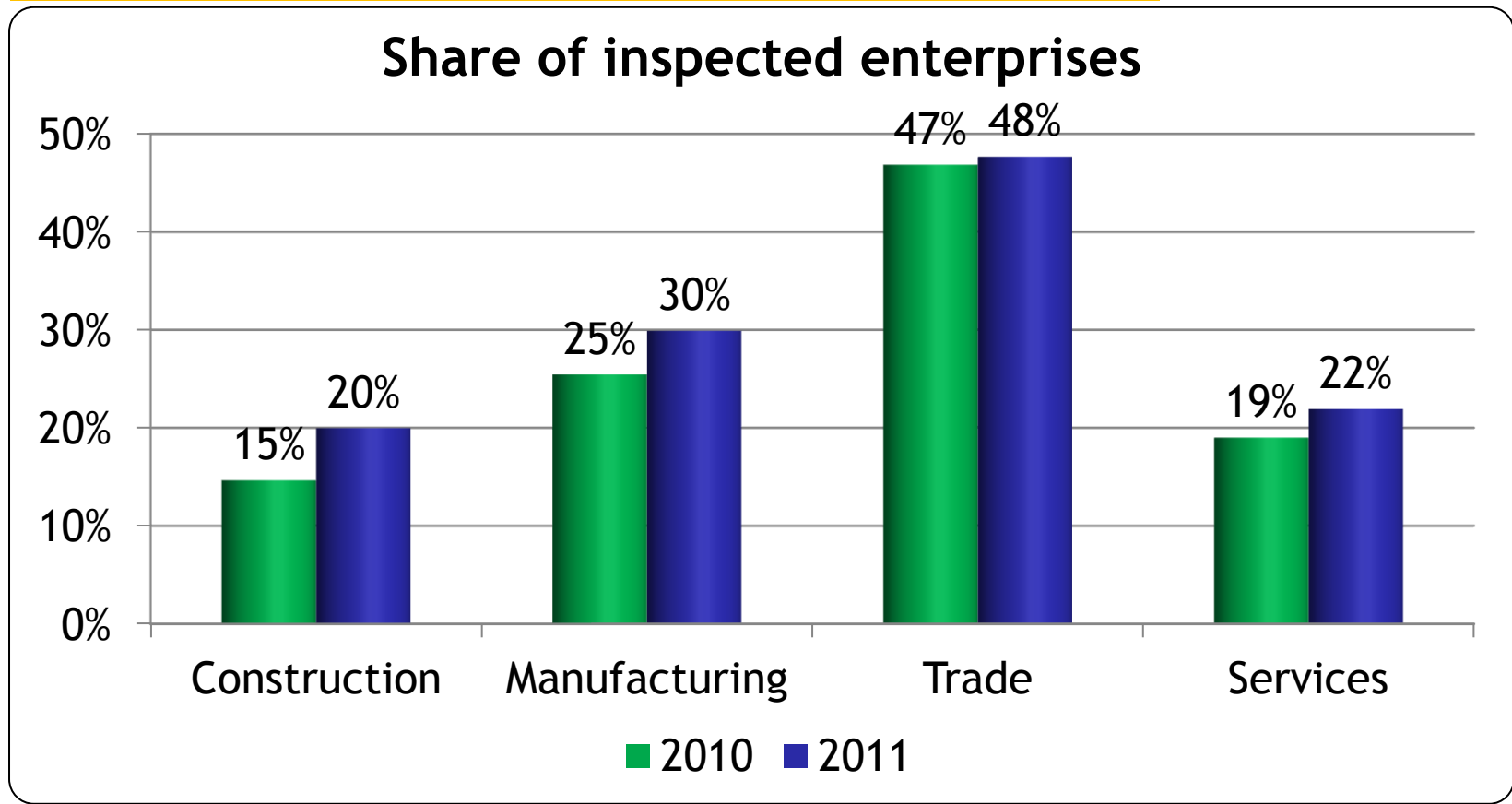
Smaller firms are inspected more frequently

Small firms' inspections are mainly related to cash registry control

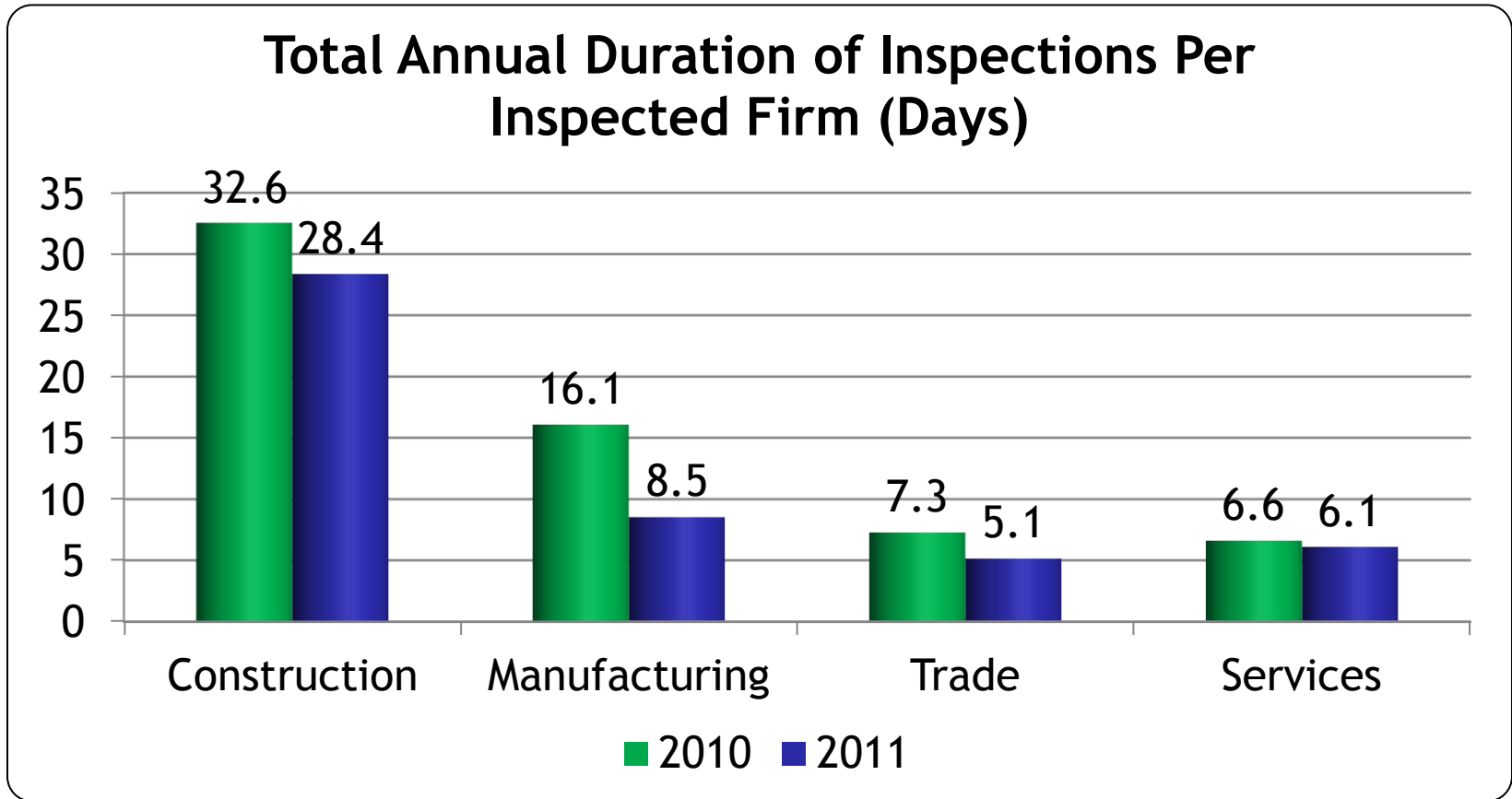


Trade firms are inspected more than businesses engaged in other activities

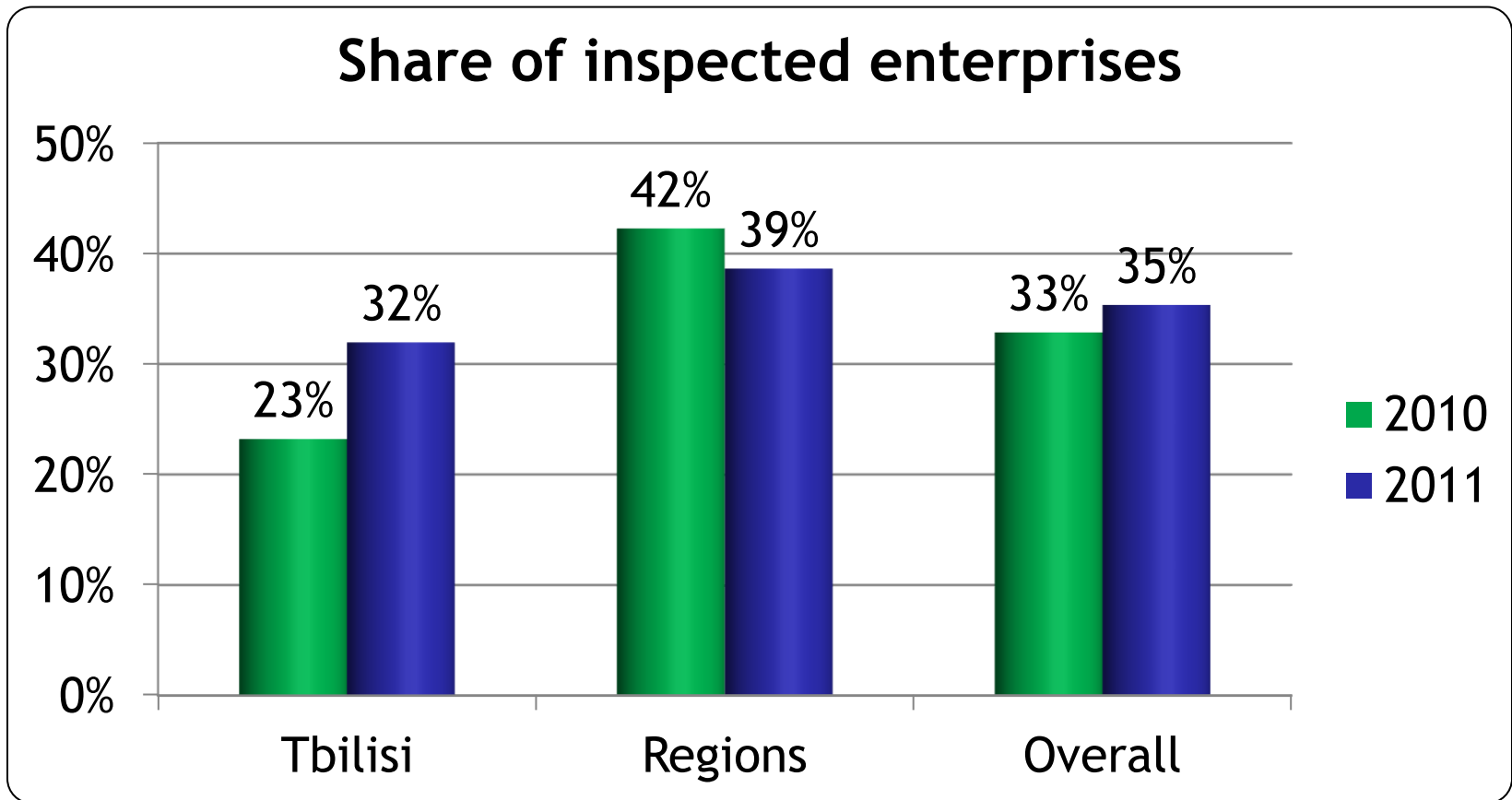
Excess of inspections in this area is mainly caused by cash registry control



