

Georgia Business Perceptions Survey 2015

GEORGIA INVESTMENT CLIMATE PROJECT



WORLD BANK GROUP

IFC | International
Finance Corporation

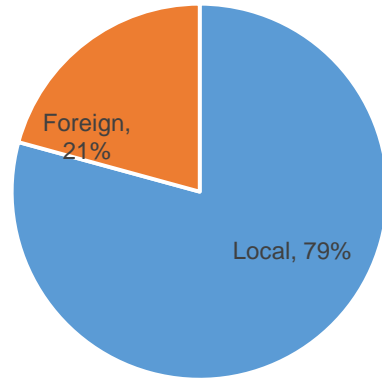
June, 2016

Brief Description of the Survey

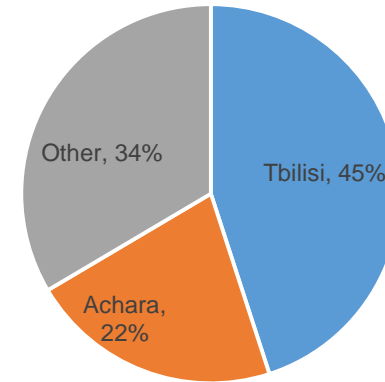
- Survey conducted in October-November 2015
- 800 respondents surveyed – owners, managers and financial managers of private businesses:
 - 364 small firms (annual turnover 100,000-500,000 GEL)
 - 240 medium firms (annual turnover 500,000-1,500,000 GEL)
 - 206 large firms (annual turnover exceeds 1.5 million GEL)
- Stratified random sampling design, stratification by size, sector, region, and ownership (local-foreign);
- Probability proportional to square root of size selection (more equal representation of each stratum)

Distributions of Respondents by Sector, Location, and Ownership

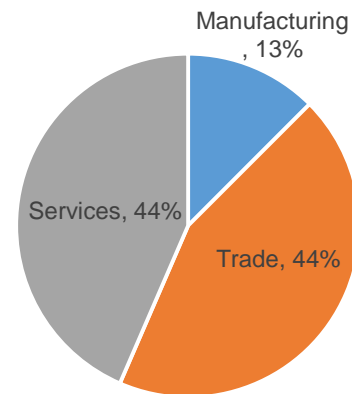
Distribution by Ownership



Distribution by Location



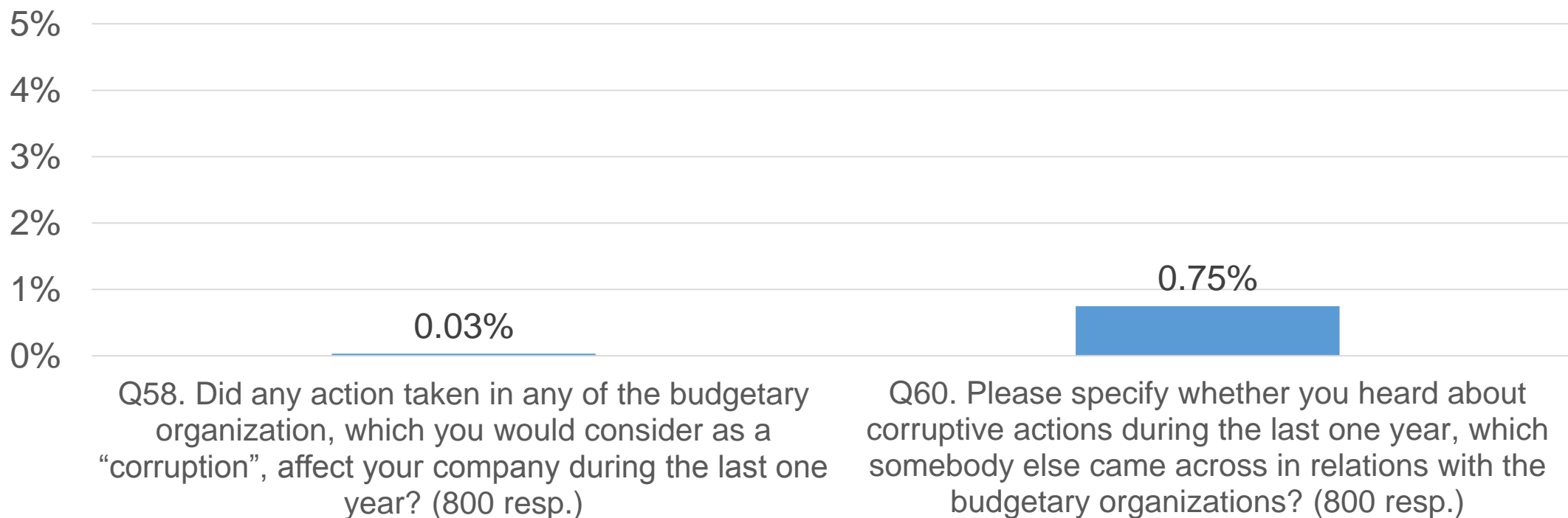
Distribution by Sector



Perception of corruption is very low in responses to different questions.

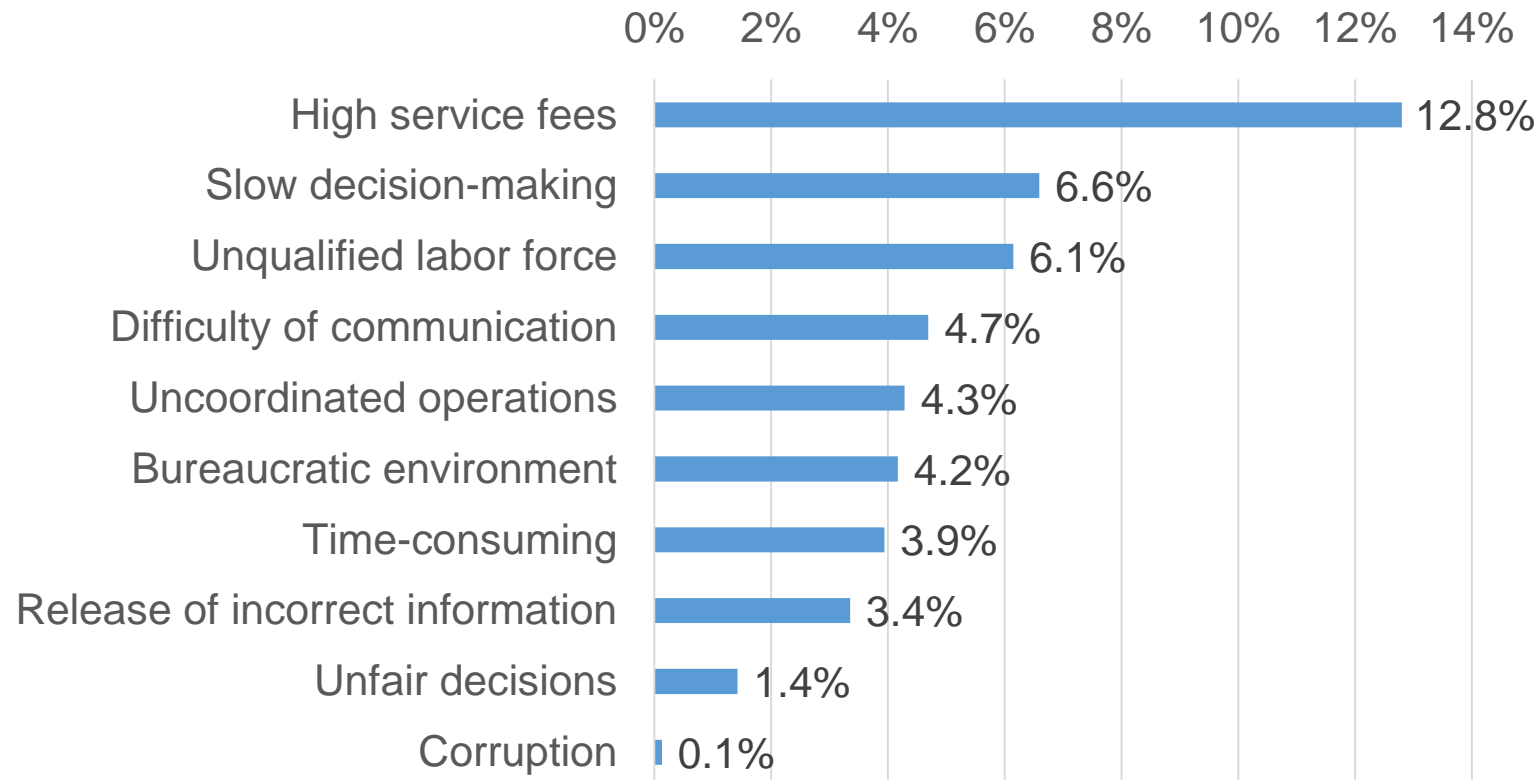
Only 0.03% of respondents said that their business encountered corruption last year (cannot reject the null hypothesis). Only 0.75% of respondents have heard about corrupt practices experienced by others when dealing with government bodies. Interestingly, all these respondents are from service sector, none from manufacturing or trade.

Perceptions of Corruption



Less than a quarter of respondents experienced any problem in relations with government bodies. The most frequent issue was high service fees (13%); the least frequent was corruption (0.13%, 2 respondents).

Problems in Relations with Government Bodies



Q54. Please specify if you had such problems in case of relations with these budgetary organizations as (1) difficulty of communication, (2) slow decision-making, (3) release of incorrect information and (4) uncoordinated operations (e.g. when employees of one and the same organization are providing contradictory information).

Q57. Apart from the above-listed problems what are those main problems that you face in relations with the budgetary organizations?

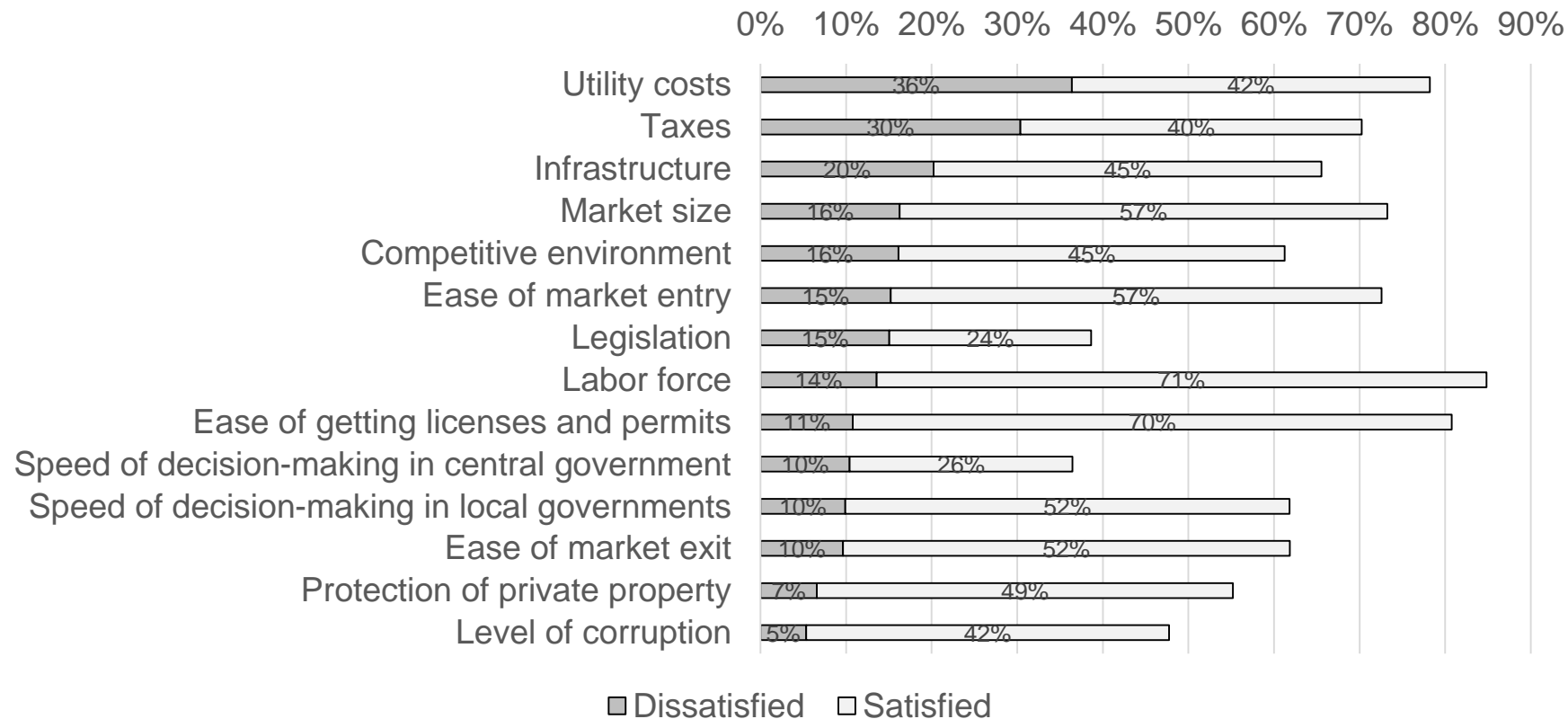
800 resp.

Significance:

Service fees-slow decisions: $p=.0003$
 incorrect info-unfair decisions: $p=.0328$
 unfair decisions-corruption: $p=.0056$

Respondents were asked to tell us how satisfied they were with different components of the business environment. Overall, businesses are more satisfied than dissatisfied. Dissatisfaction is highest for utility costs and taxes. Corruption is the least problematic.

Satisfaction with Business Environment

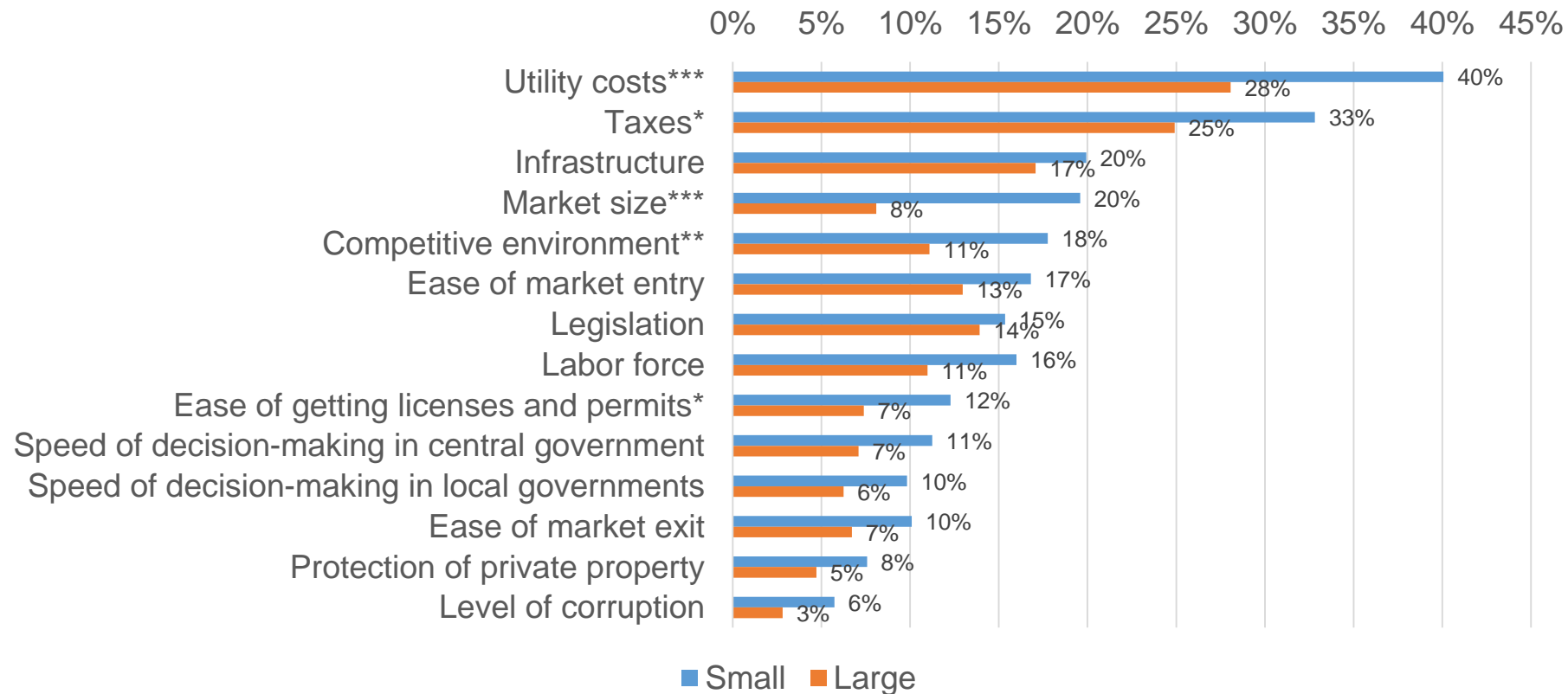


Q52. Please assess the business environment in Georgia. Please use the five point scale where „1” means „Very unsatisfied”, while „5” means „Very satisfied”.
800 resp.