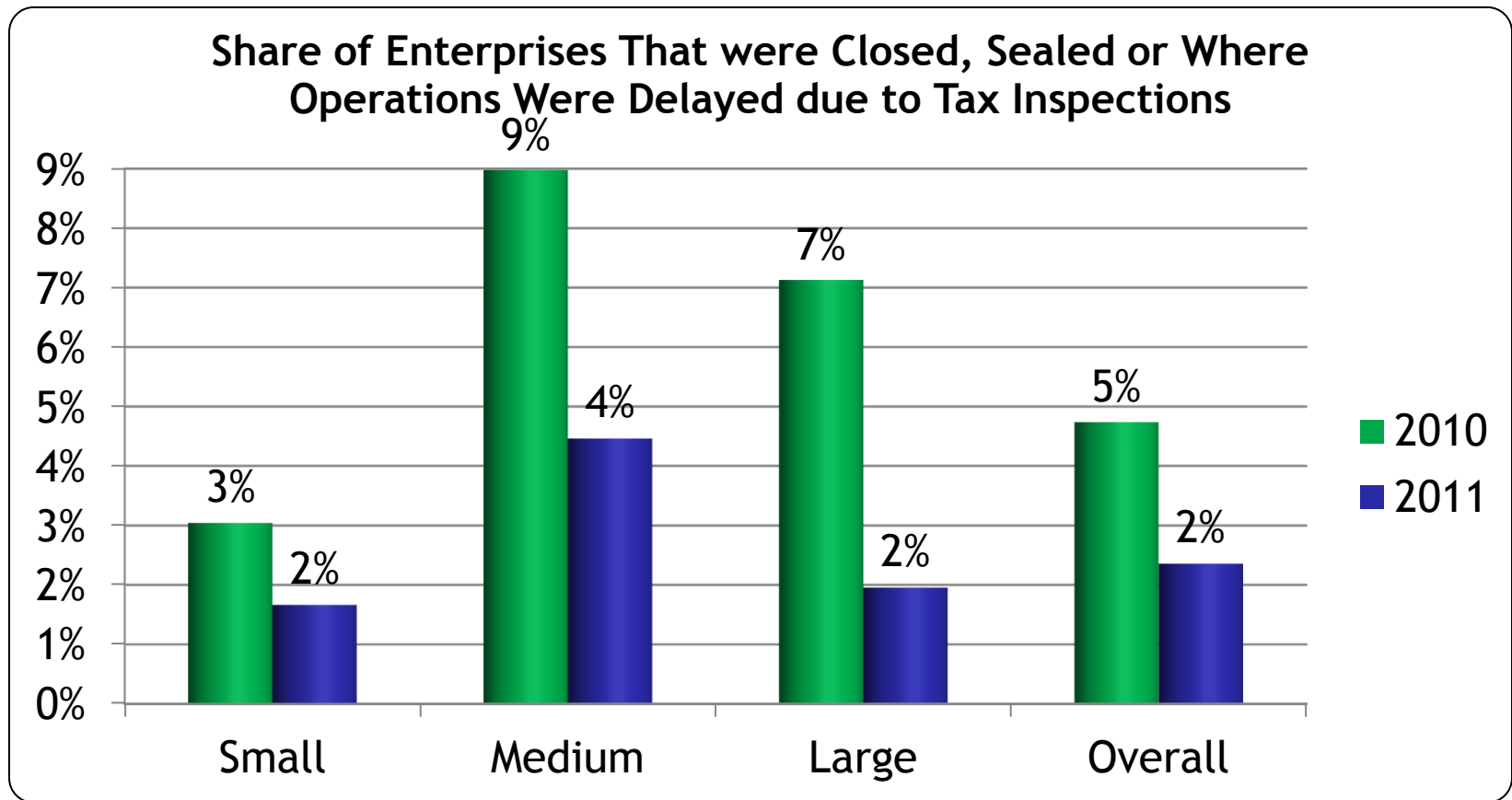
However, inspection duration is shorter in trade firms than in construction and manufacturing



Inspections are less frequent in Tbilisi than in the rest of the country

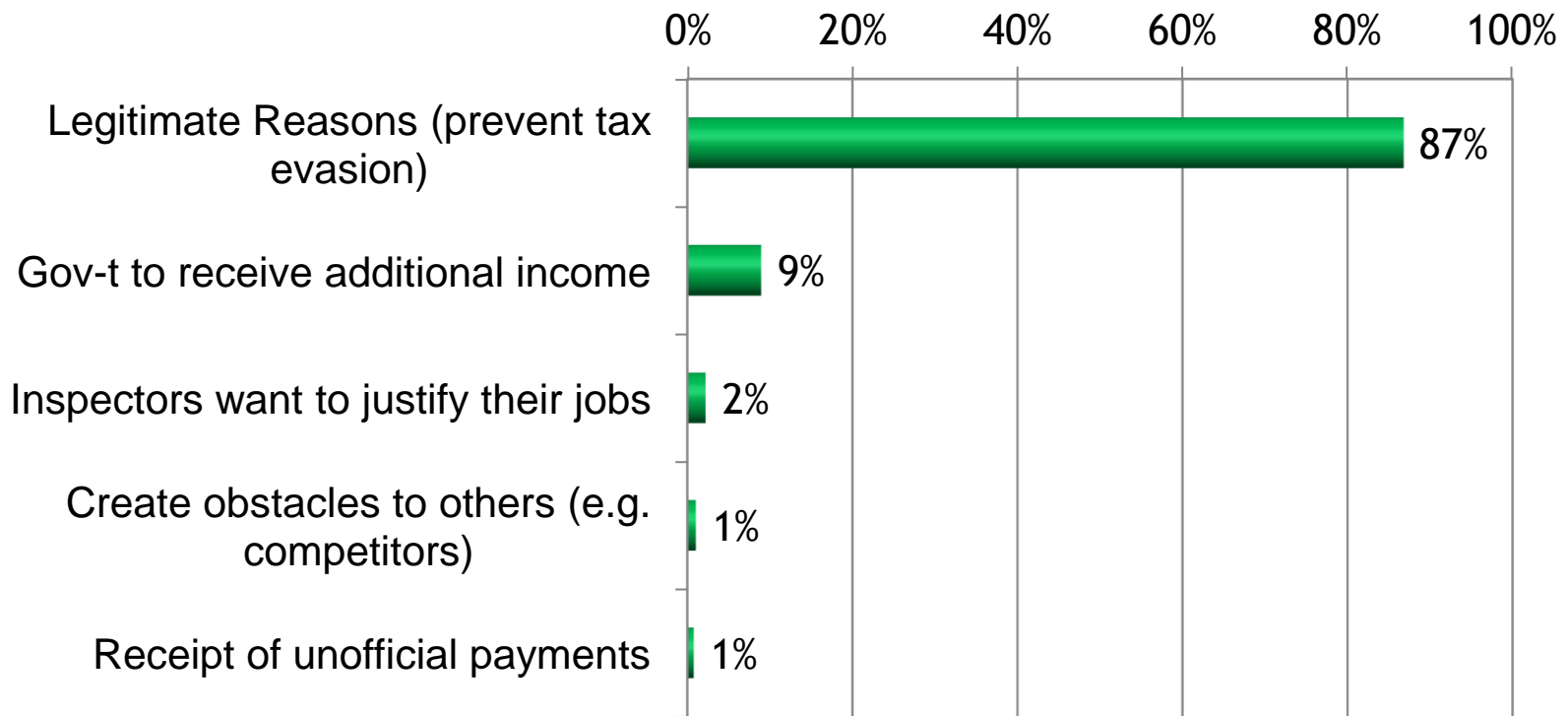


Businesses that are temporarily closed or sealed due to inspections are few, and there is a declining trend



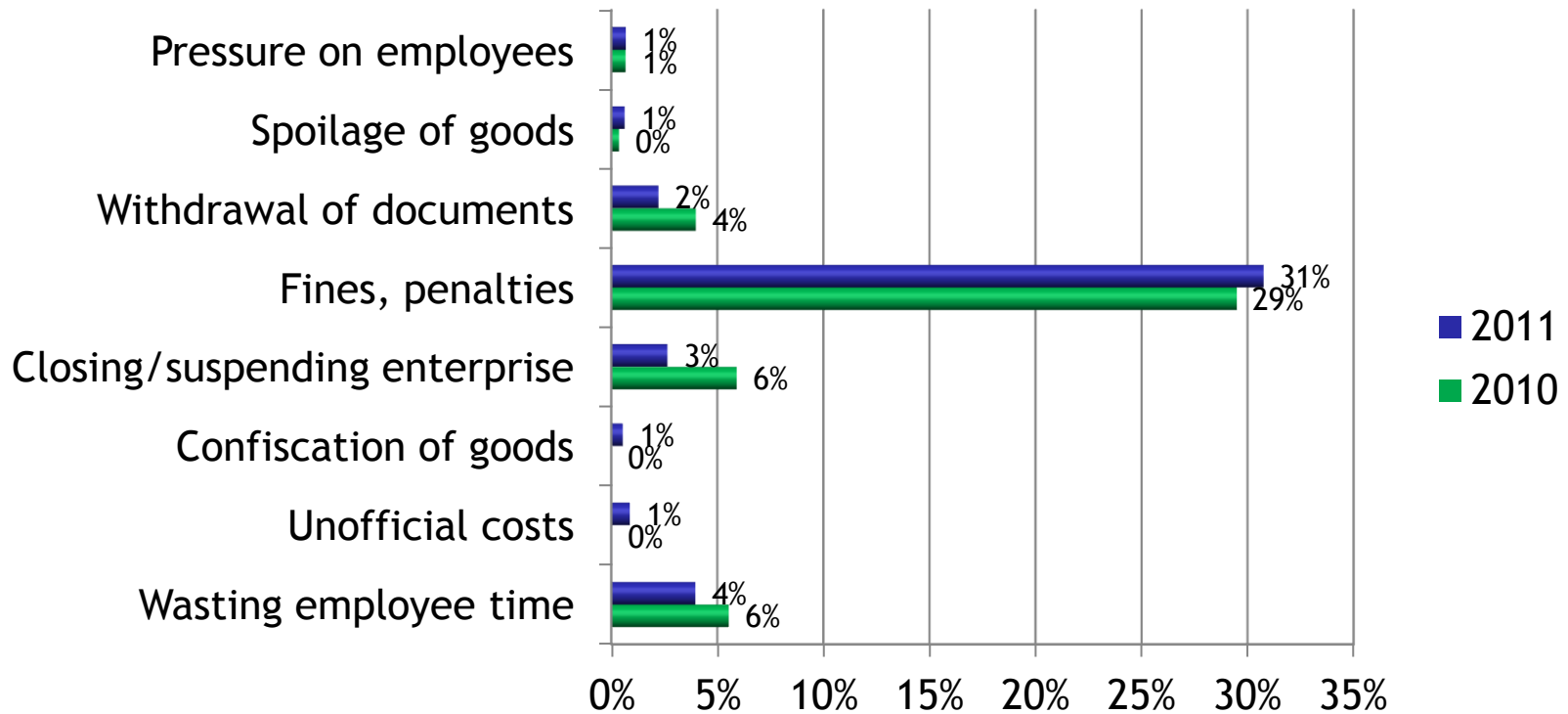
Vast majority thinks that tax inspections have legitimate reasons - to prevent tax evasion

Reasons of Tax Audit According to Respondents



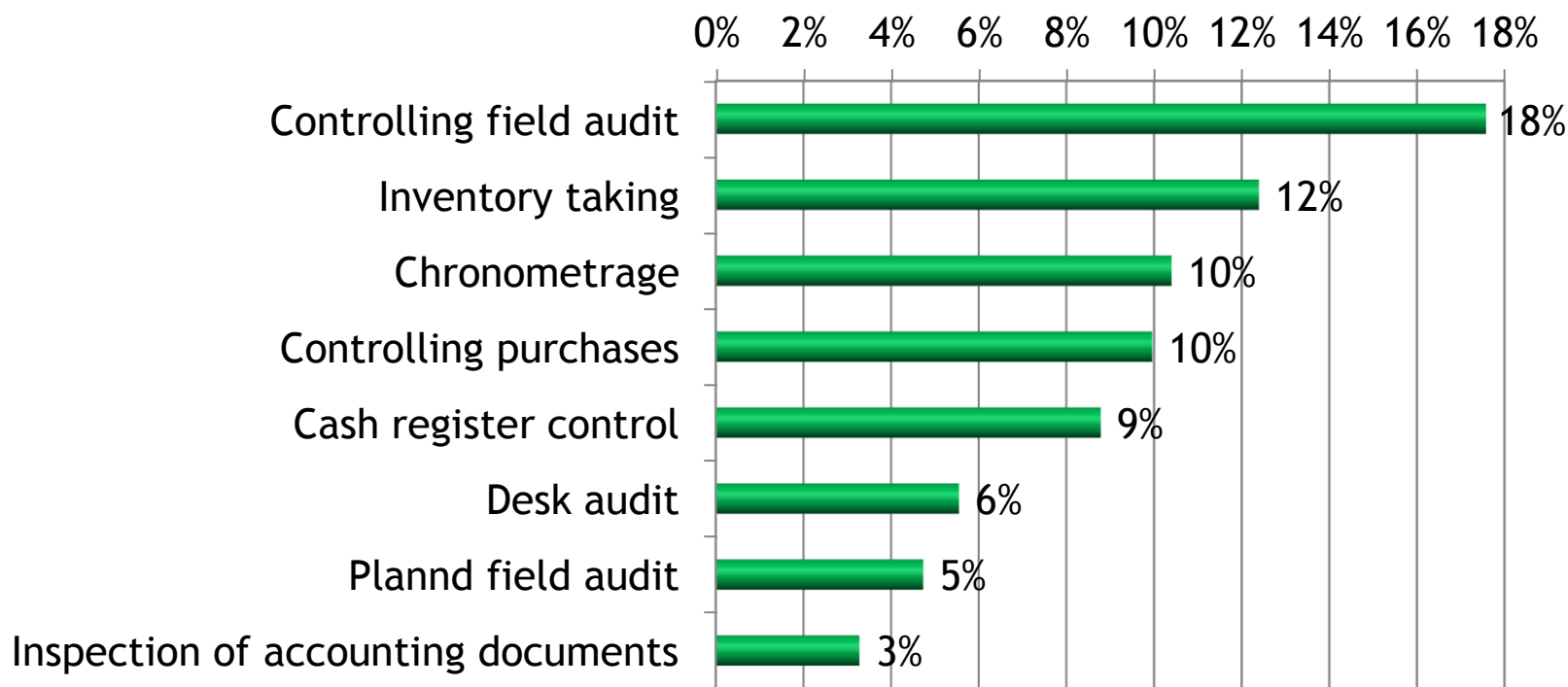
For one third of inspected firms negative experiences are related to penalties and fines

Negative Events Related with Tax Inspections



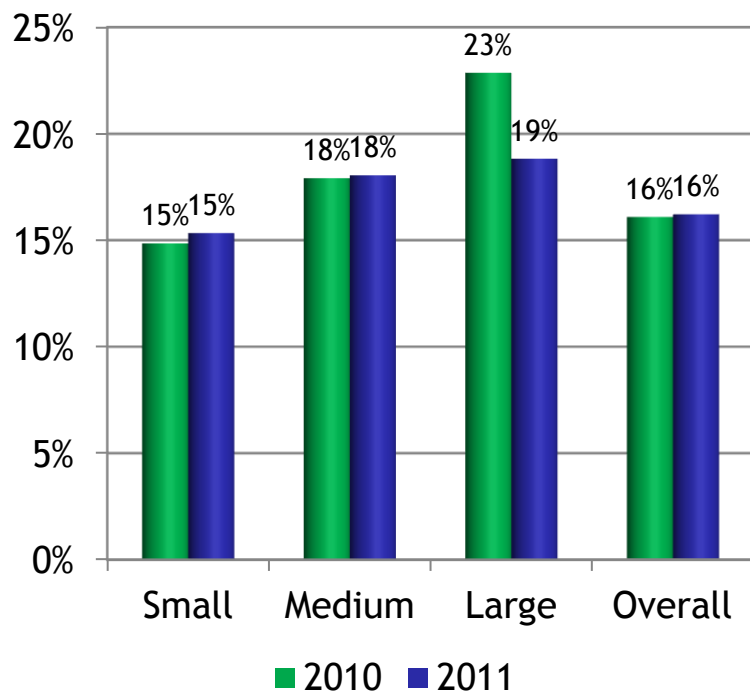
Different types of tax audit is perceived as problematic by small share of respondents

Share of Respondents for whom Tax Audits Represent a Very Significant or Acute Problem