Significance of dissatisfaction:
 Utilities-taxes: $p=.0322^{**}$
 Taxes-infra: $p=.0001^{***}$
 Infra-mkt size: $p=.0805^*$
 Exit-prop rights: $p=.0536^*$

Dissatisfaction generally declines with firm size, sometimes significantly.

Dissatisfaction with Business Environment by Firm Size

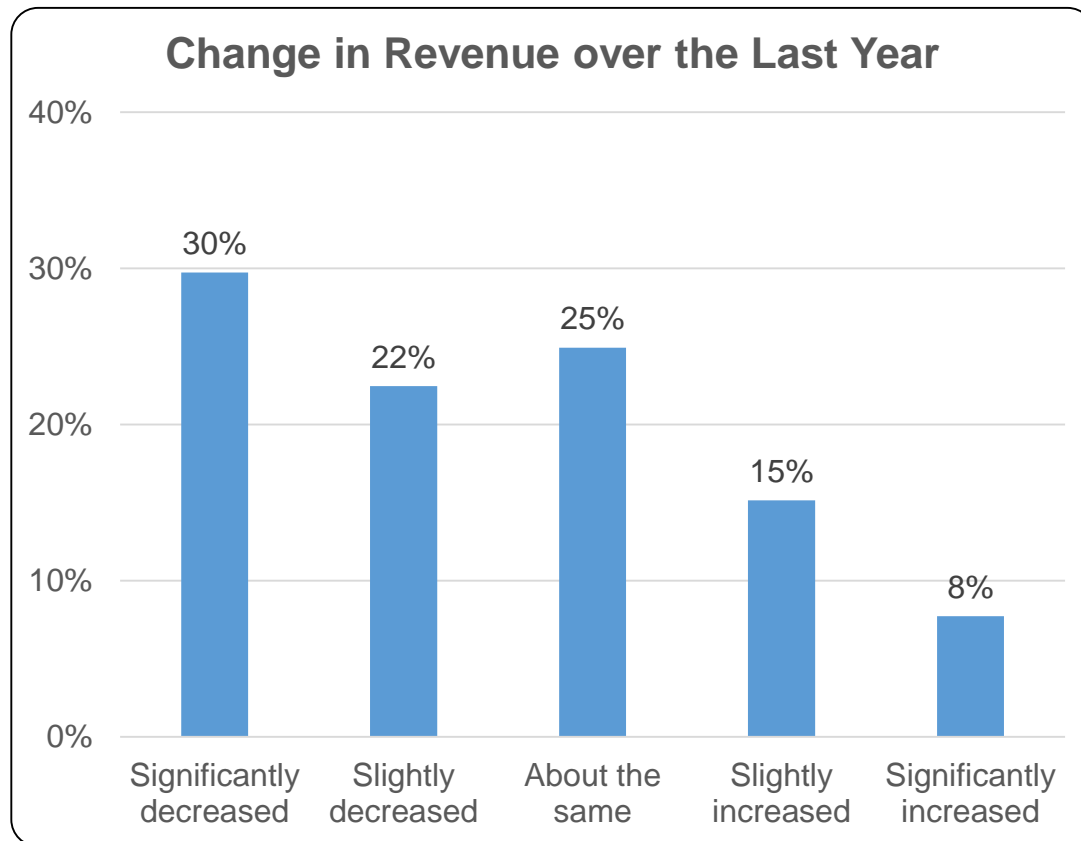


Q52. Please assess the business environment in Georgia. Please use the five point scale where „1” means „Very unsatisfied”, while „5” means „Very satisfied”.

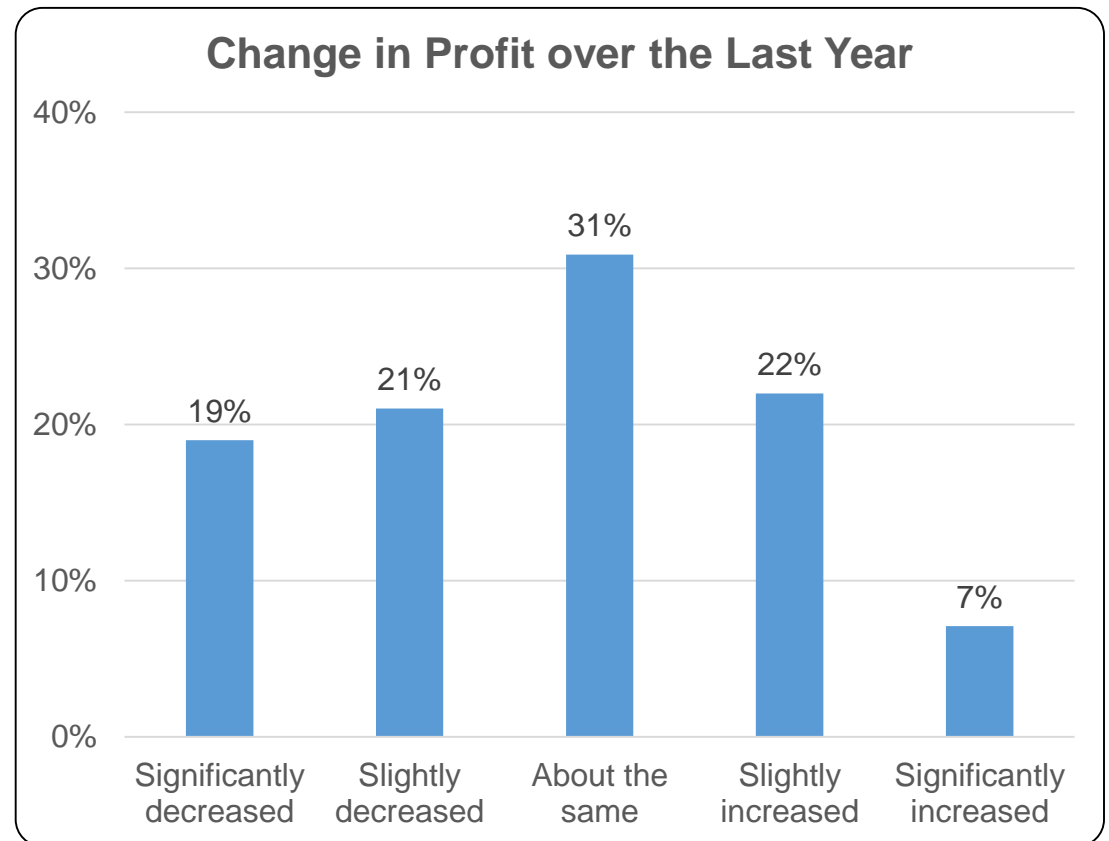
354 small, 206 large.

Significance:
 ***0.01 level
 ** 0.05 level
 * 0.1 level

The revenues of most businesses declined last year. Less than a quarter of respondents reported revenue increase. Profit also showed some decline.

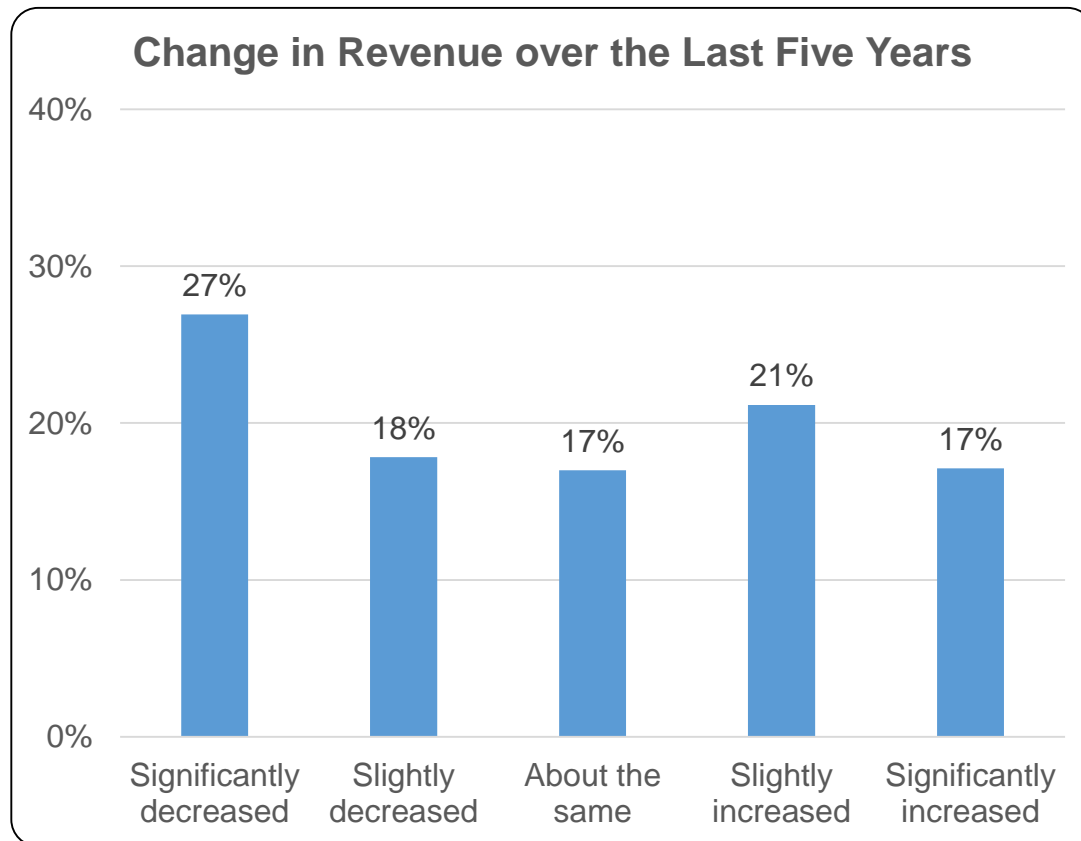


Q33.1. How did your company's revenues change during the last one year? 782 resp.
Decrease 52% versus increase 23% significant, $p=.0000$



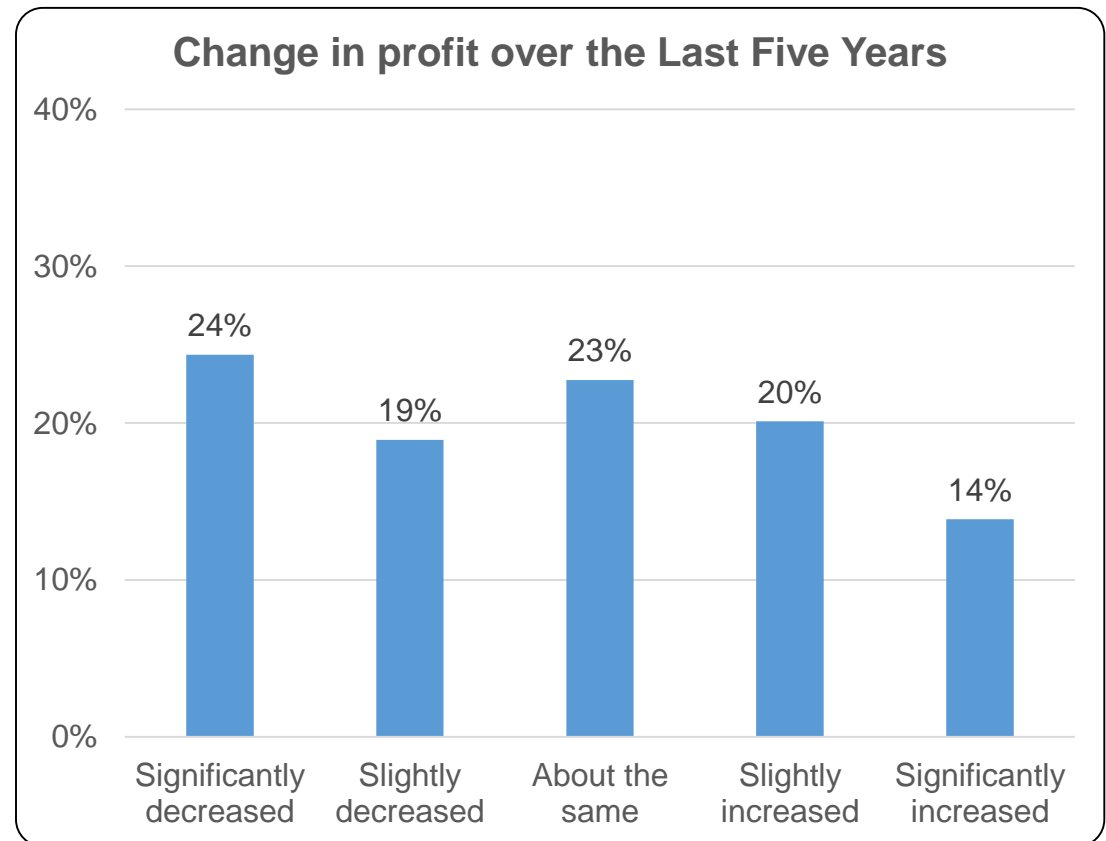
Q36.1. How did your company's profit change in 2014 compared to 2013? 742 resp.
Decrease 40% versus increase 29% significant, $p=.0018$

Businesses reported revenue and profit reduction over the last five years more frequently than an increase.



Q33.2. How did your company's revenues change compared to the 5-year old figures?
425 resp.

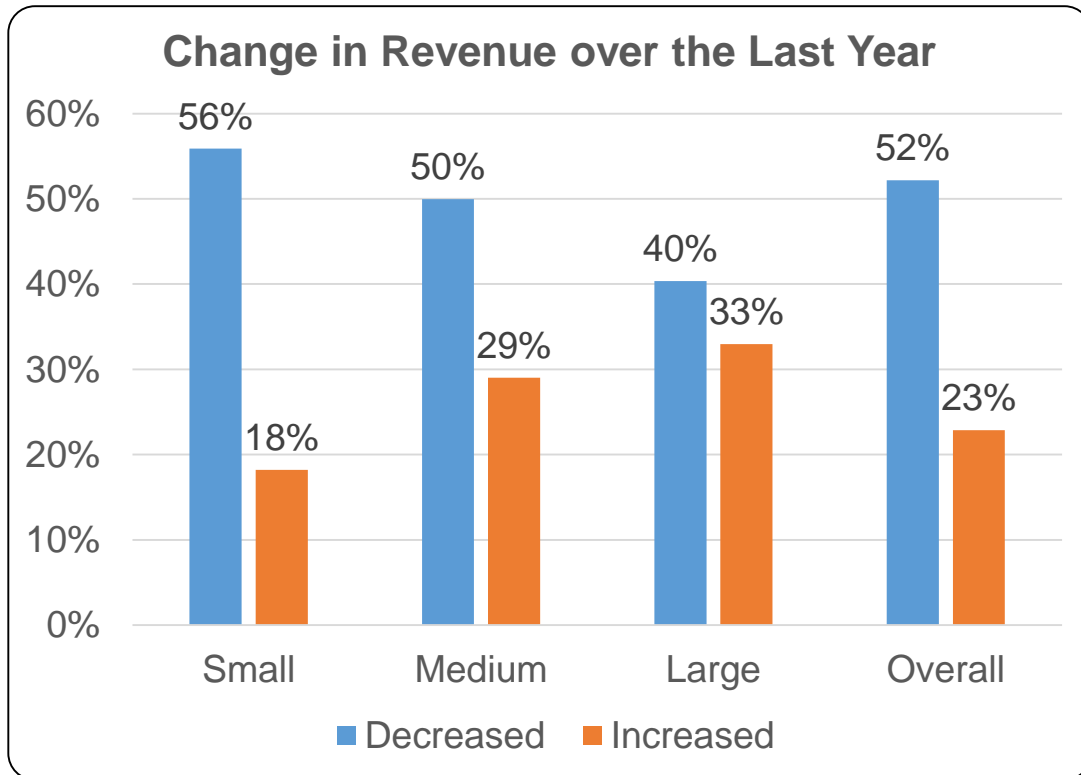
Decrease 45% versus increase 38% insignificant, $p=0.2065$



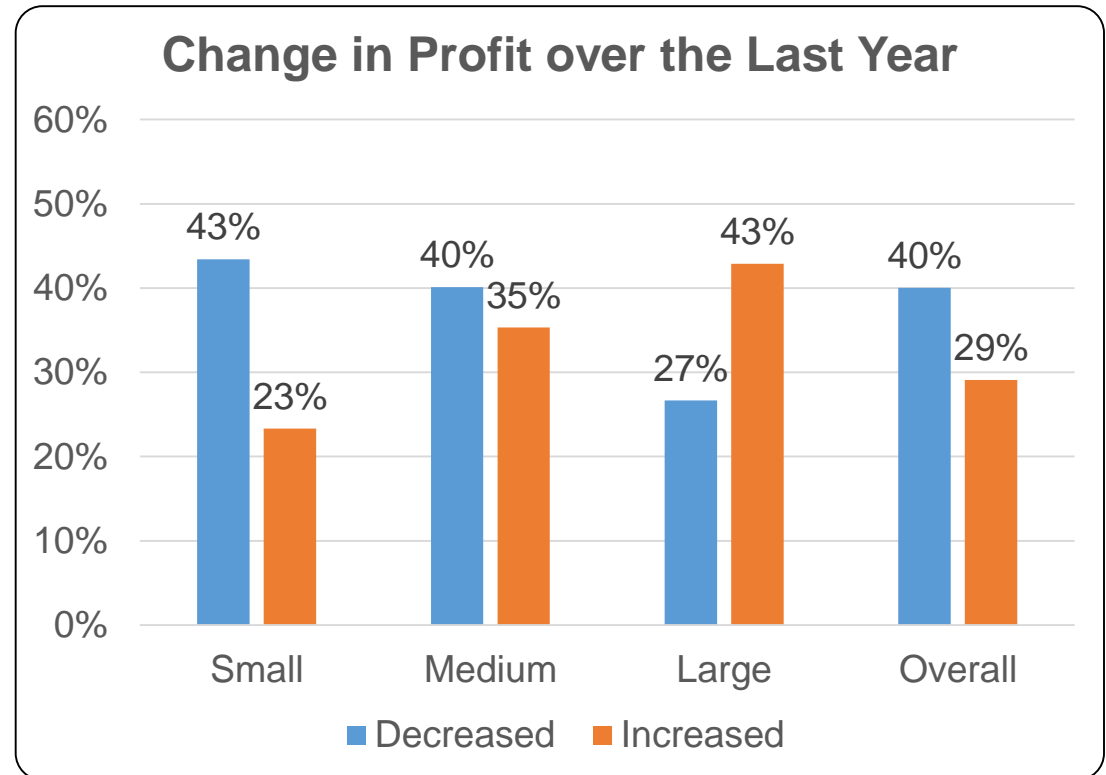
Q36.2. How did your company's profit change compared to the 5-year old figure?
419 resp.