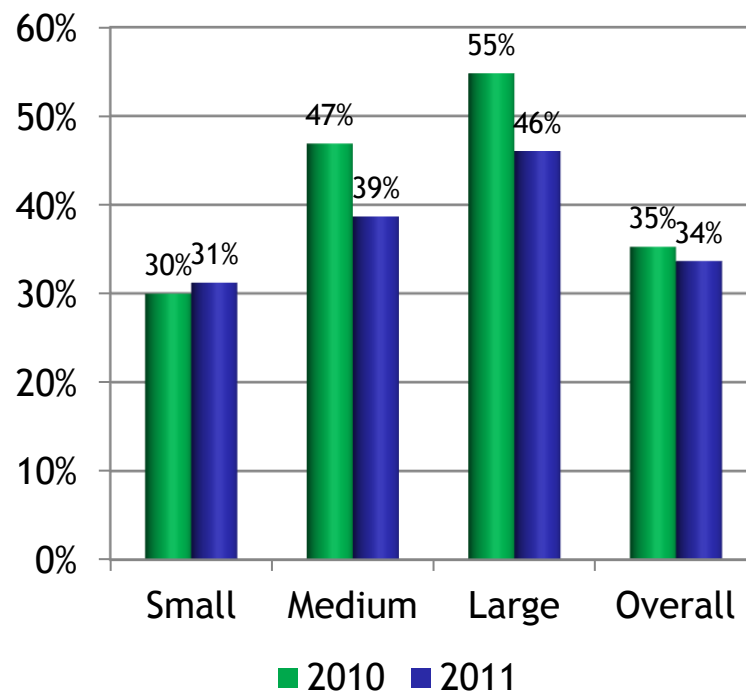


One third of inspected firms are penalized

Share of Firms Penalized Among All Firms

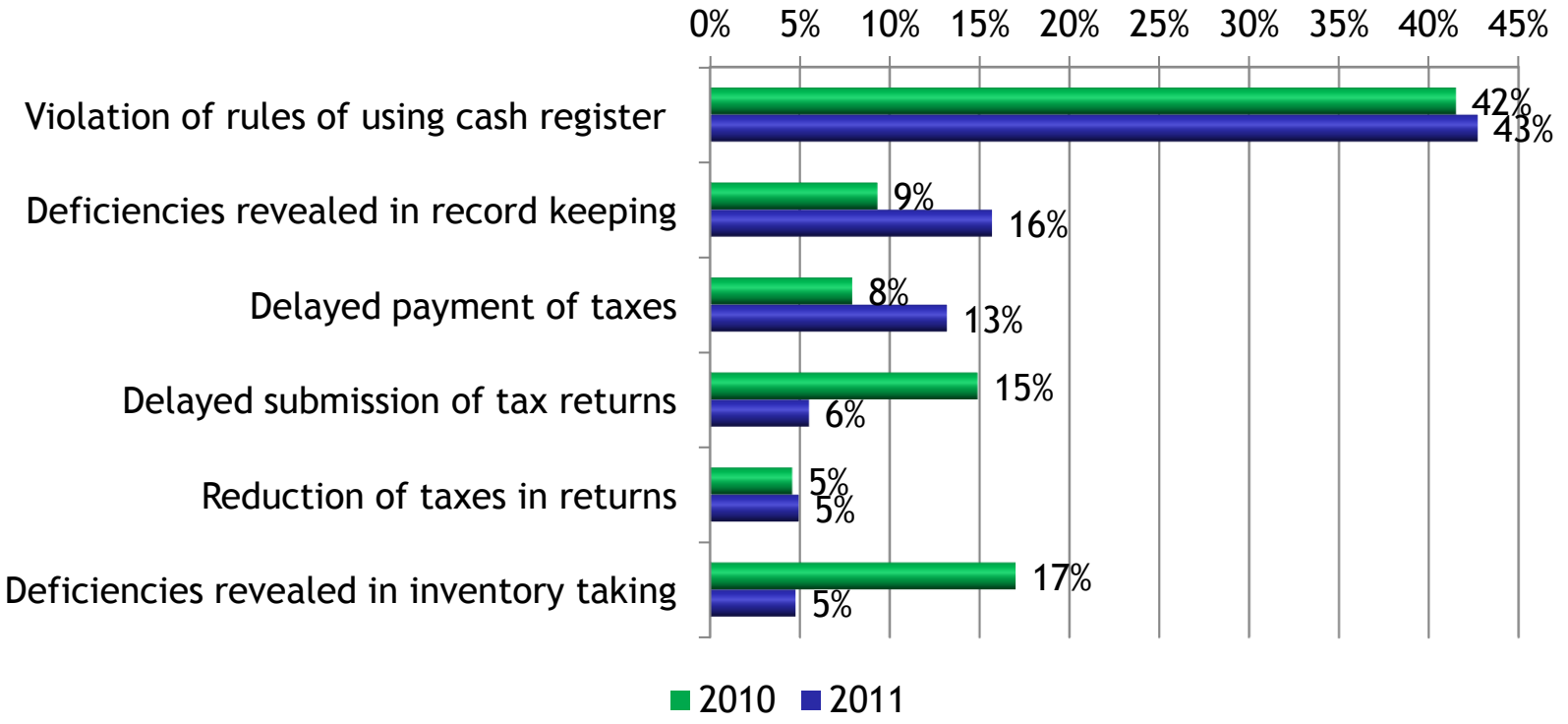


Share of Firms Penalized Among Inspected Firms



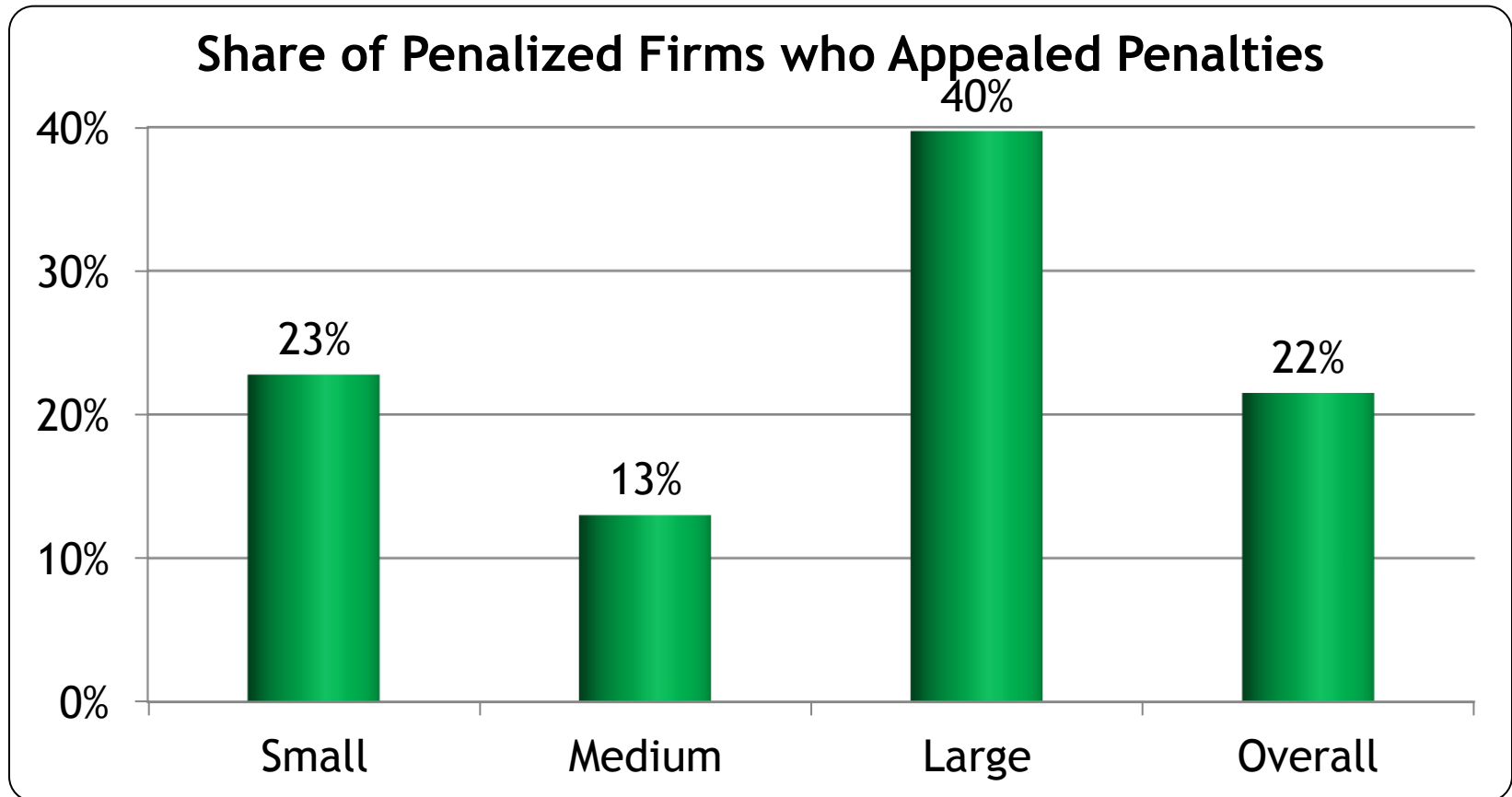
Majority of penalties and fines for misuse of cash registers

Main Reasons for Penalizing



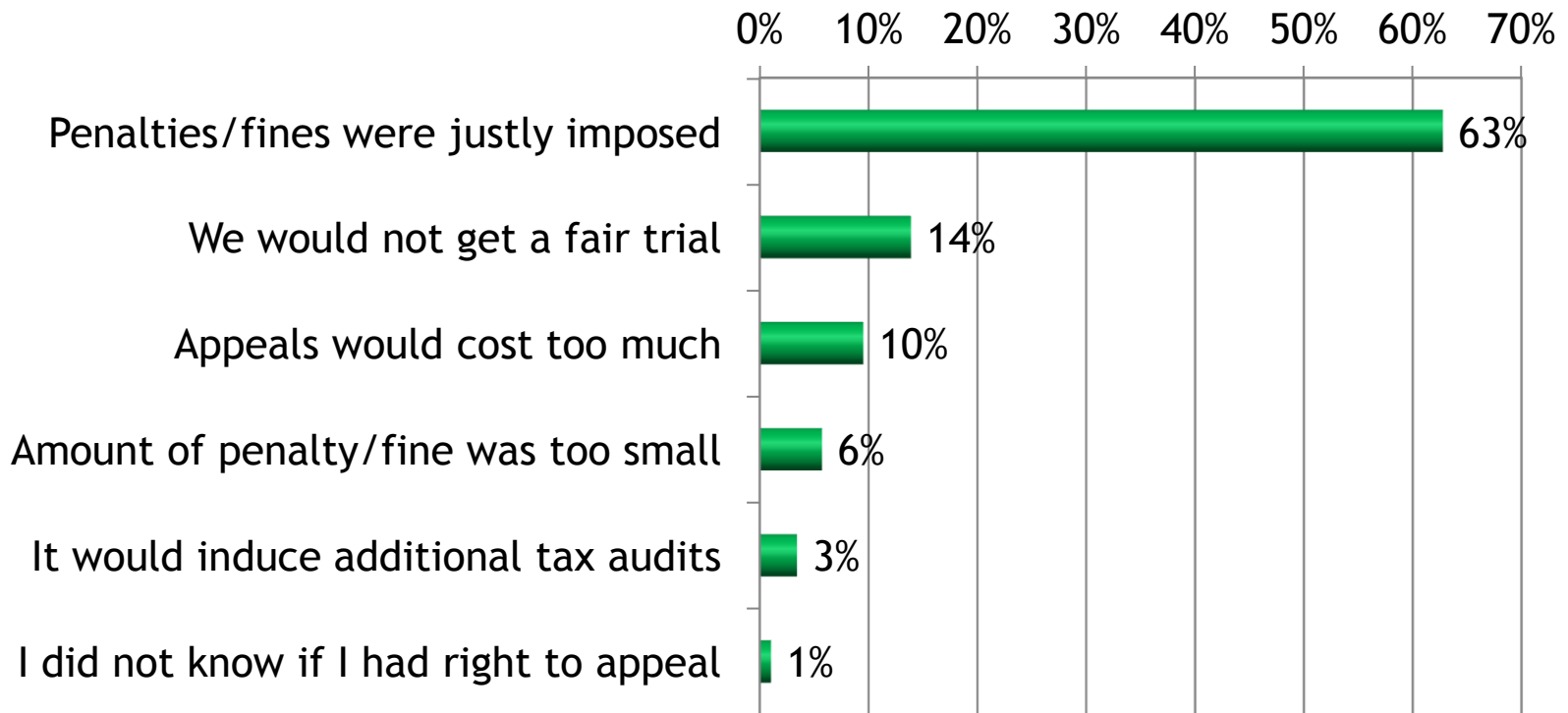
Firms choose to appeal penalties quite often

Compare 23% small appellants to 6% appealing in 2009



Majority of those who did not appeal thinks that penalties were fair (small: 85% now vs 57% in 2009)

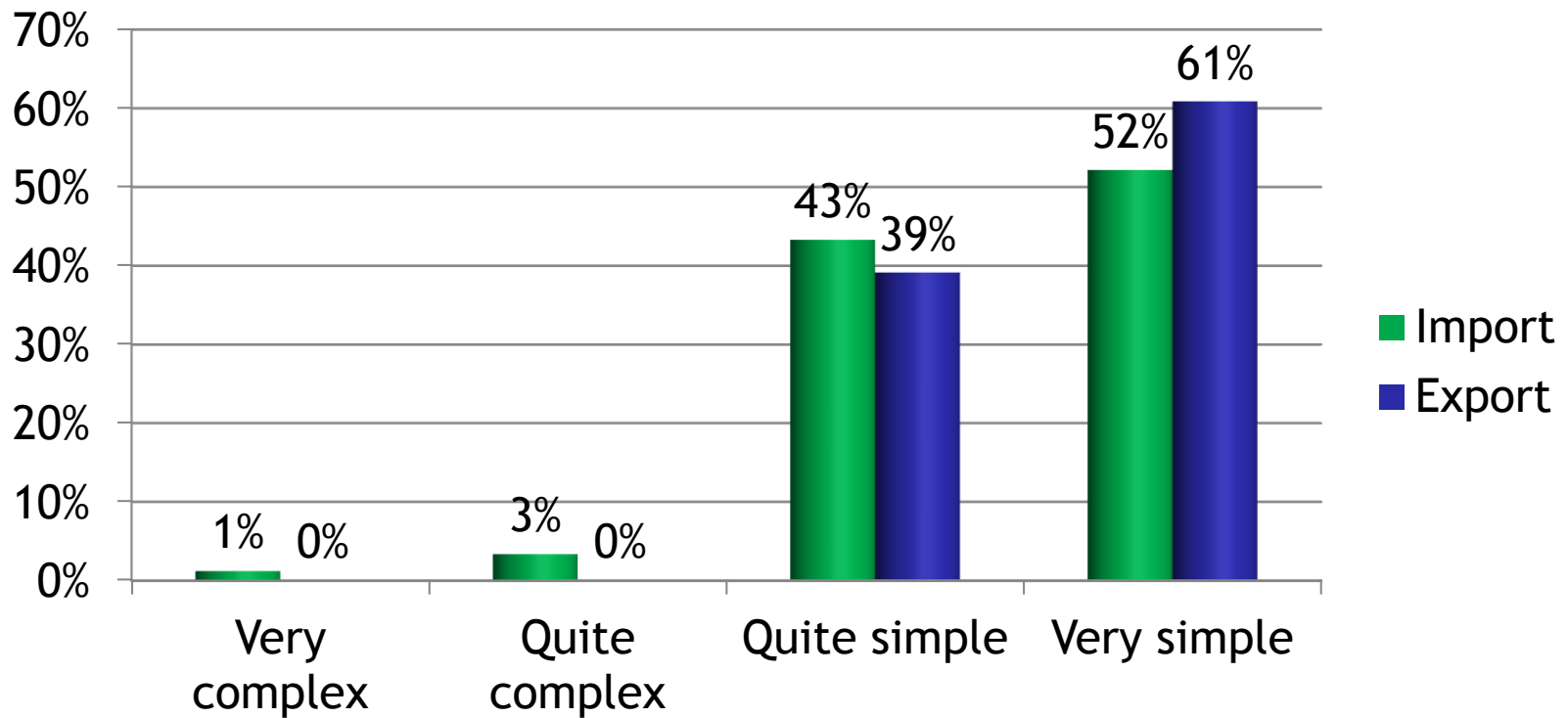
Reasons for not Appealing Penalties



Vast majority of importers and exporters think that customs clearance procedures are simple