Decrease 44% versus increase 34% significant, $p=0.0565$

Larger businesses tend to suffer less from revenue and profit reduction. For large businesses, profit increased even more often than it decreased.

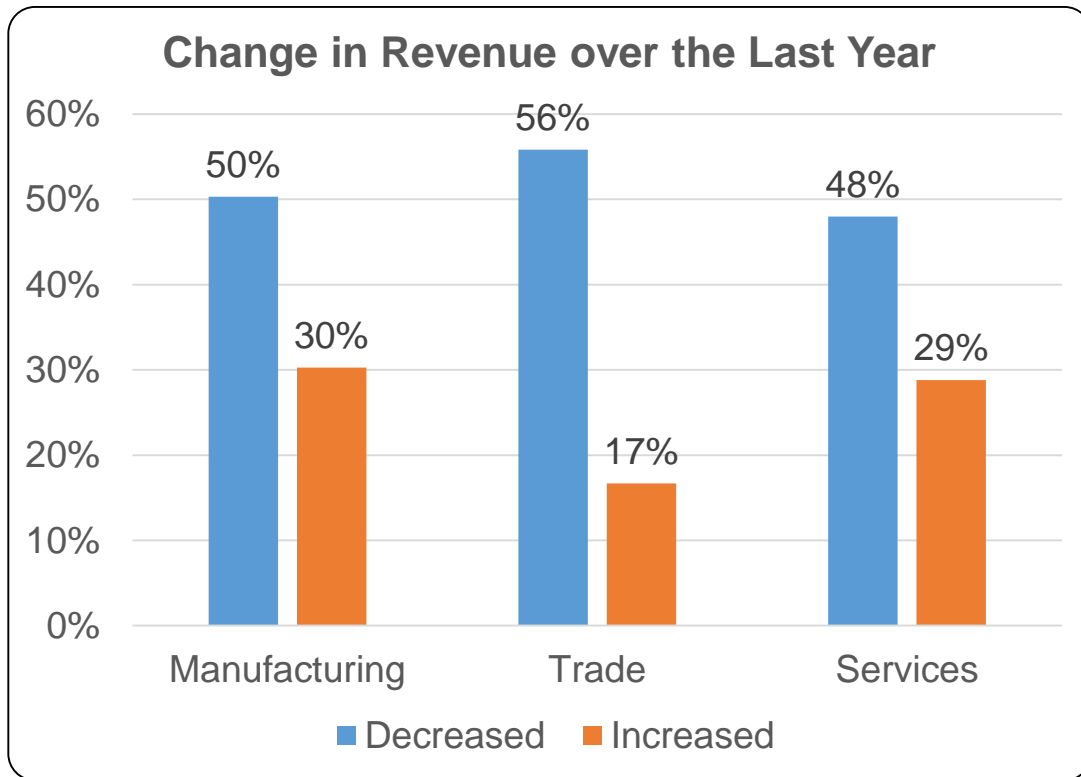


Increase versus decrease: Small significant ($p=.0000$)***
 Increase versus decrease: Medium significant ($p=.0023$)***
 Increase versus decrease: Large insignificant ($p=.2808$)

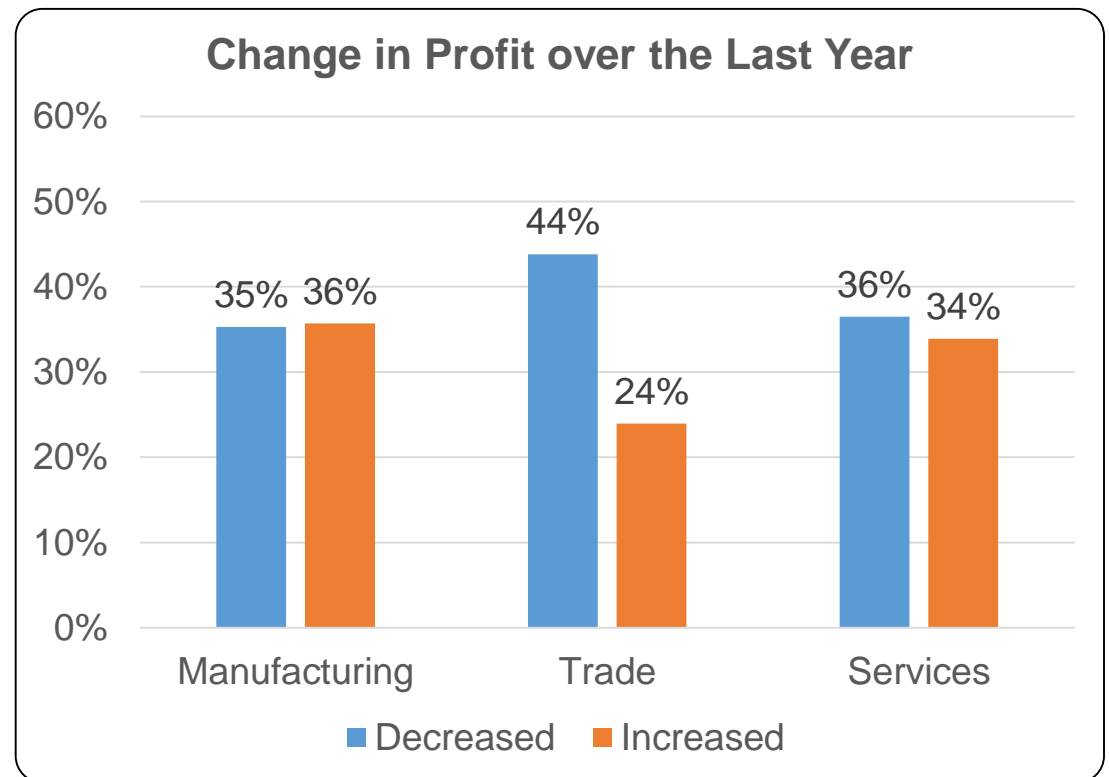


Increase versus decrease: Small significant ($p=.0000$)***
 Increase versus decrease: Medium insignificant ($p=.4775$)
 Increase versus decrease: Large significant ($p=.0171$)**

Trade businesses are the most vulnerable to revenue and profit reduction. Though manufacturing and services also suffer from revenue decrease, the portion that saw a profit increase was about the same as had a decrease.

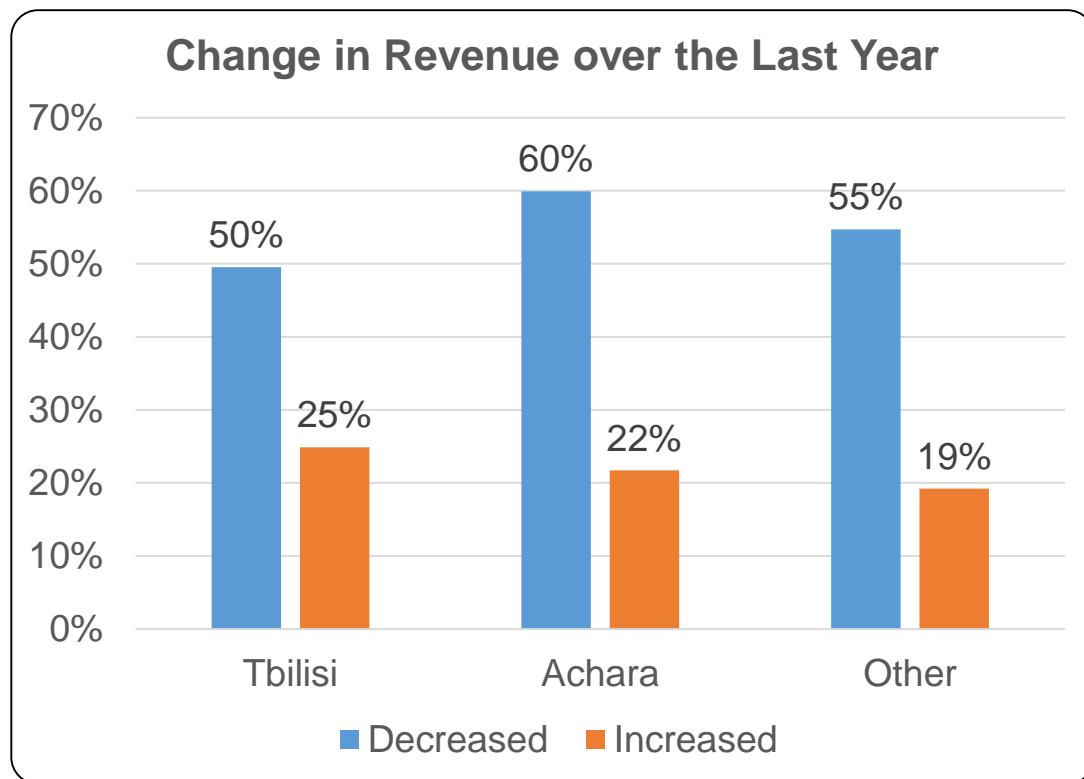


Increase versus decrease: manufacturing almost significant ($p=.1090$)
 Increase versus decrease: trade significant ($p=.0000$)***
 Increase versus decrease: services significant ($p=.0003$)***

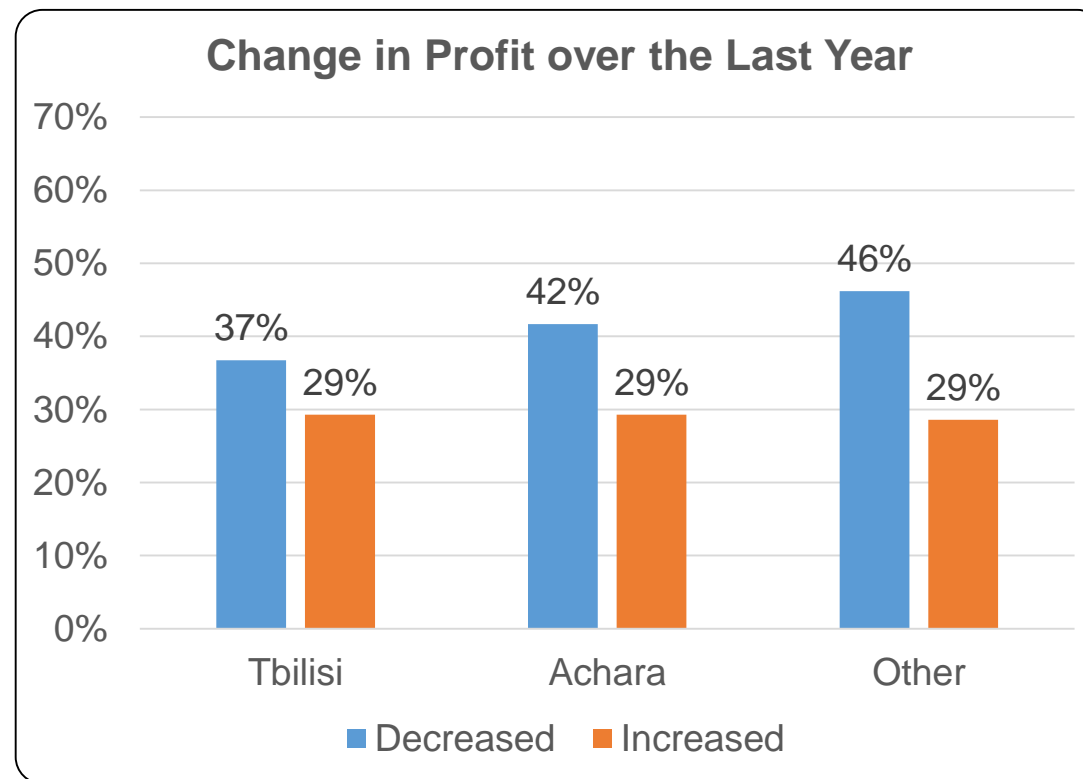


Increase versus decrease: manufacturing insignificant ($p=.9711$)
 Increase versus decrease: trade significant ($p=.0001$)***
 Increase versus decrease: services insignificant ($p=.6310$)

Businesses in all regional subgroups experience revenue and profit decline more often than increase, with Tbilisi showing the smallest difference.

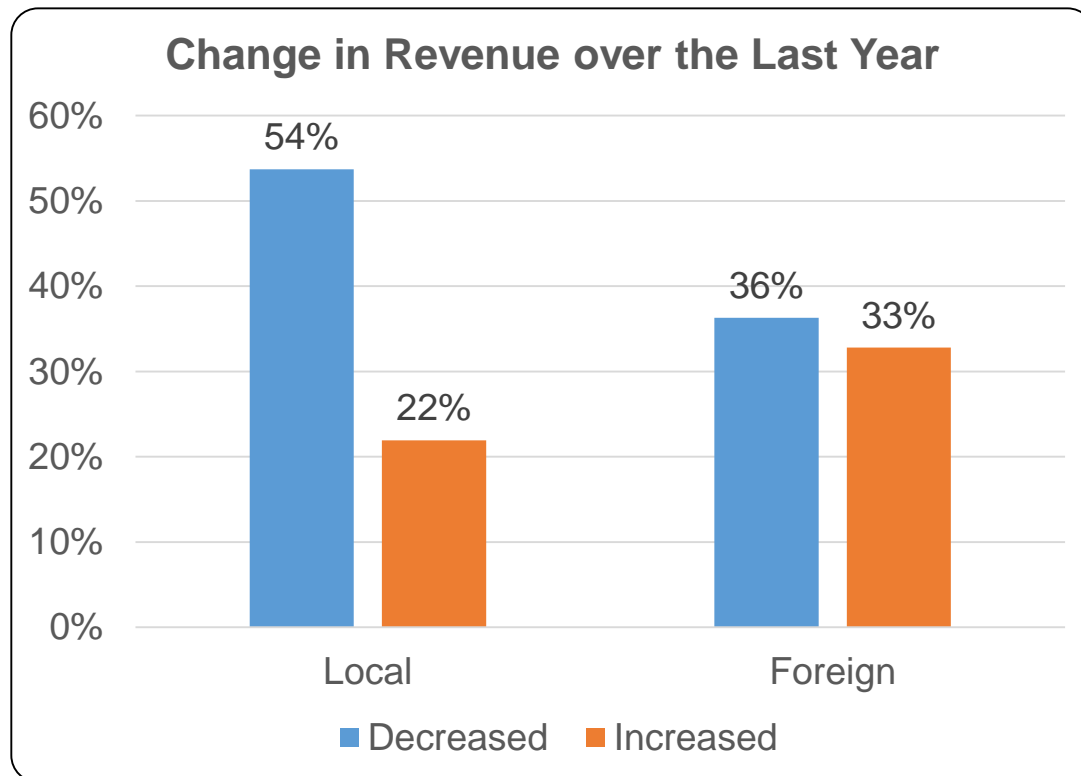


Increase versus decrease: Tbilisi significant ($p=.0000$)***
 Increase versus decrease: Achara significant ($p=.0000$)***
 Increase versus decrease: Other significant ($p=.0000$)***