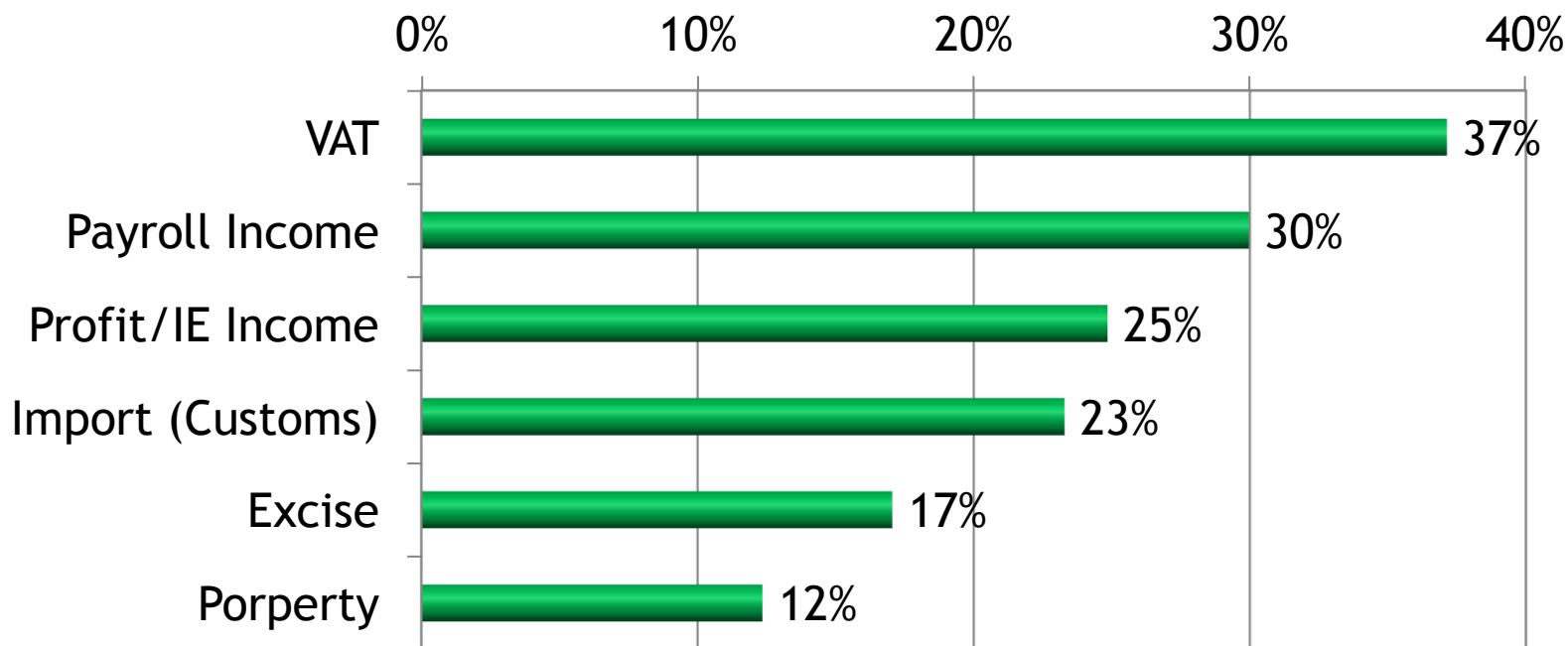
Responses were received only from 16% of respondents engaged in importing and 2% of exporters

Complexity of Import-Export Procedures



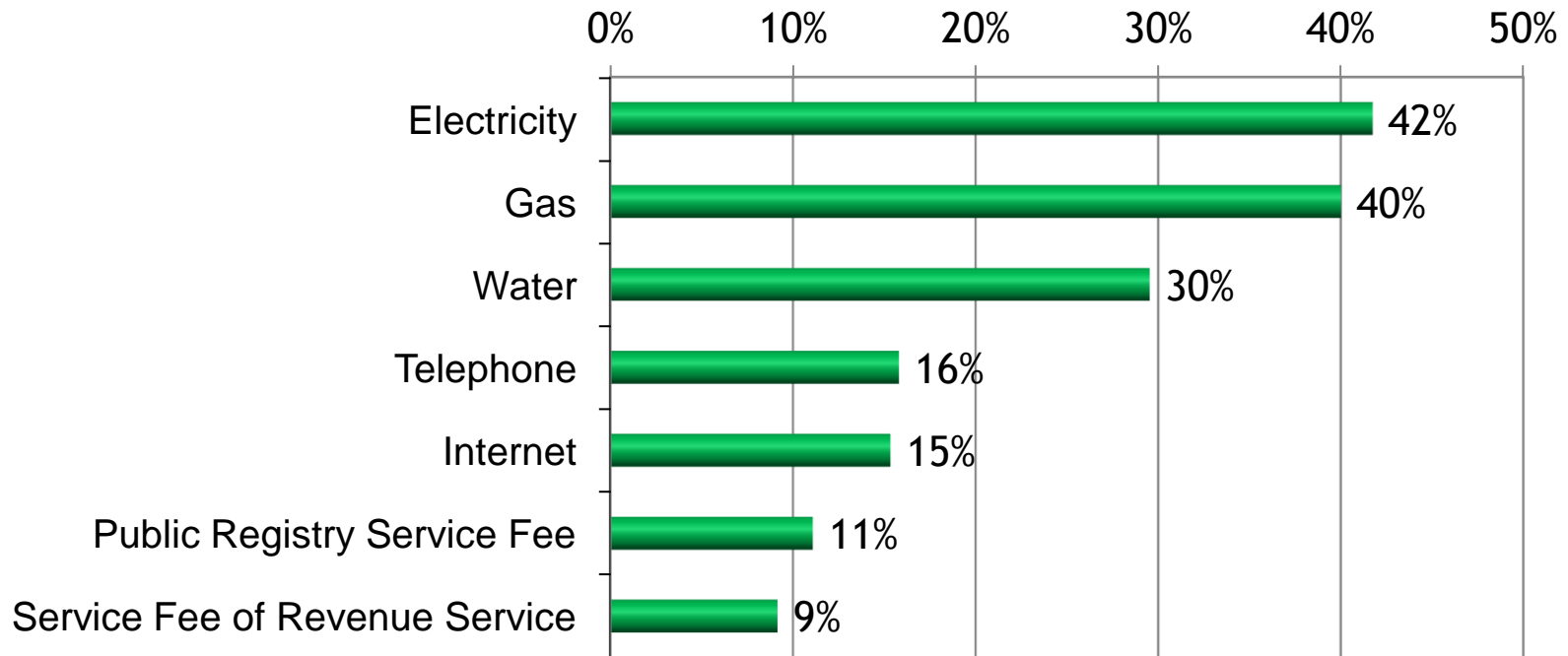
VAT, Profit and Payroll Taxes Represent the most Significant Burdens for Businesses

Share of firms for whom given tax is a significant burden

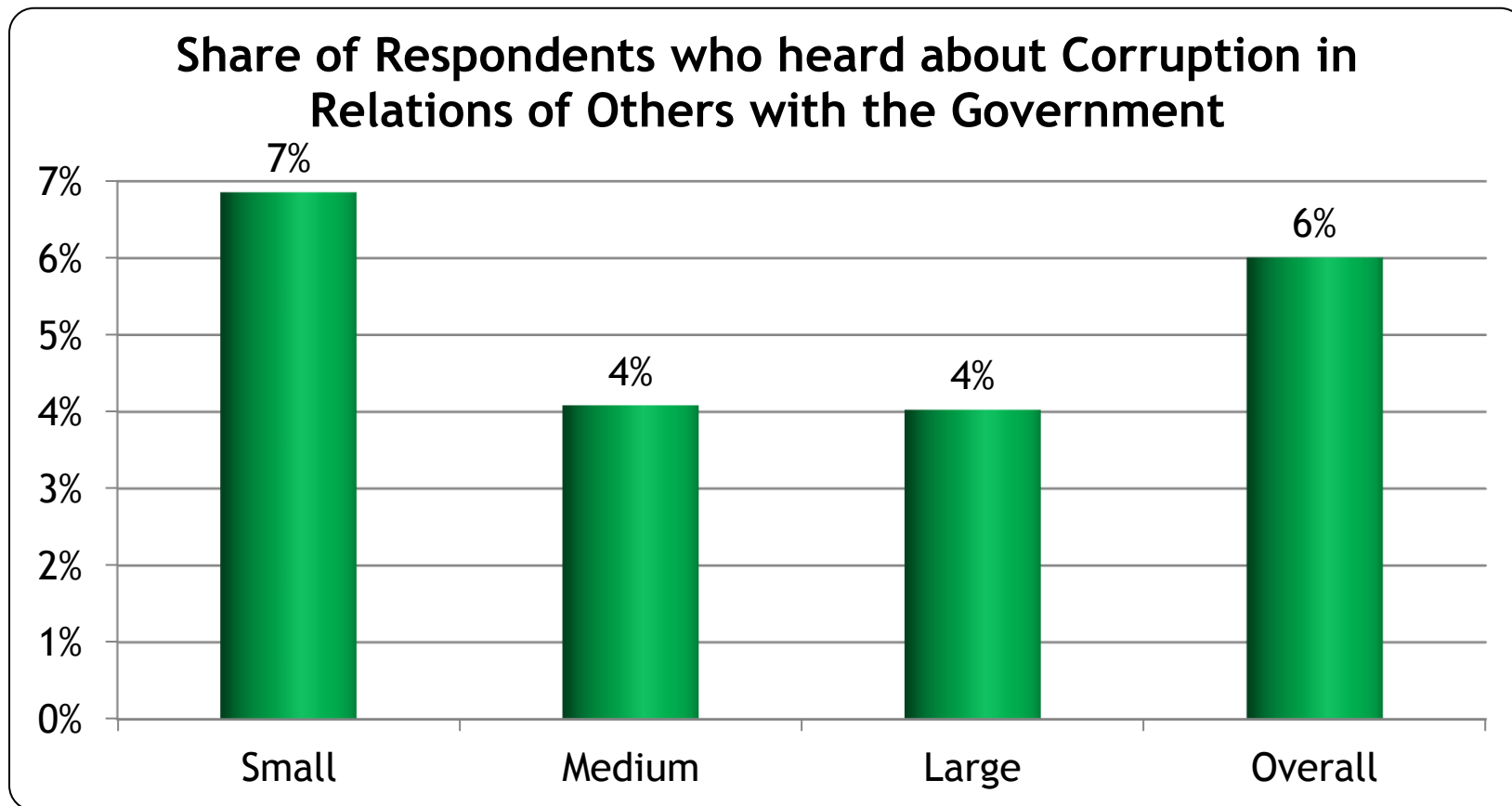


However, some utilities (electricity, gas) perceived as significant burden by larger shares of firms