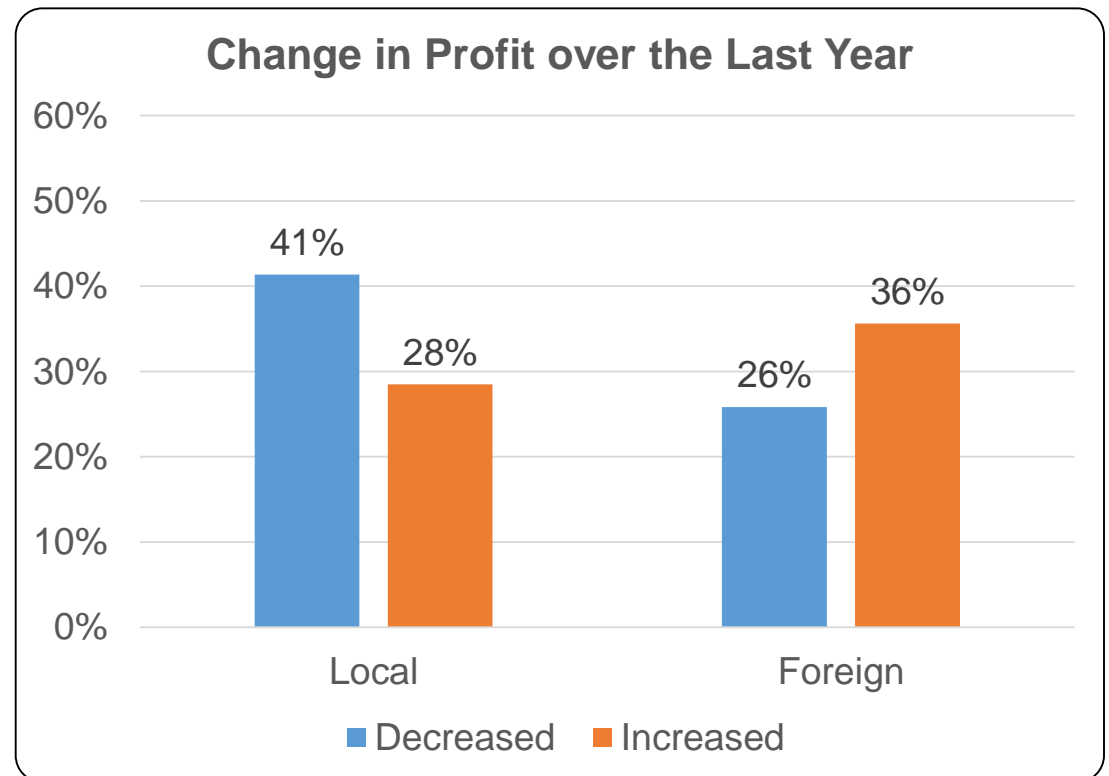


Increase versus decrease: Tbilisi almost significant ($p=.1171$)
 Increase versus decrease: Achara almost significant ($p=.1094$)
 Increase versus decrease: Other significant ($p=.0046$)***

Local businesses experienced revenue and profit reduction more often than increase. For foreign-owned businesses, the portion facing revenue increase and decrease are about the same, and more often they report profit increase.

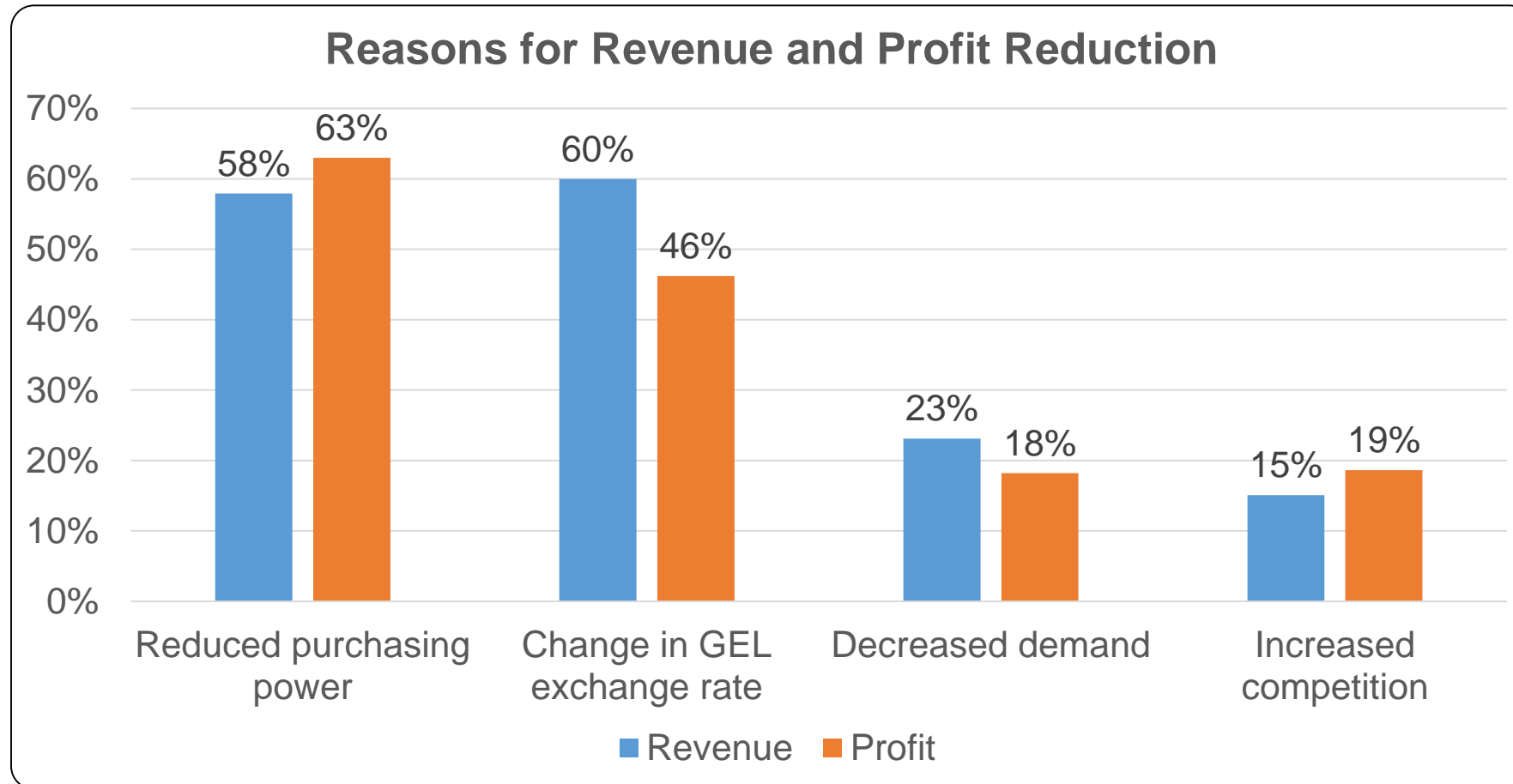


Increase versus decrease: Local significant ($p=.0000$)***
 Increase versus decrease: Foreign insignificant ($p=.6783$)



Increase versus decrease: Local significant ($p=.0006$)***
 Increase versus decrease: Foreign insignificant ($p=.2188$)

The majority of respondents blames change in GEL exchange rate and reduced purchasing power in revenue and profit reduction.



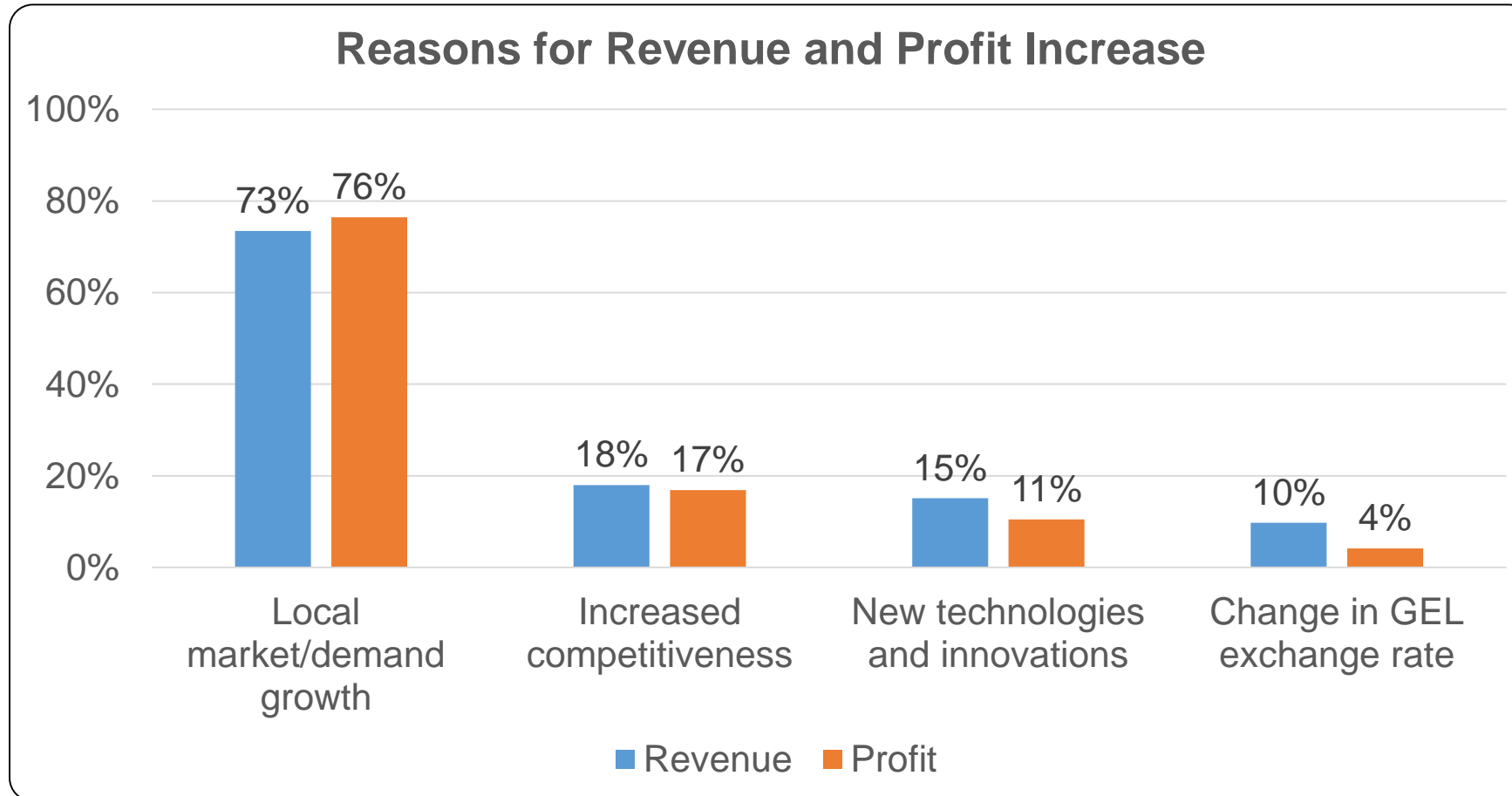
Q35. What is the main reason that your company's income declined during the last one year? 394 resp.

Q37. What was the main reason for your company's profit decline in 2014? 281 resp.

Other reasons mentioned:

- Lack of access to modern technologies and innovations
- Reorganization
- Staff negligence
- Tax penalties
- Export reduction

Local market/demand growth is main reason revenues and profits increased

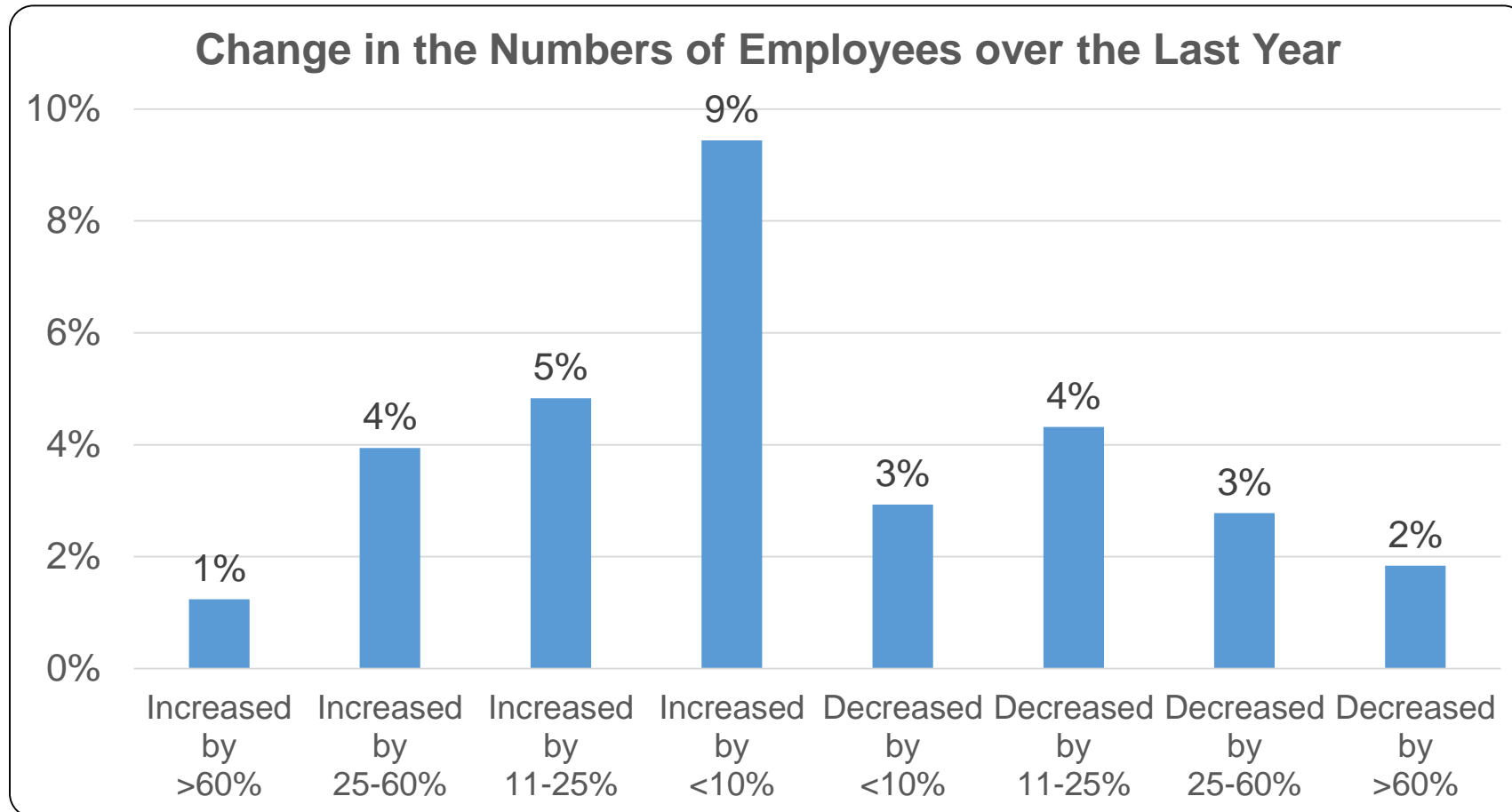


Q34. What is the main reason that your company's income increased during the last one year? 201 resp.

Q38. What is the main reason that your company's profit increased in 2014? 246 resp.

- Other reasons mentioned:
- Entering new markets
 - Issuance of new products
 - Export growth
 - Decreased competition

More than two-thirds of businesses experienced no change in employment numbers. More respondents reported an increase rather than a decrease – 19% to 12% -- though the difference is mostly due to small (less than 10%) changes.



Q39.1. How did the number of company employees change during the recent one year? 786 resp.