Share of firms for whom given service cost is a significant burden

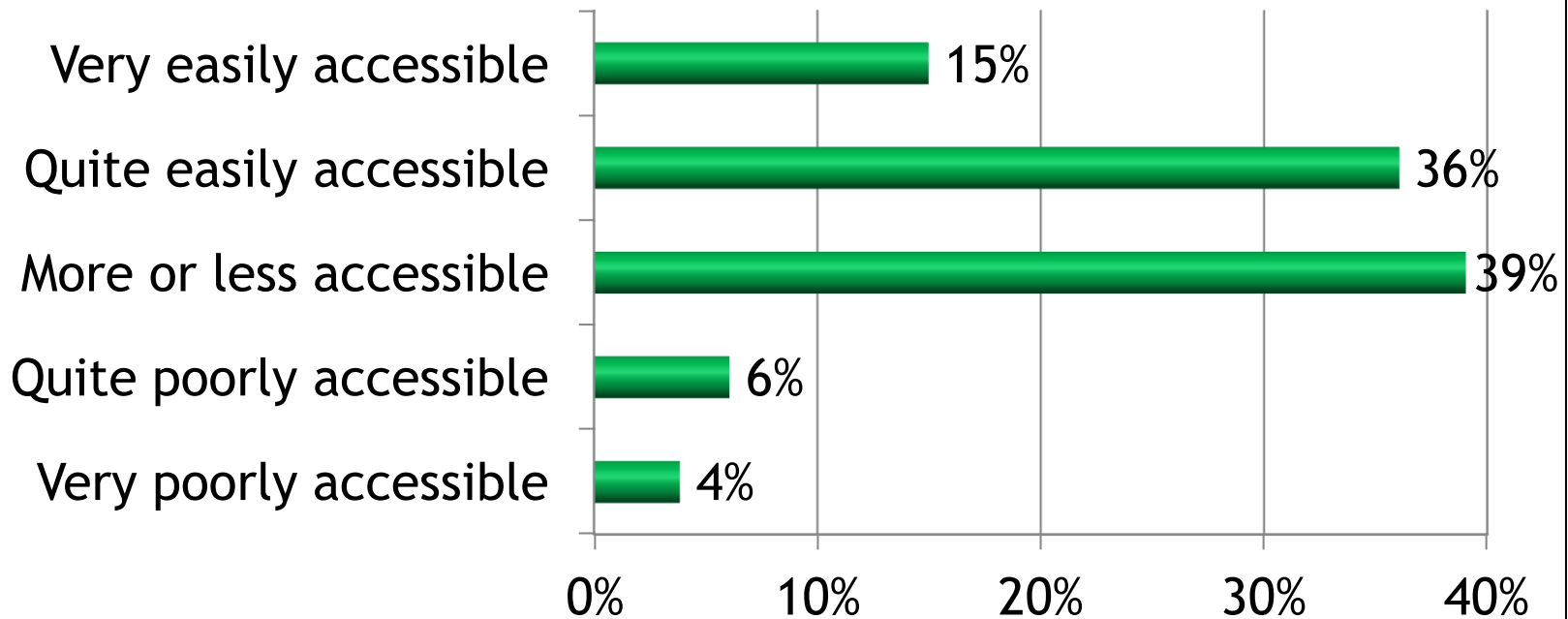


Only 6% of respondents have heard about gov-t corruption experienced by other businesses



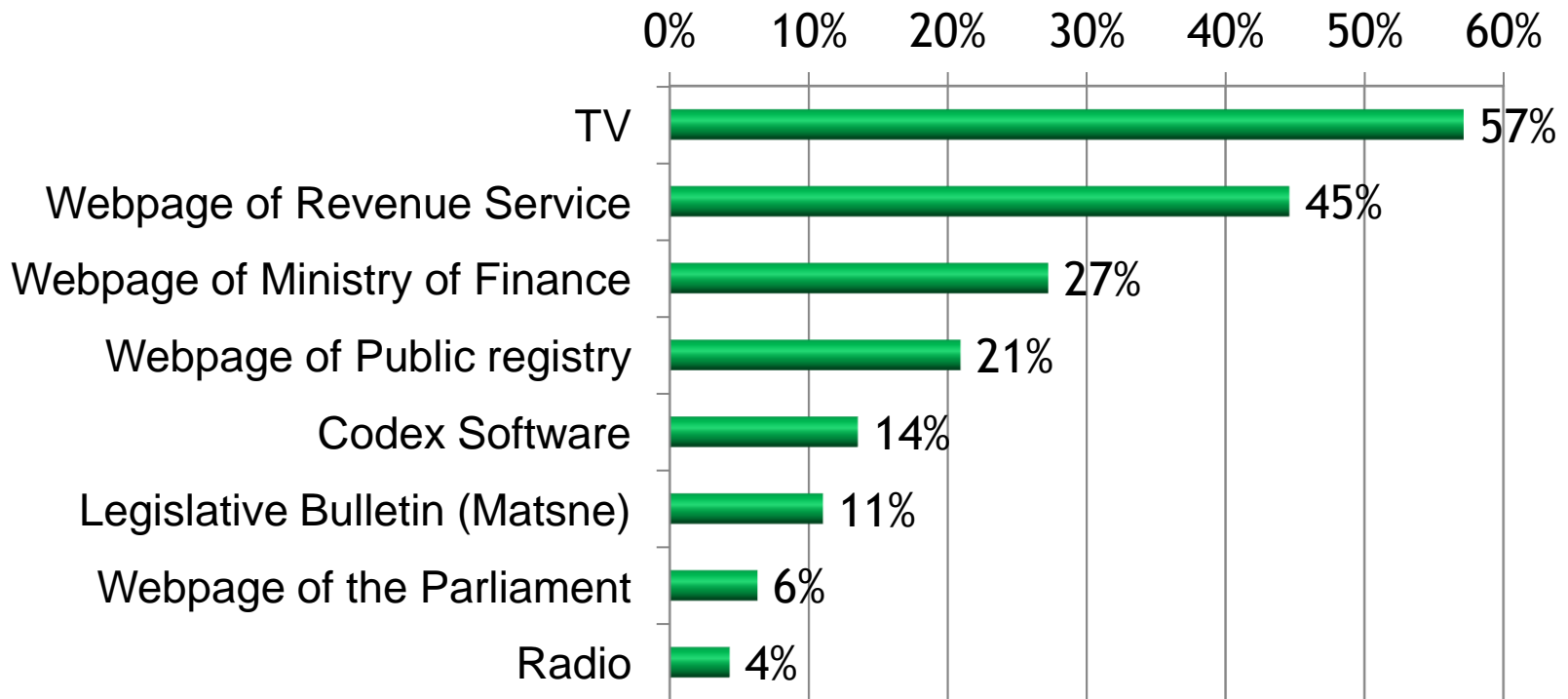
Majority thinks that information on legislative changes is accessible, and only 10% complain

Opinions on Accessibility of Information about Legislative Changes



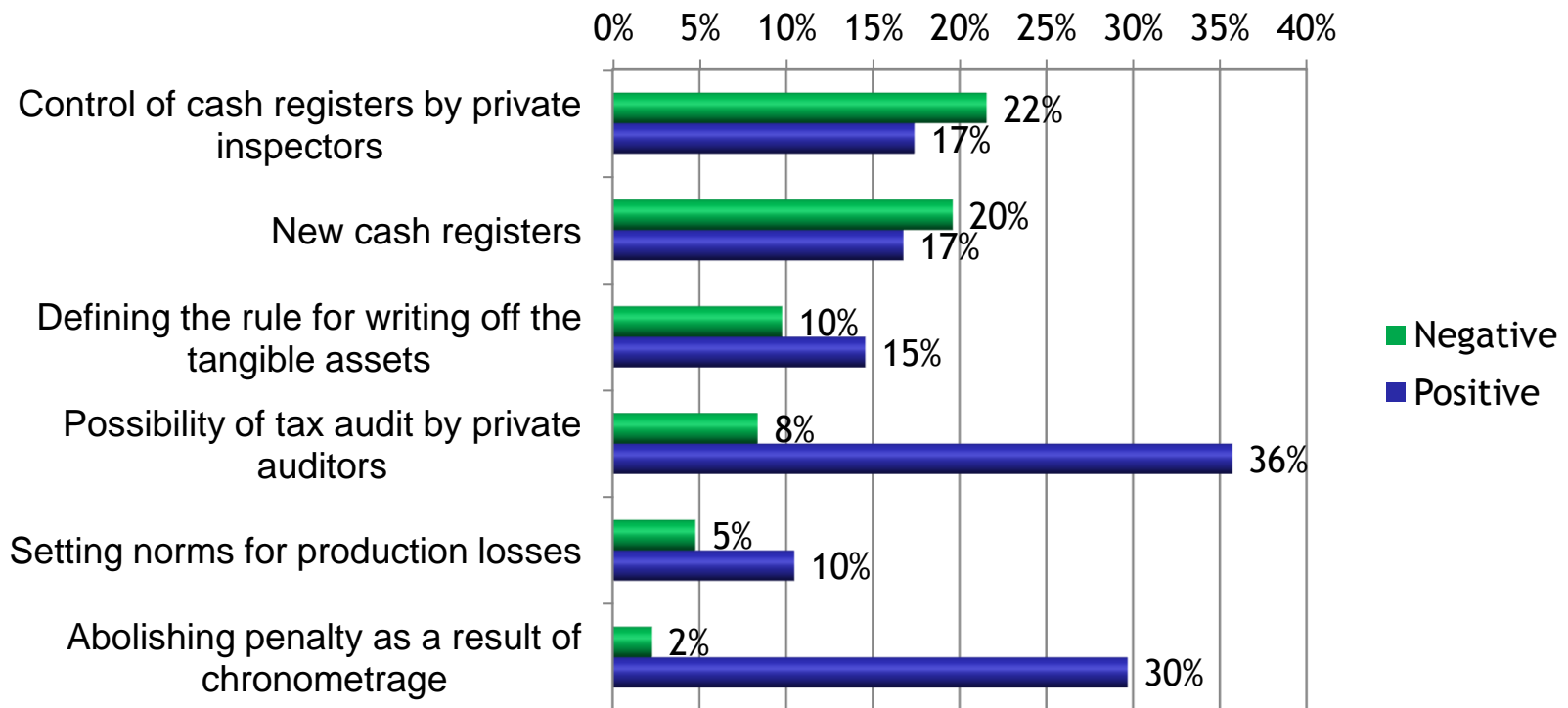
TV and gov-t websites represent major information sources on legislative changes