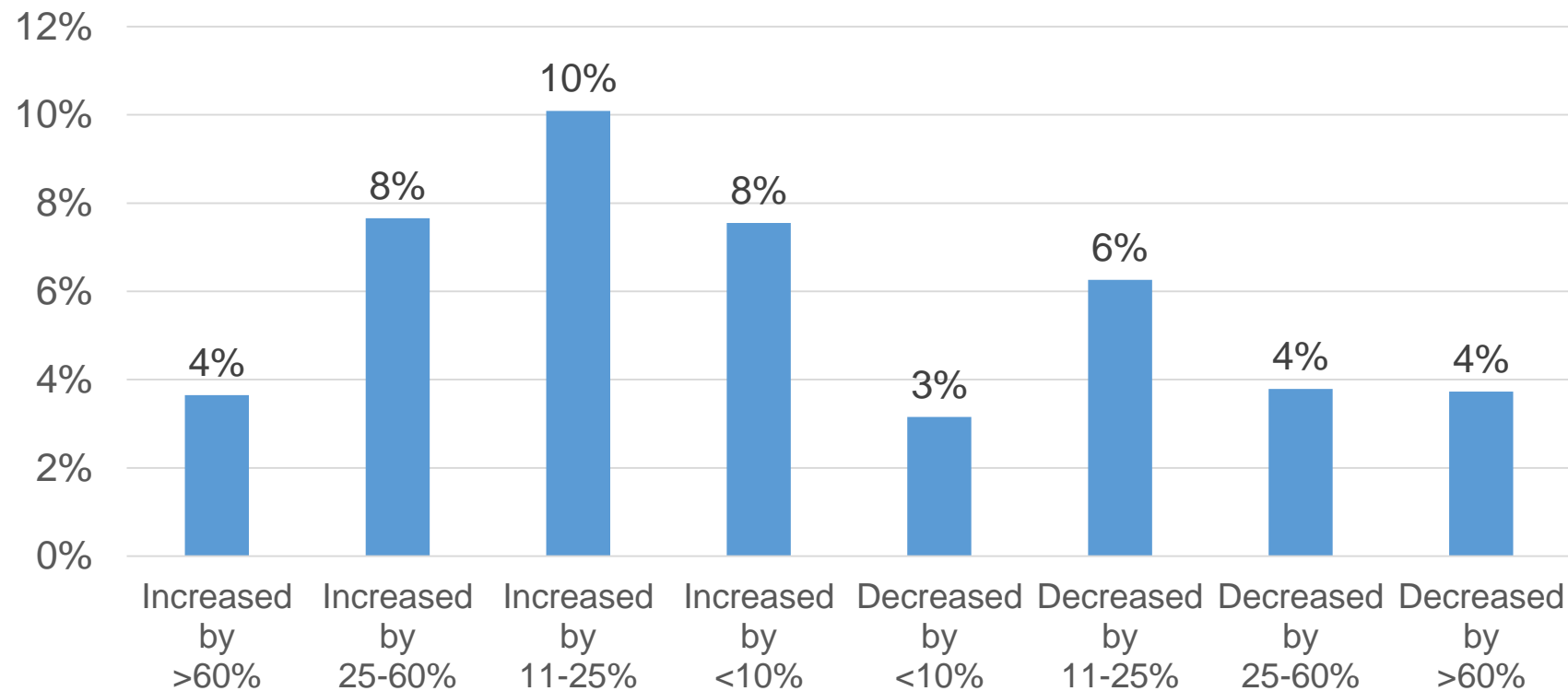
69% reporting no change is not shown on the chart.

Increase 19% versus decrease 12% significant $p= 0.0009$.

More than 10% increase and decrease in employment is reported by roughly similar shares of respondents – 10% and 9%, respectively.

The employment trend over the last five years looks even better: 54% unchanged, 29% increase, compared to 17% decrease.

Change in the Numbers of Employees over the Last Five Years



Q39.2. How did the number of company employees change compared to 5 year old figure?

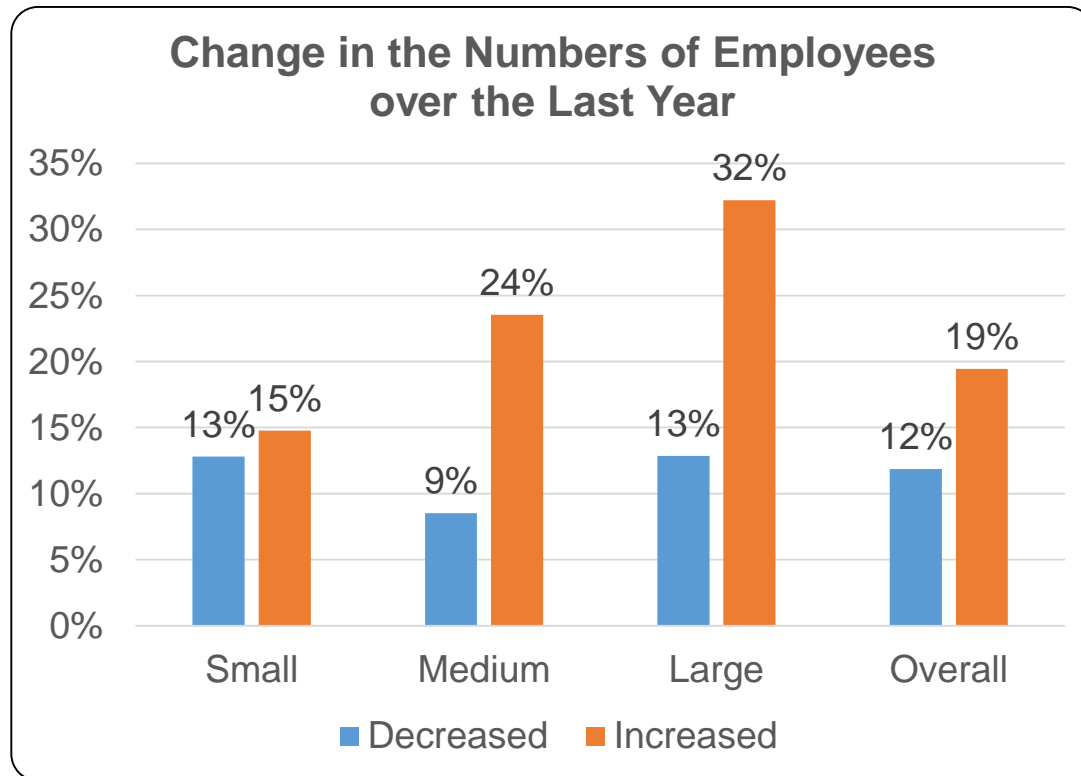
415 resp.

54% reporting no change is not shown on the chart.

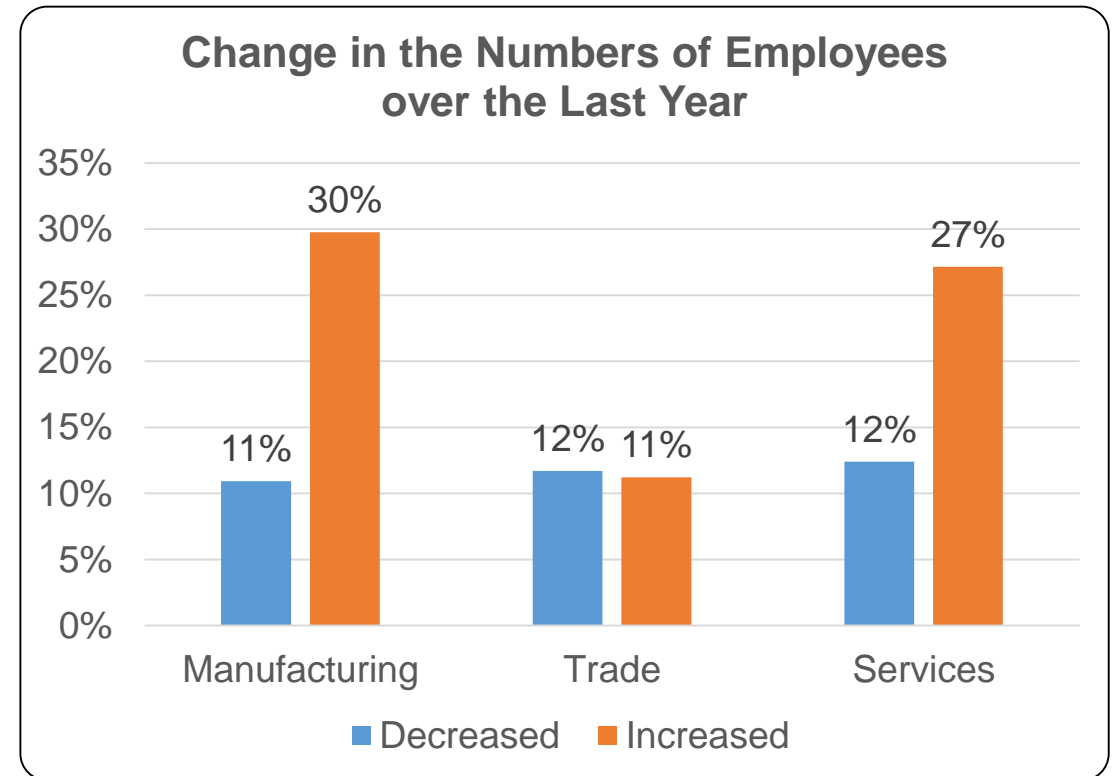
Increase 29% versus decrease 17% significant $p= 0.0013$.

More than 10% increase and decrease are reported by 21% and 14% of respondents, respectively.

Employment changes are positively related to firm size. Employment in non-trade sectors increased more frequently than it decreased. In small firms and trading firms, increases and decreases occur with similar frequencies.



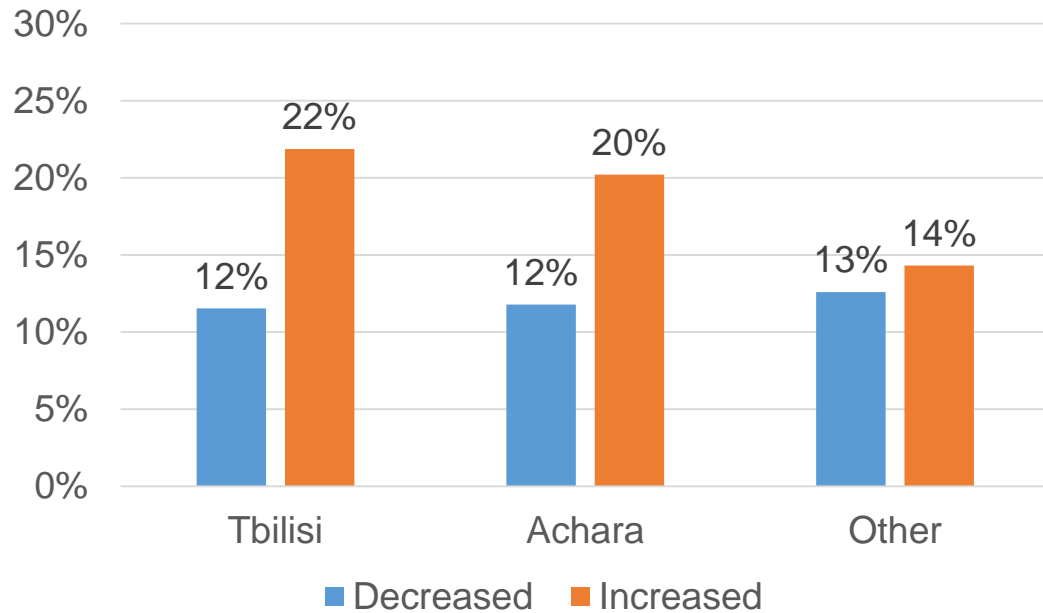
Increase versus decrease: Small insignificant ($p=.5164$)
 Increase versus decrease: Medium significant ($p=.0006$)***
 Increase versus decrease: Large significant ($p=.0002$)***



Increase versus decrease: Manufacturing significant ($p=.0255$)**
 Increase versus decrease: Trade insignificant ($p=.8661$)
 Increase versus decrease: Services significant ($p=.0001$)***

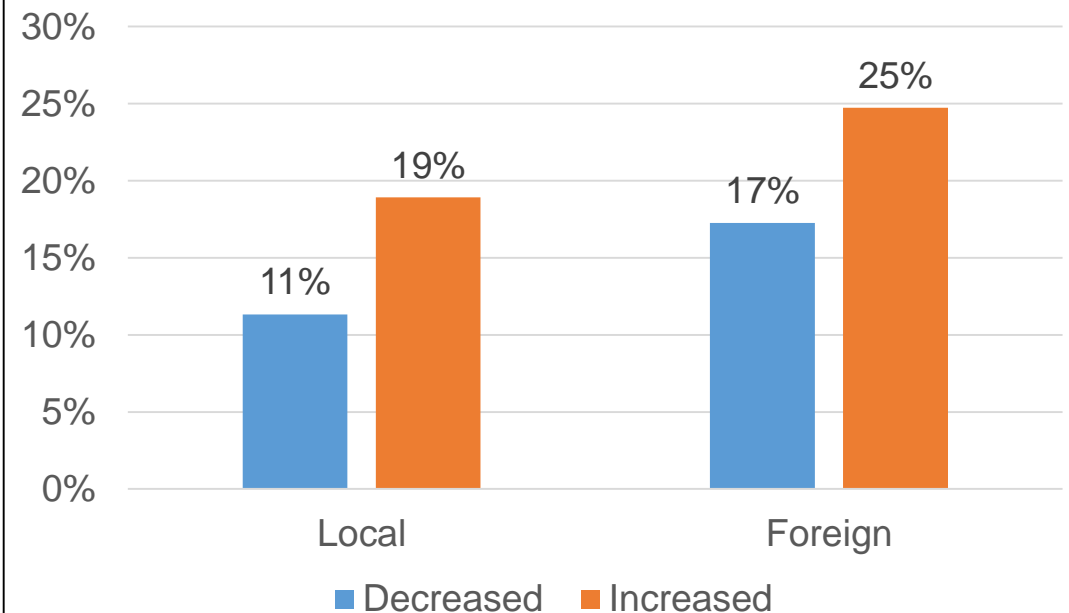
In Tbilisi and Adjara, employment increases are more frequent than decreases. In the rest of the country, the occurrence of increases and decreases is similar.

Change in the Numbers of Employees over the Last Year by Location



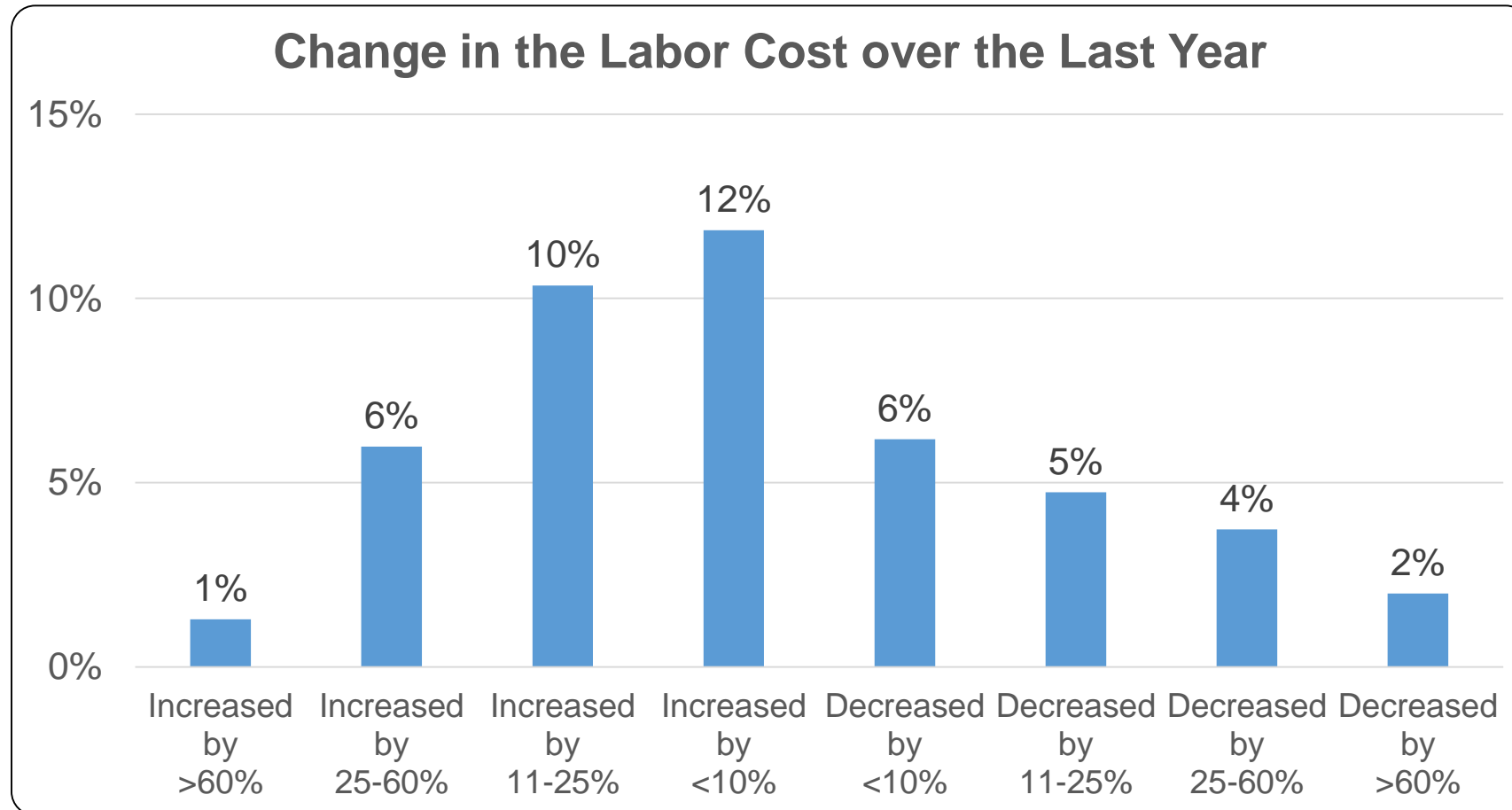
Increase versus decrease: Tbilisi significant ($p=.0018$)***
 Increase versus decrease: Achara significant ($p=.0808$)**
 Increase versus decrease: Other insignificant ($p=.6176$)

Change in the Numbers of Employees over the Last Year by Ownership



Increase versus decrease: Local significant ($p=.0017$)***
 Increase versus decrease: Foreign insignificant ($p=.2752$)

Labor cost has not changed over the last year in 54% of enterprises. 29% report an increase, compared to 17% reporting decrease.



Q40.1. How did your company's total annual payroll fund change during the last one year?

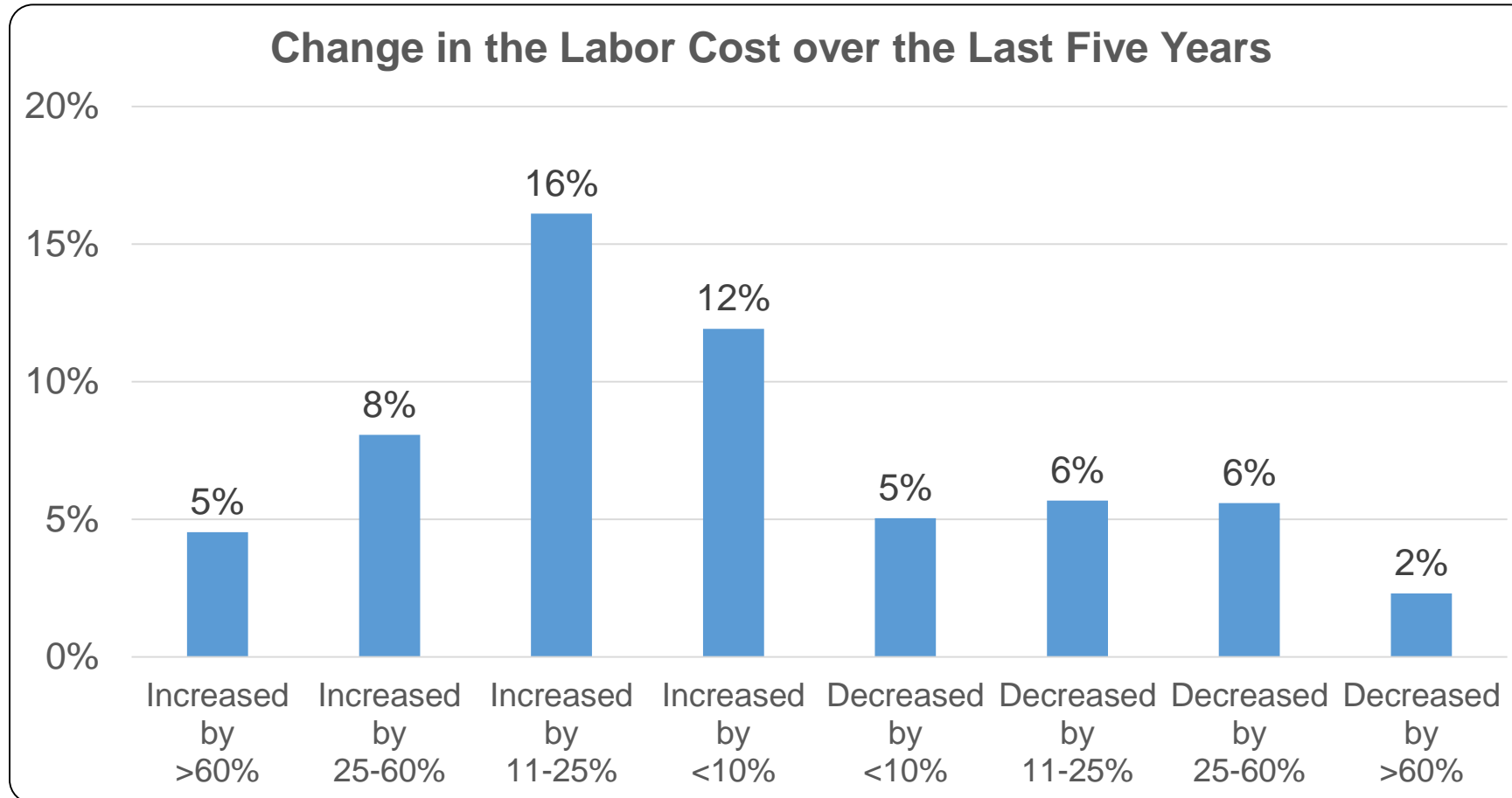
772 resp.

54% reporting no change is not shown on the chart.

Increase 29% versus decrease 17% significant $p= 0.0000$.

More than 10% increase and decrease is reported in 18% and 10% of cases, respectively.

Labor cost have not changed over the last five years in 41% of businesses. 41% report an increase, compared to 19% reporting decrease.



Q40.2. How did your company's total annual payroll fund change compared to the 5-year old figure?

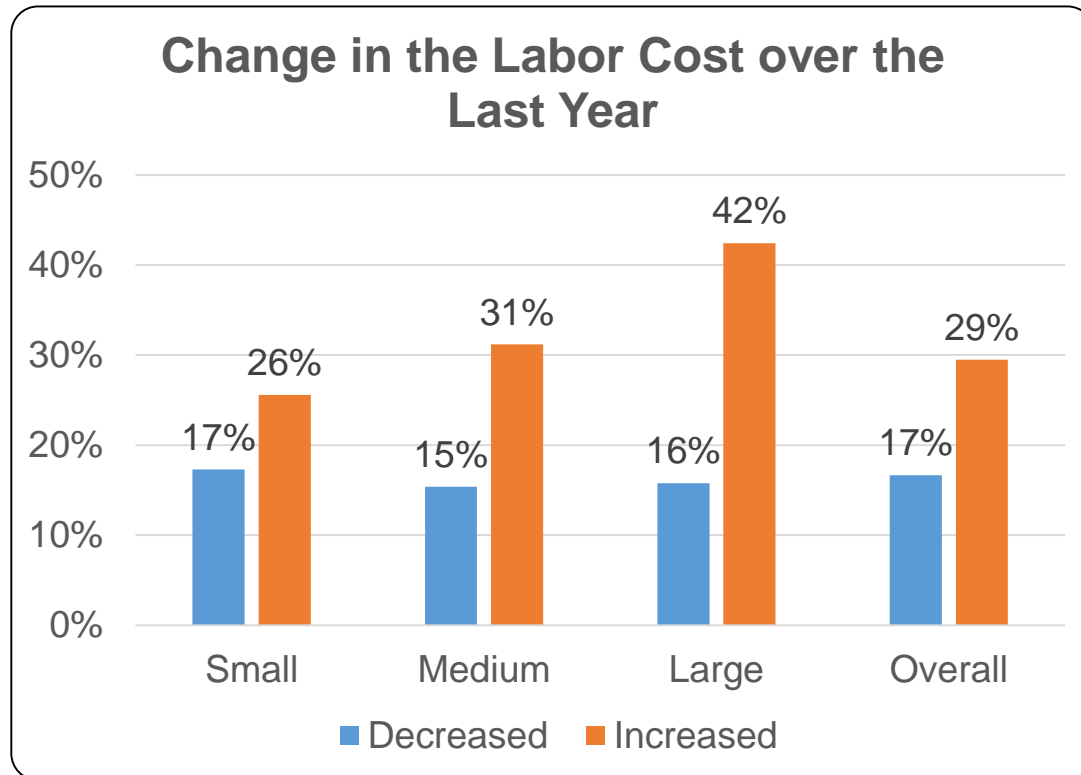
409 resp.

41% reporting no change is not shown on the chart.

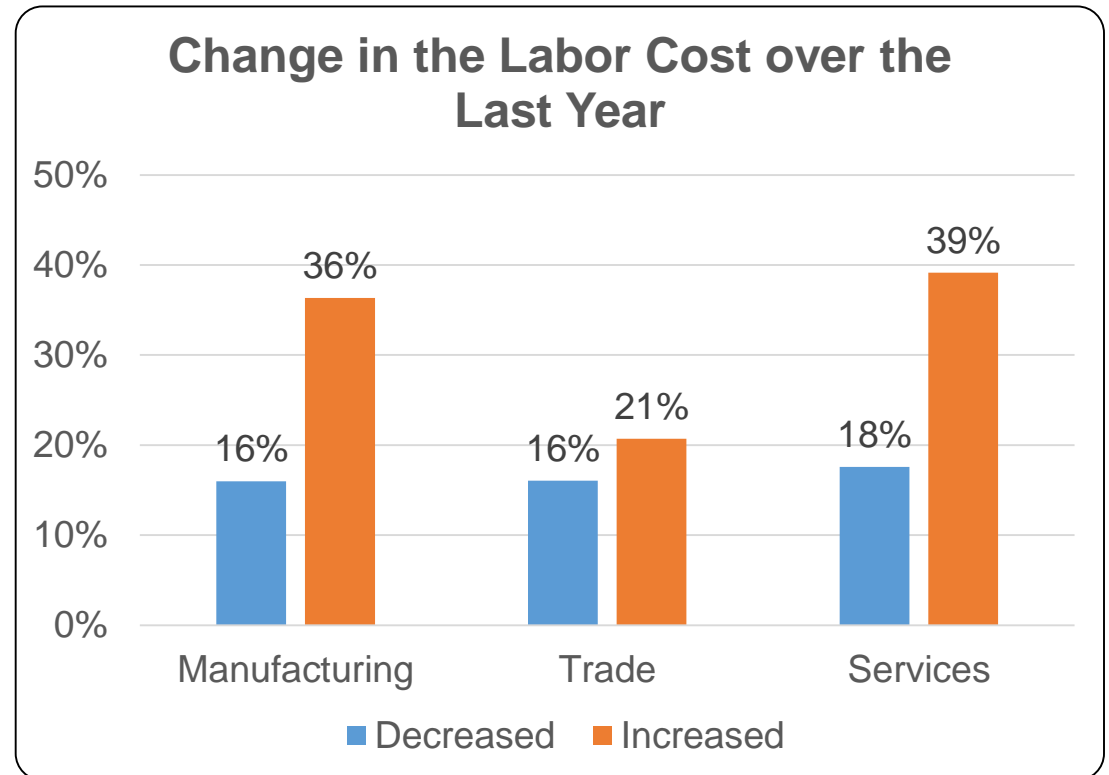
Increase 41% versus decrease 19% significant $p= 0.0000$.

More than 10% increase and decrease is reported in 29% and 14% of cases, respectively.

Labor cost increases are more frequent than decreases across all size and sector subgroups, though increases in small and trade firms happen less frequently than in other subgroups.

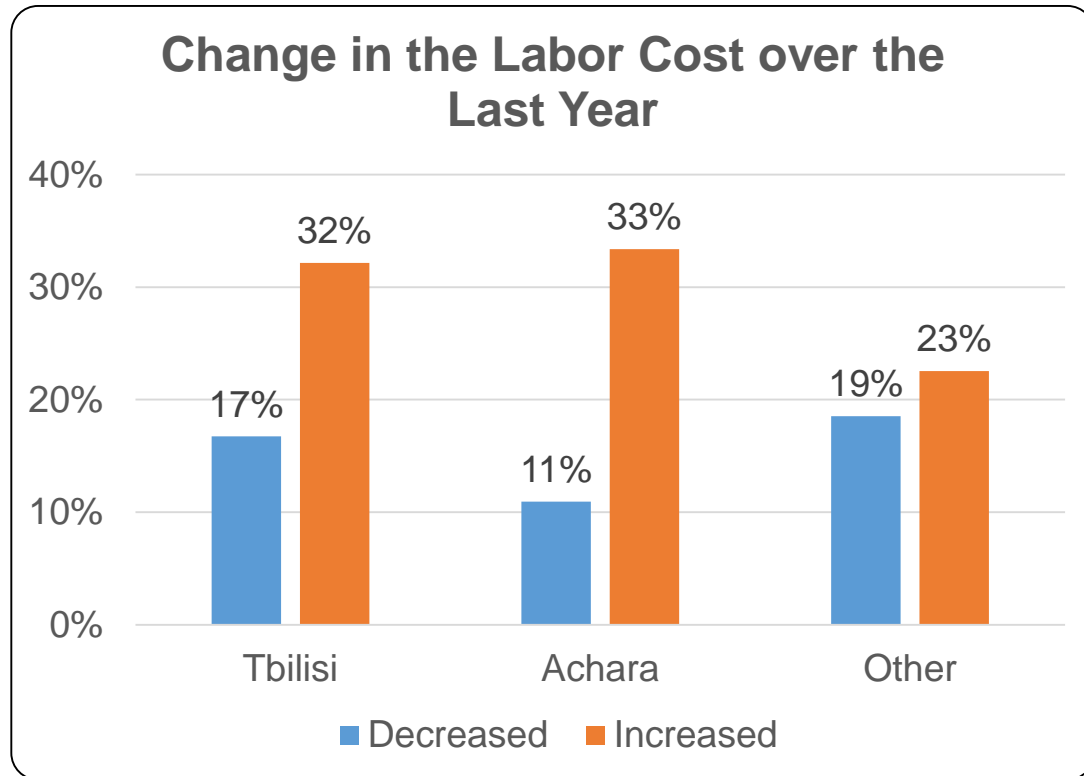


Increase versus decrease: Small significant ($p=.0294$)**
 Increase versus decrease: Medium significant ($p=.0023$)***
 Increase versus decrease: Large significant ($p=.0000$)***

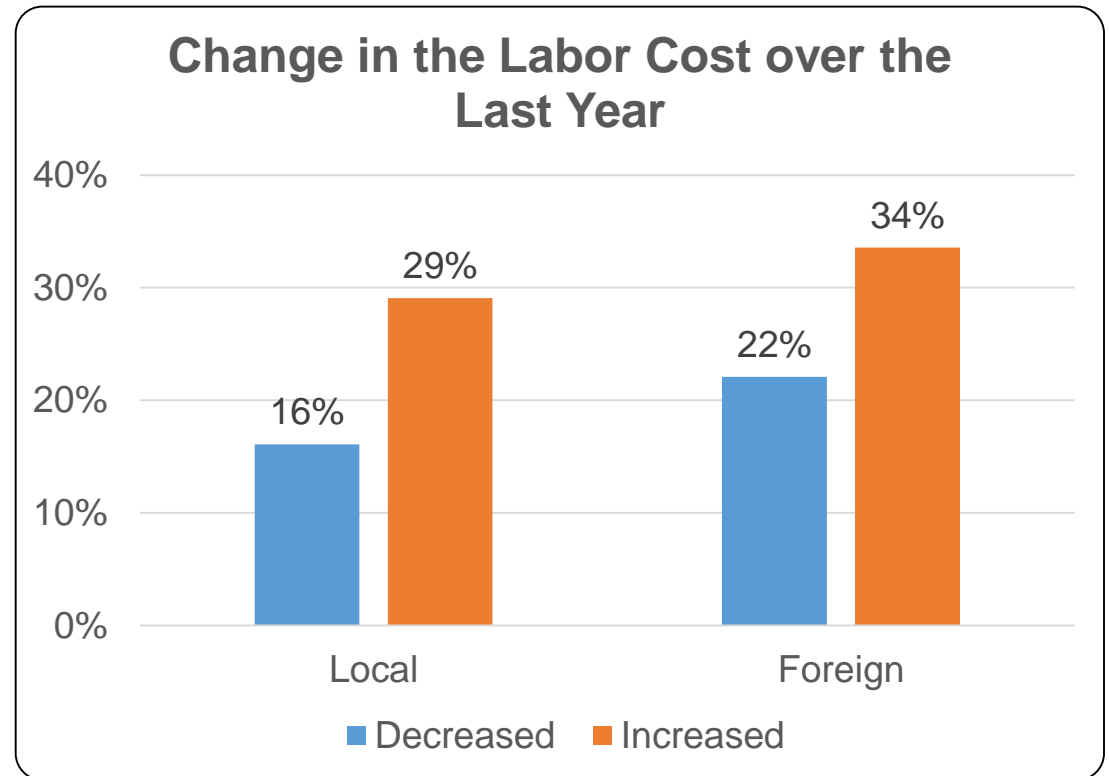


Increase versus decrease: Manufacturing significant ($p=.0374$)**
 Increase versus decrease: Trade insignificant ($p=.1979$)
 Increase versus decrease: Services significant ($p=.0000$)***

Labor cost increases are more likely than decreases across all location and ownership groups.