Information Sources about Legislative Changes



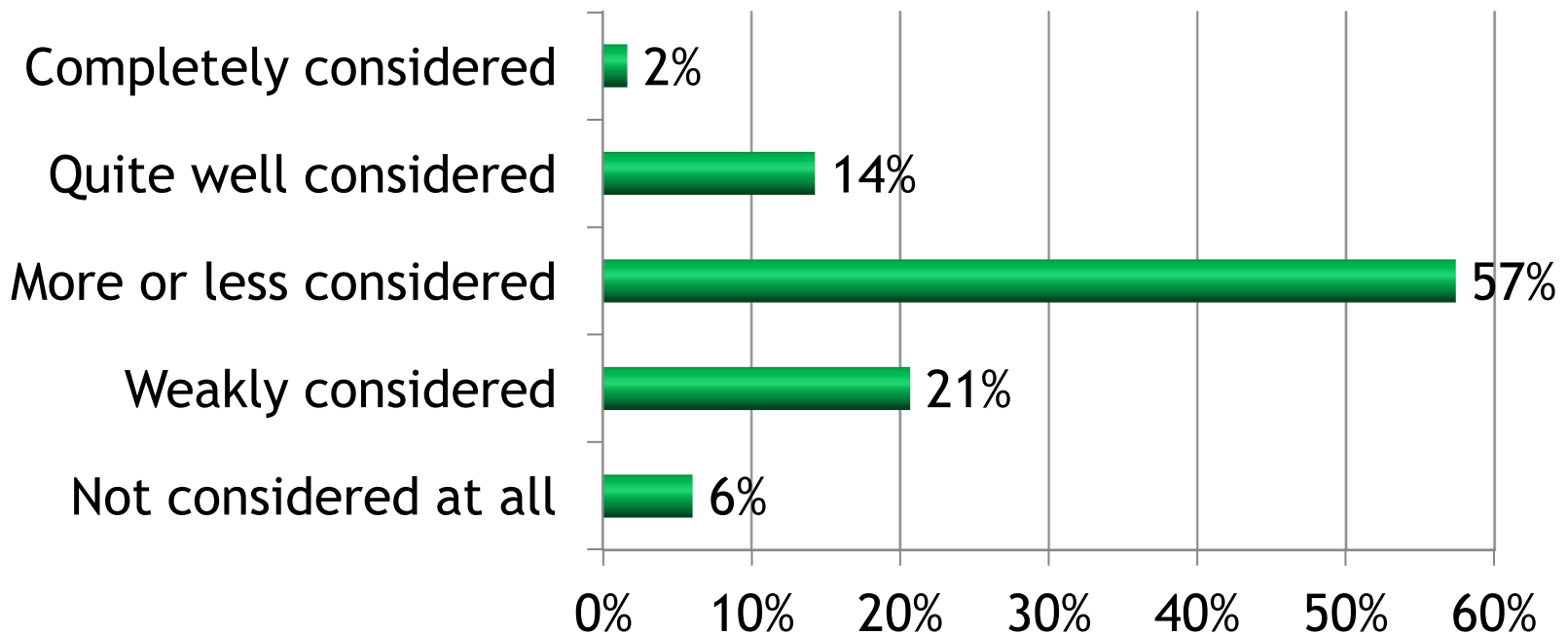
Option of alternative tax audit and elimination of chronometrage penalties are the most appreciated reforms, as opposed to legislative changes associated with cash registers

Feedback on Recent legislative Changes



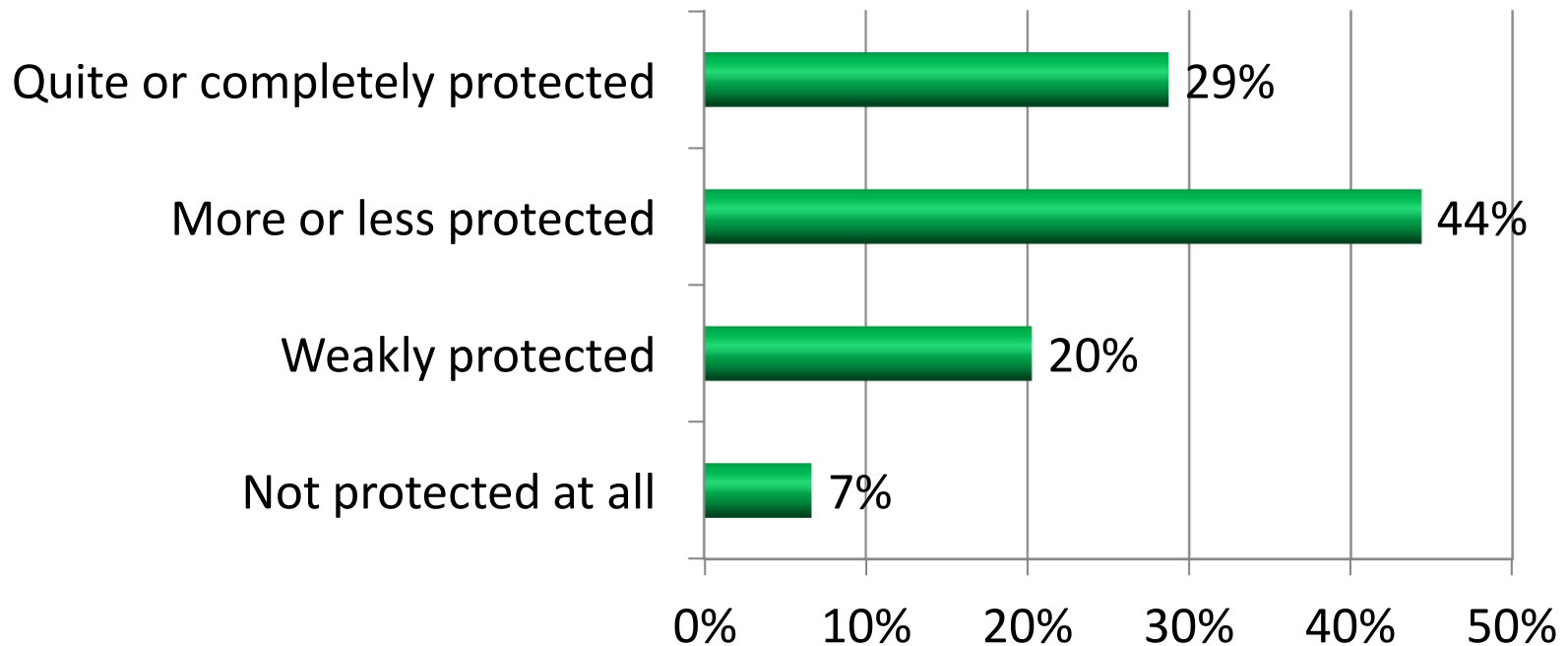
Majority of respondents (73%) think that business interests are more or less considered in legislative changes

Opinions on Consideration of Interests of Businesses in Legislative Changes



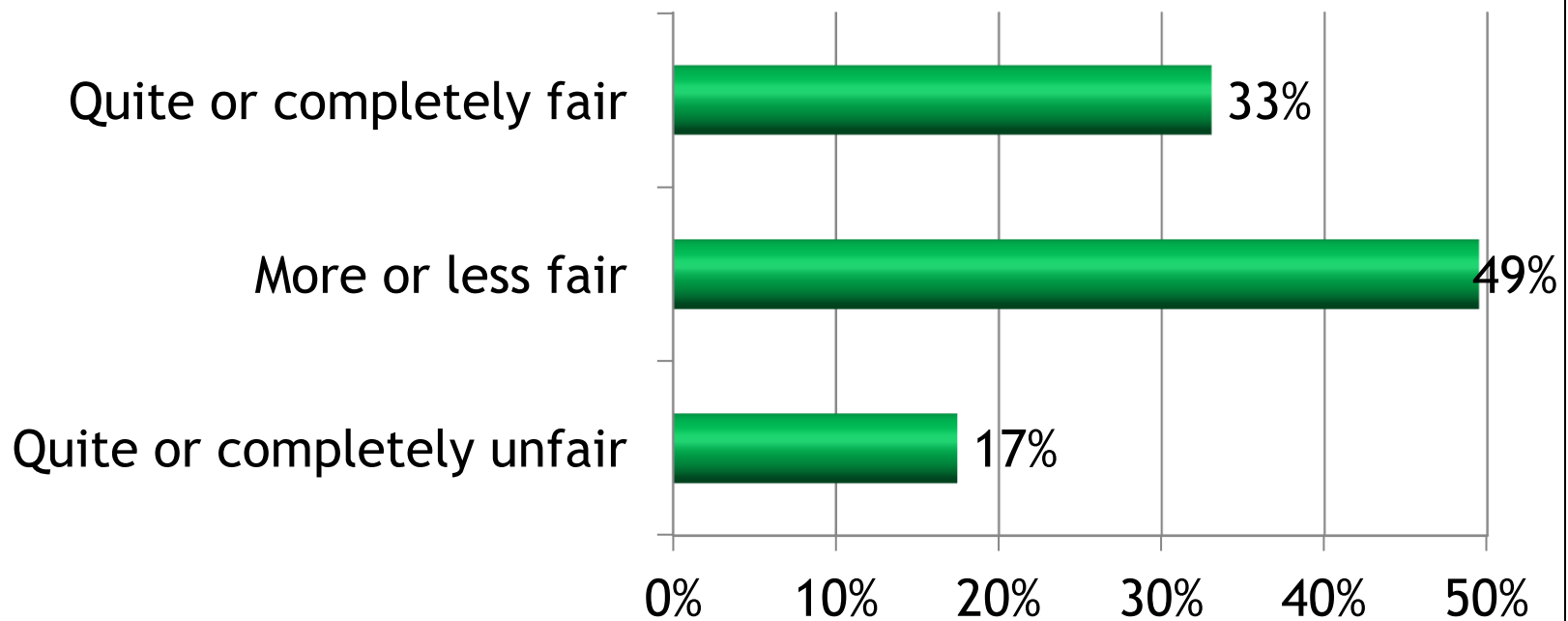
Almost three quarters of respondents are satisfied with the protection of business rights