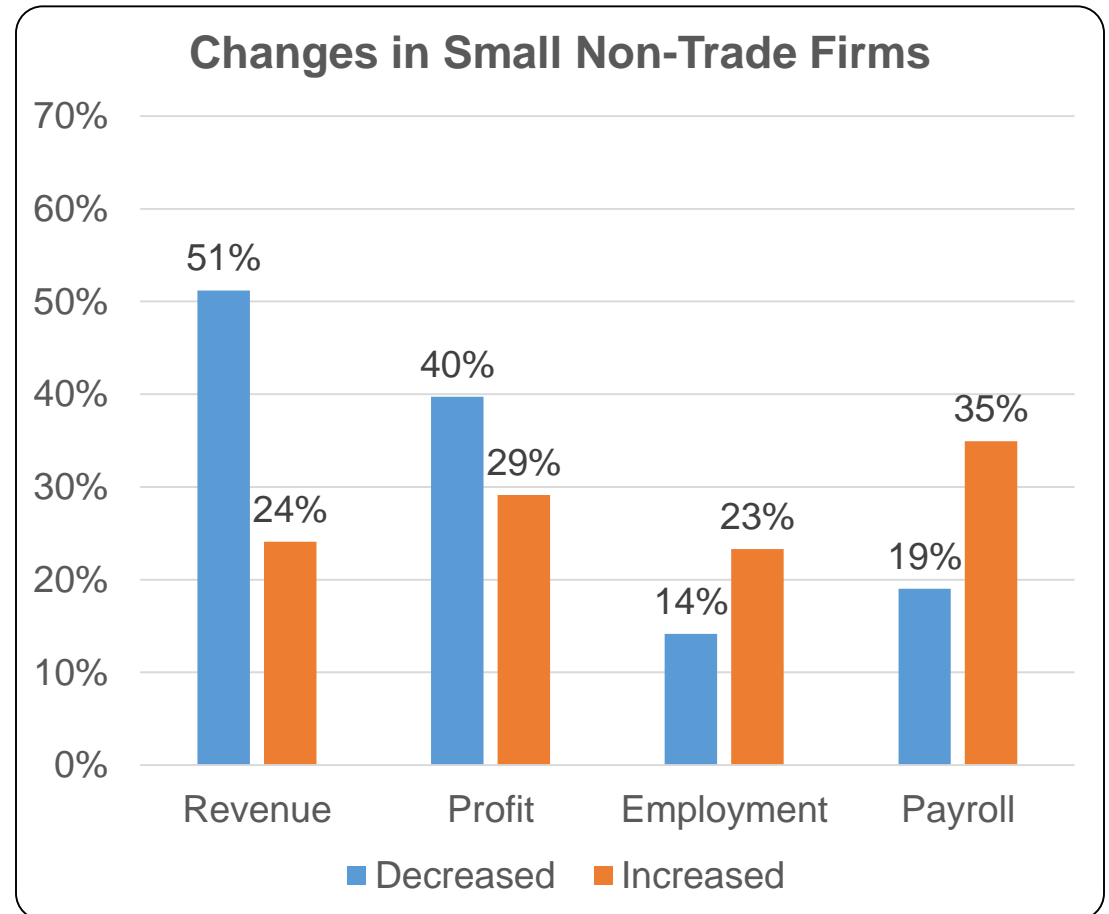
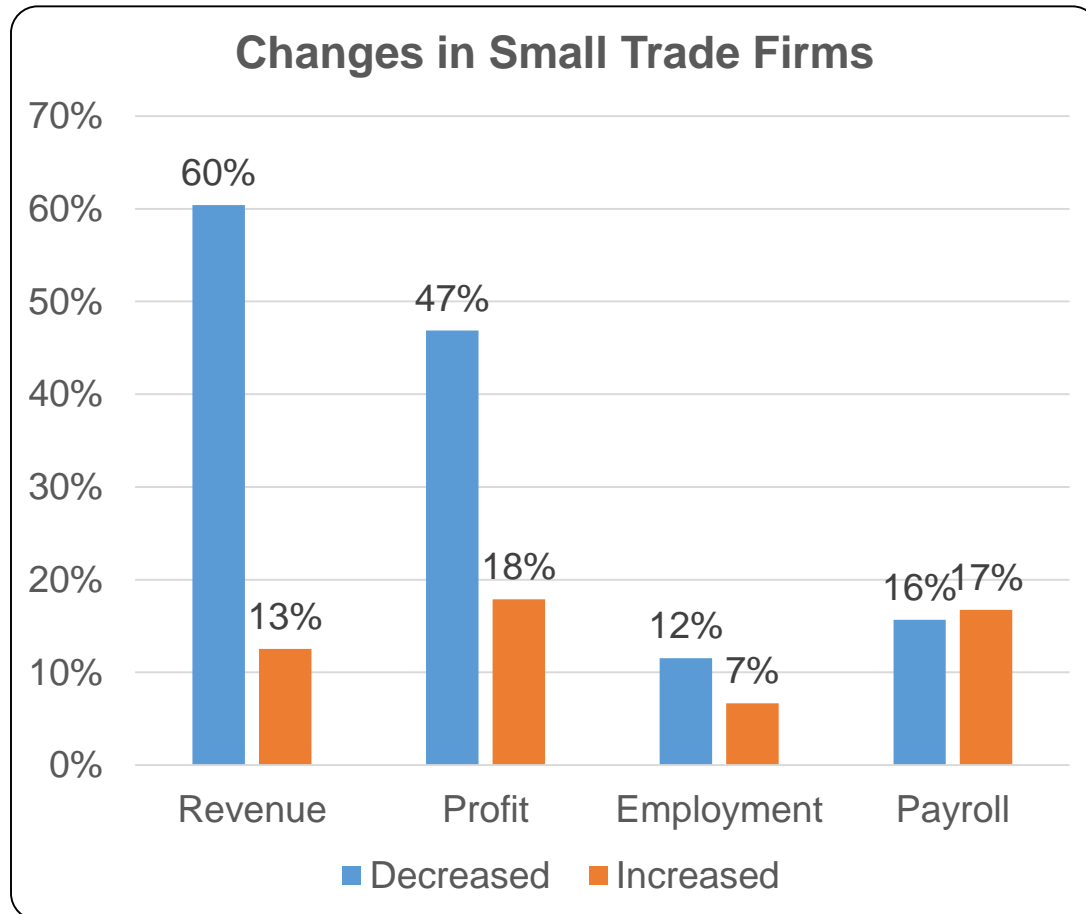


Increase versus decrease: Tbilisi significant ($p=.0001$)***
 Increase versus decrease: Achara significant ($p=.0001$)***
 Increase versus decrease: Other insignificant ($p=.3772$)

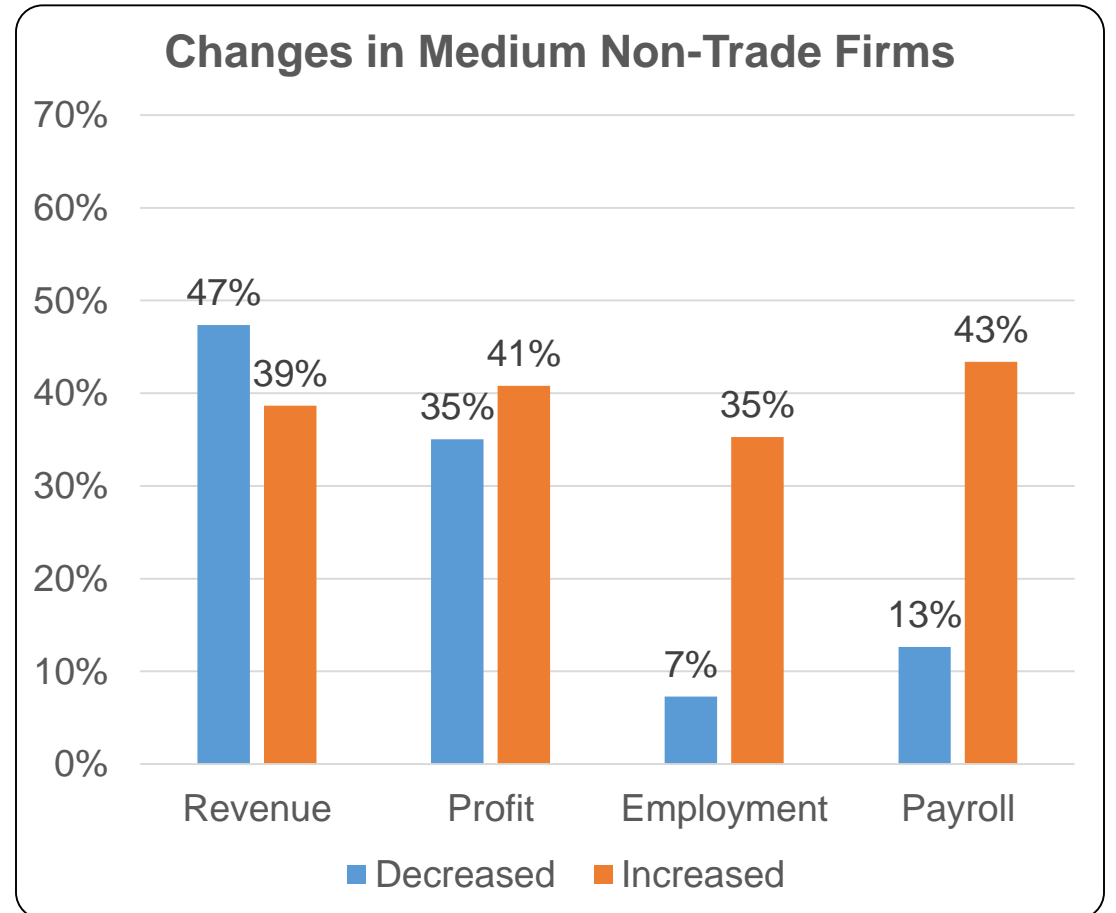
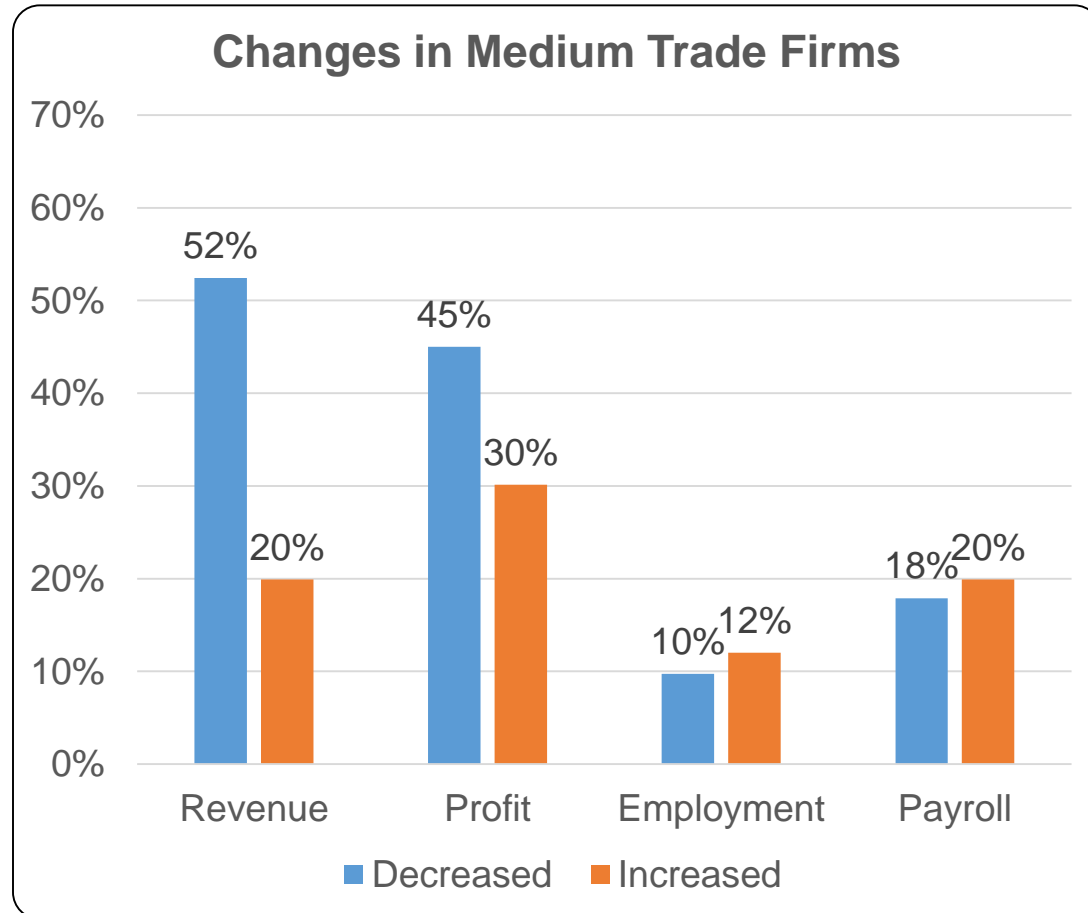


Increase versus decrease: Local significant ($p=.0000$)***
 Increase versus decrease: Foreign almost significant ($p=.1279$)

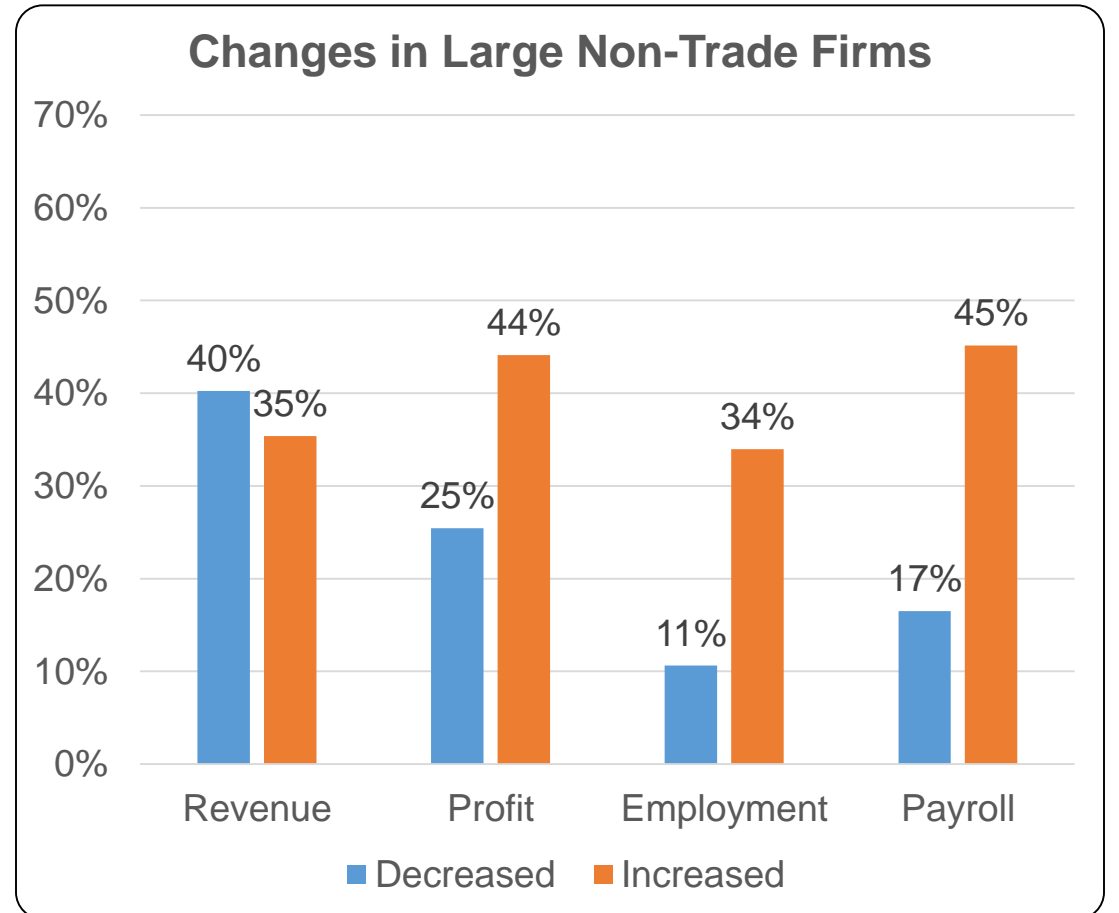
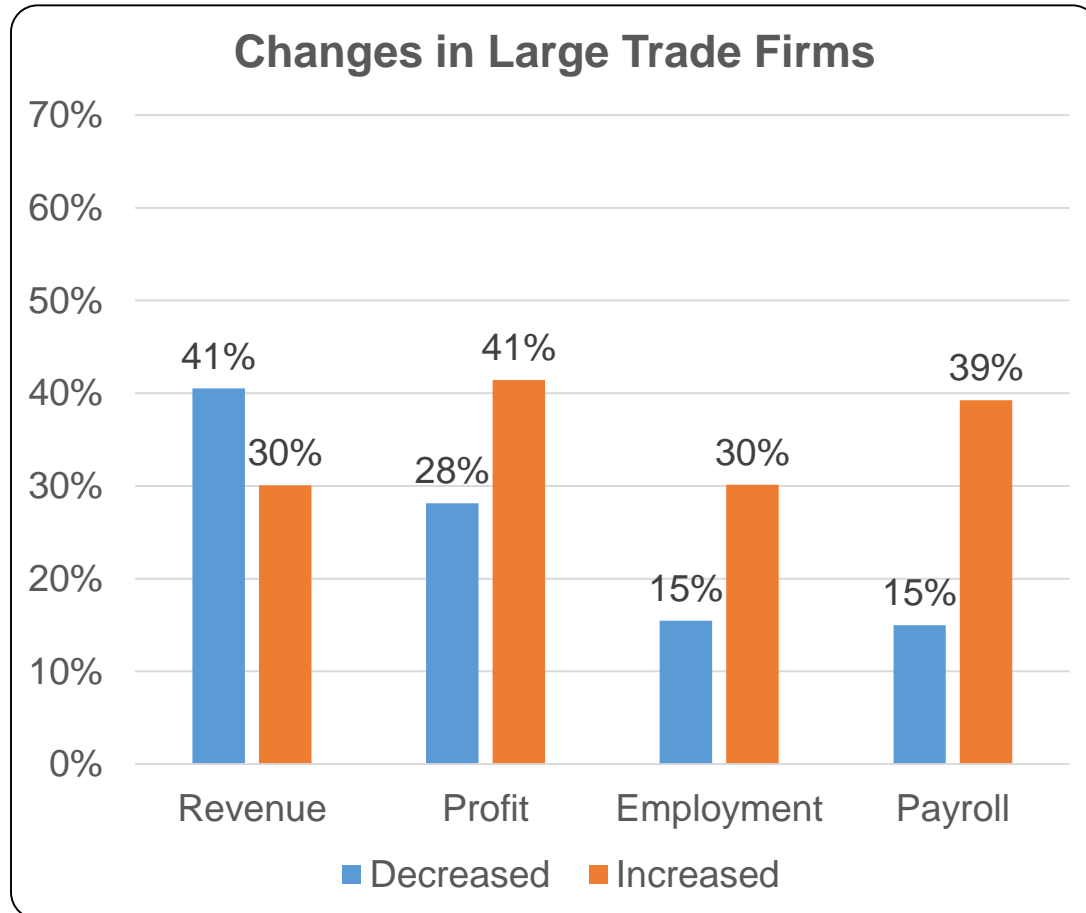
It can be interesting to look at changes by size-sector combinations. Performance changes last year for small firms in the trade sector were notably worse than changes for small firms in manufacturing and services.