Perceptions on Protection of Rights of Businesses in Georgia



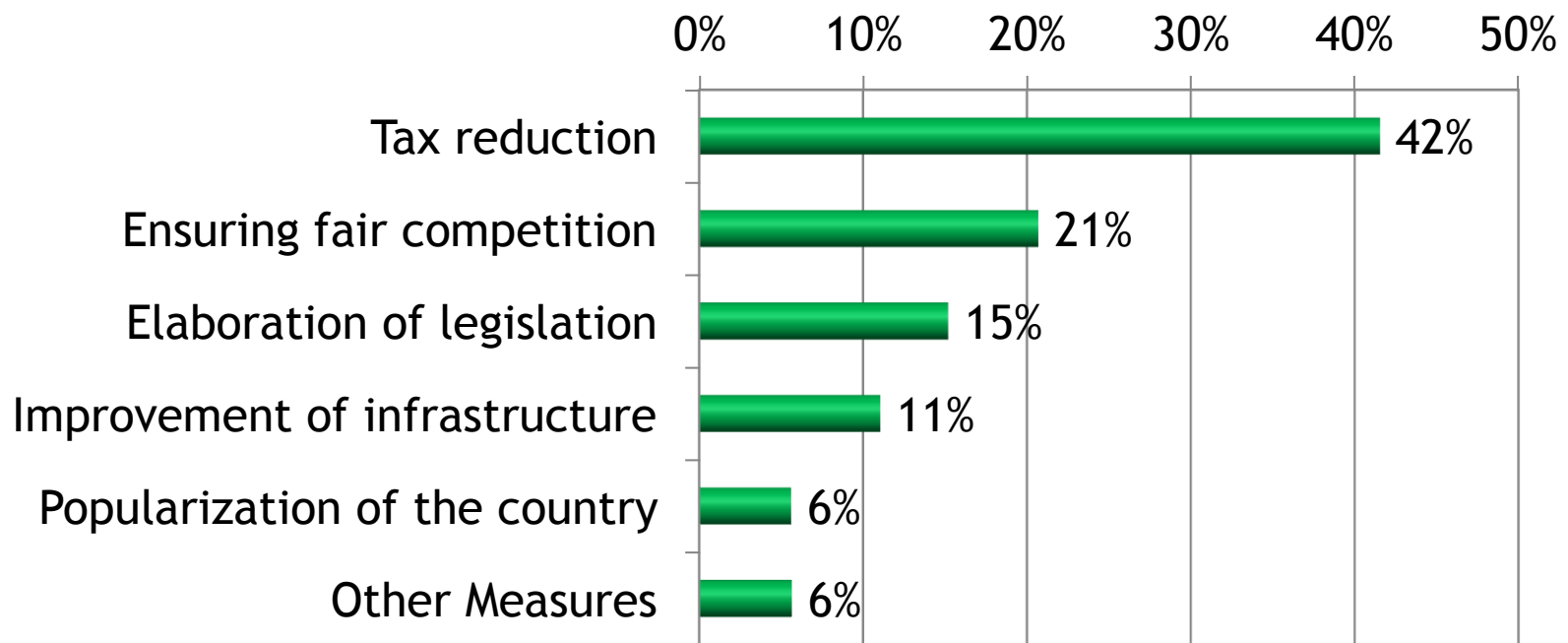
Some businesses (17%) also complain regarding unfair competition

Opinions on Fairness of Business Competition in Georgia

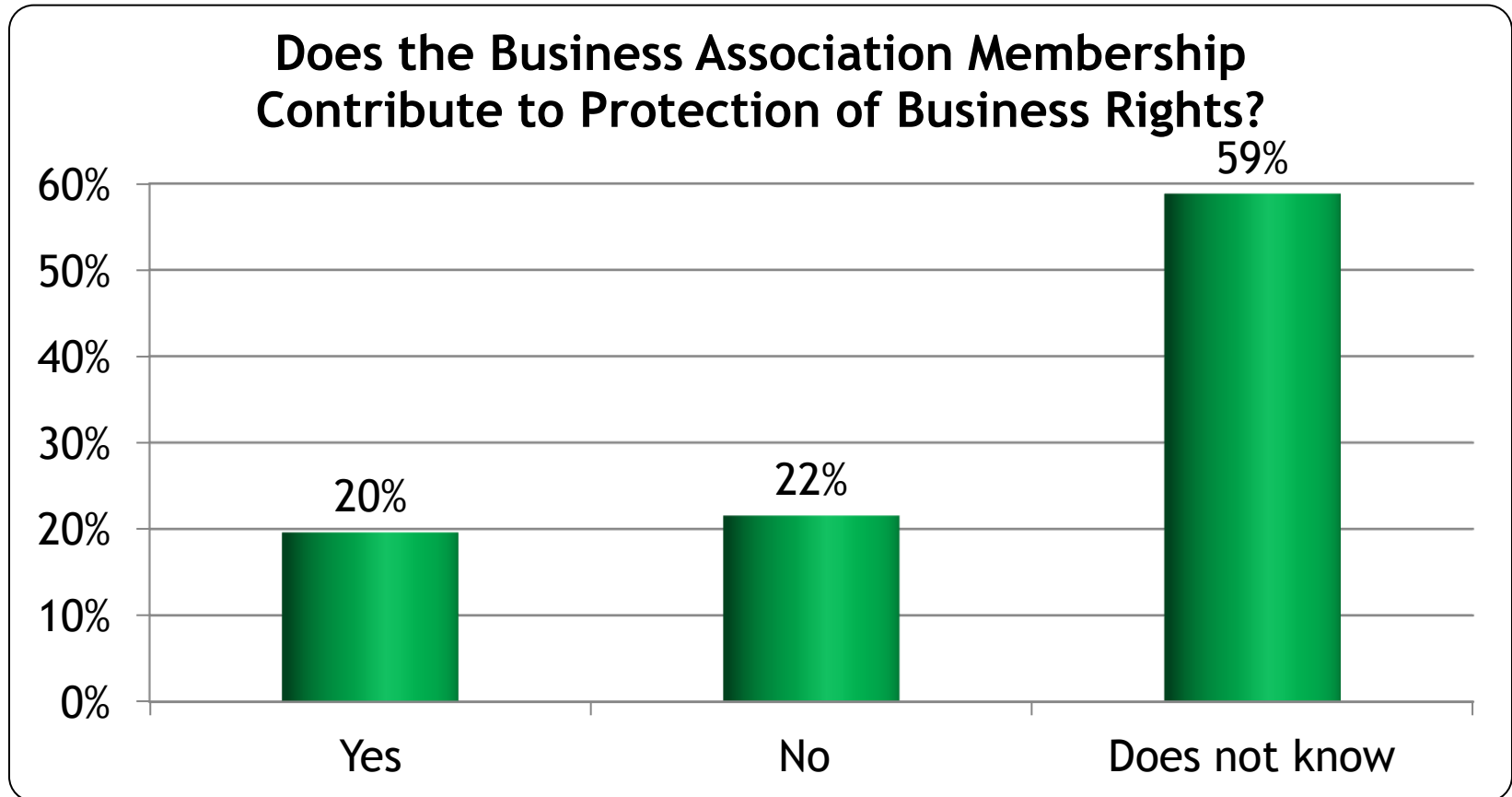


Businesses suggest to reduce taxes to improve business environment

Suggested Measures for Improvement of Business Environment

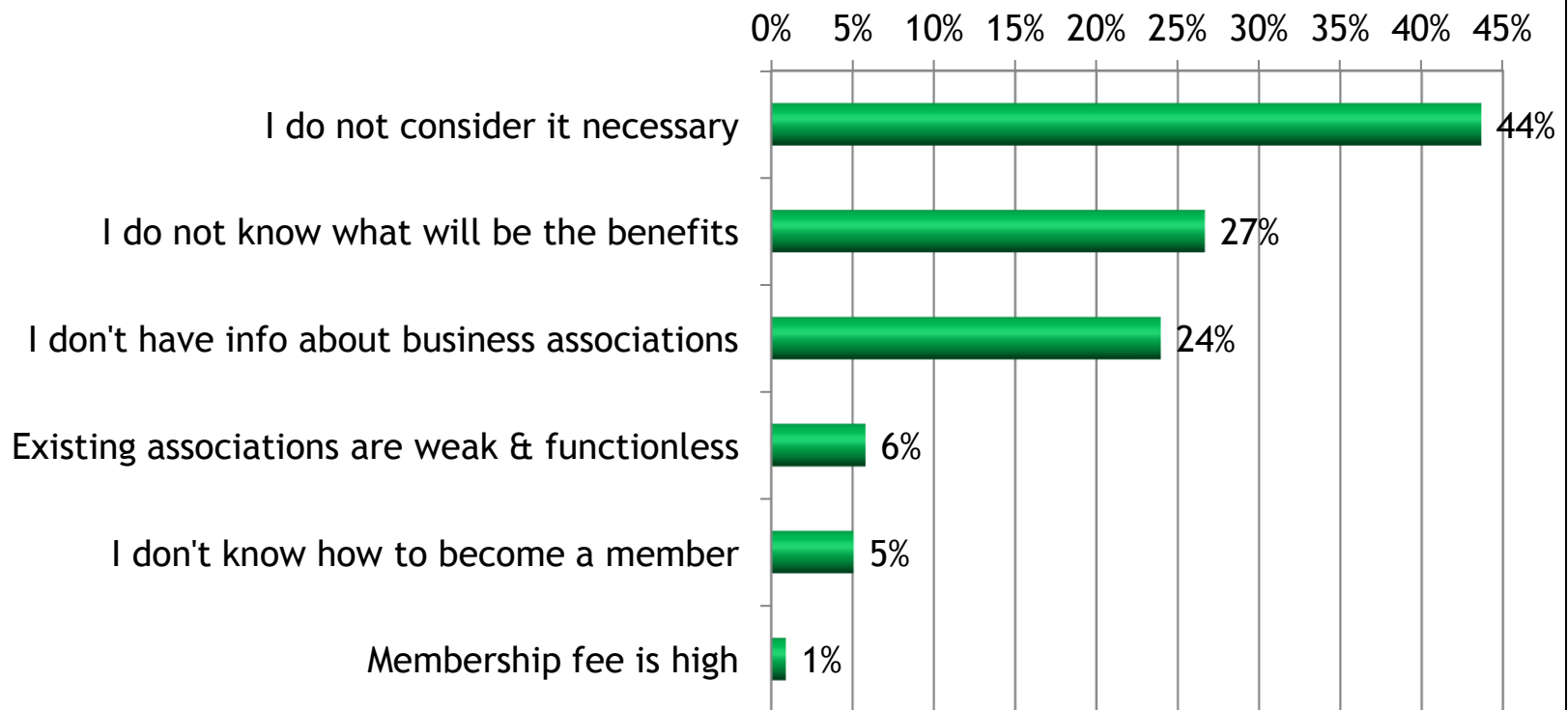


Mixed perceptions whether business association membership helps to protect business rights



Many respondents simply don't have information about business associations

Reasons for not Becoming a Member of Business Associations



Summary of Findings

- Majority view business environment and protection of business rights positively
- There are hardly any cases of corruption
- Some positive trends: reduction in suspensions of company operations, increased trust in institutions
- Problems remain, however: access to finance, penalties, high tax rates and utility costs
- Large businesses compared to small ones are doing well in terms of business growth
- Demand/lack of demand perceived as major factor of business growth/decline
- More businesses plan growth than in the past
- Tax inspections need optimisation: too much resources spent on small firms, in contrast with international practices