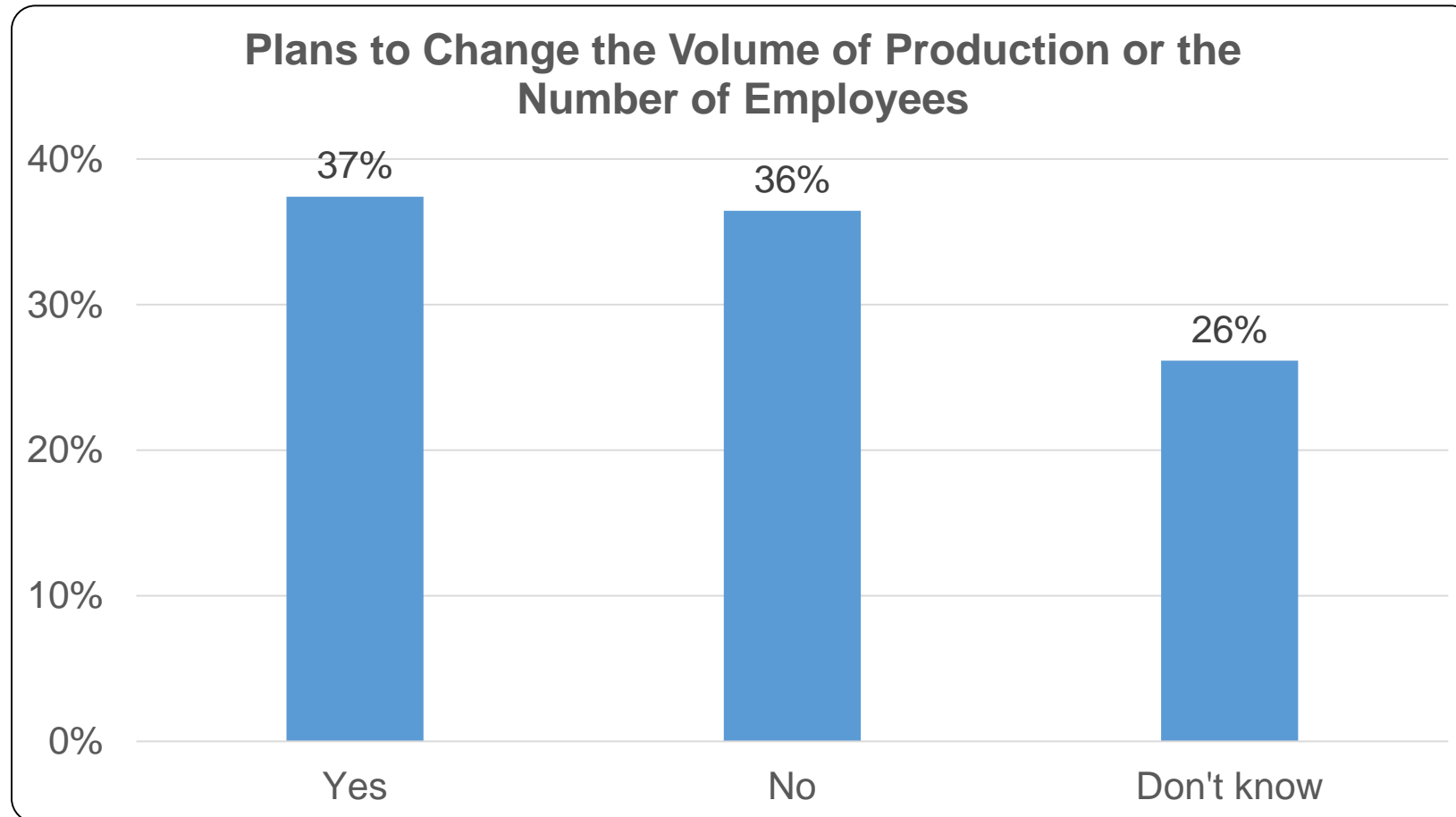
The same applies to medium-sized trade firms, though their performance declines were not as bad as those for small trade firms.



For large firms, the difference in performance changes between trade and non-trade firms is not as dramatic.



Plans for the next 1-2 years: 37% of businesses plan to change the volume of production or the number of employees.

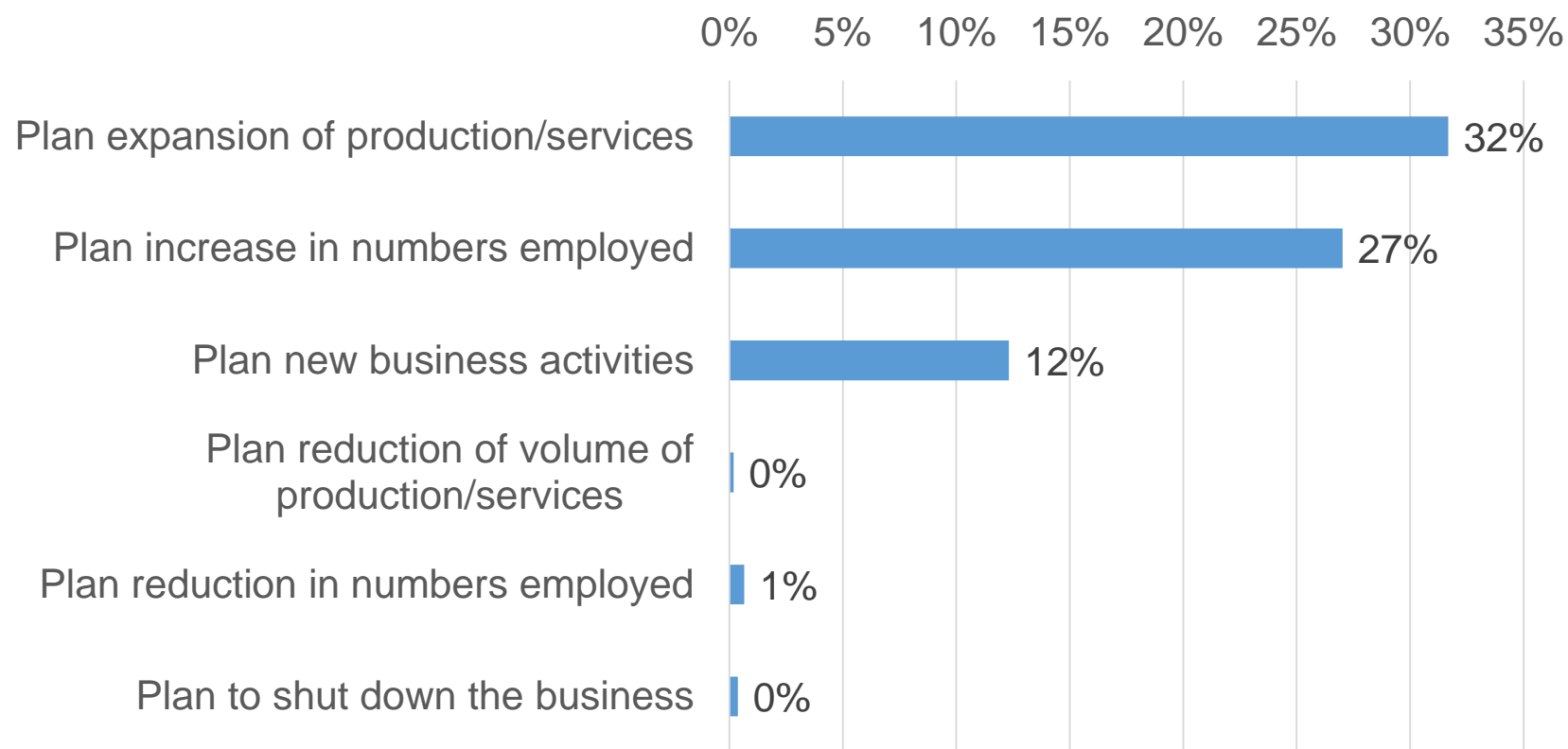


Q71. Are you planning to increase or reduce volume of production or the number of your employees during the next 1-2 years?

800 respondents

Plans are quite optimistic: Almost all of those who plan changes, plan an increase in production or employment. Major driving forces for growth are increase in internal and external demand, prospects of entry in new export markets, and increased competitiveness.

Planned Changes in Production and Employment



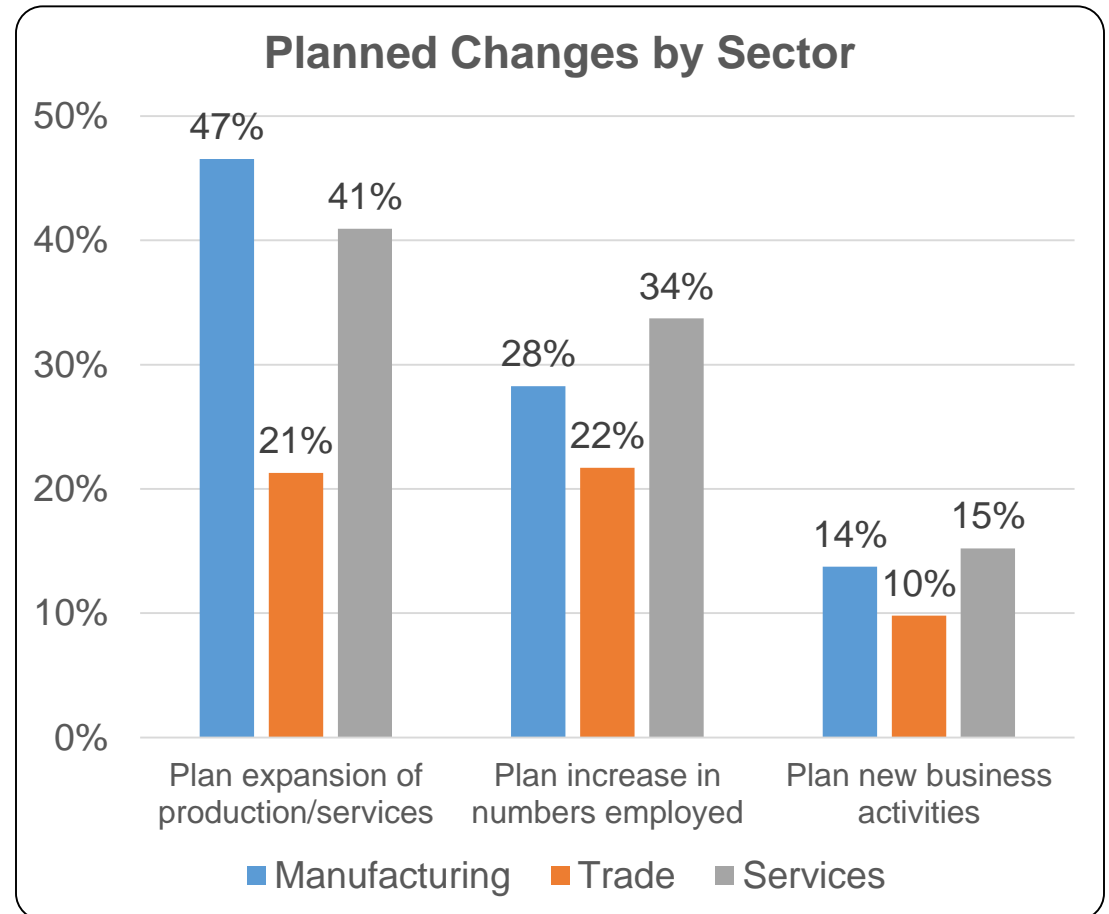
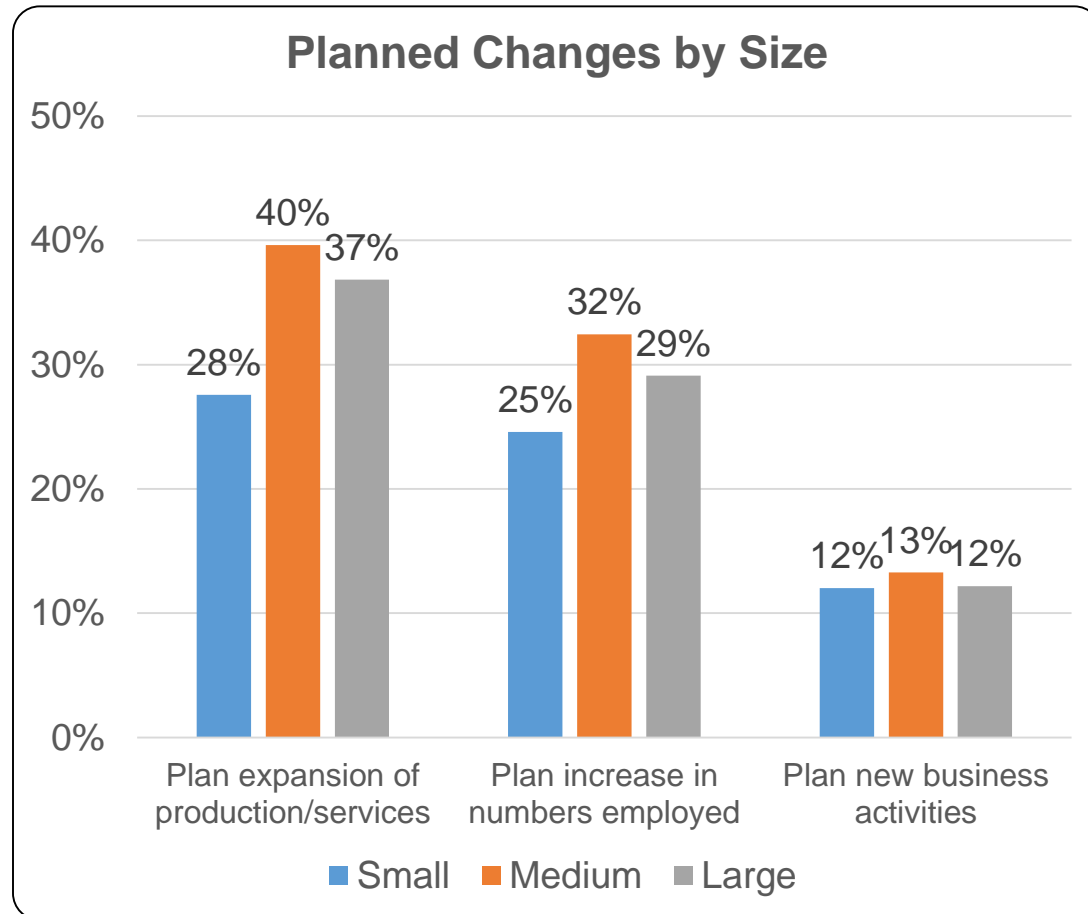
Q71. Are you planning to increase or reduce volume of production or the number of your employees during the next 1-2 years?

Q72. Please specify in which direction are you going to change the number of employees?

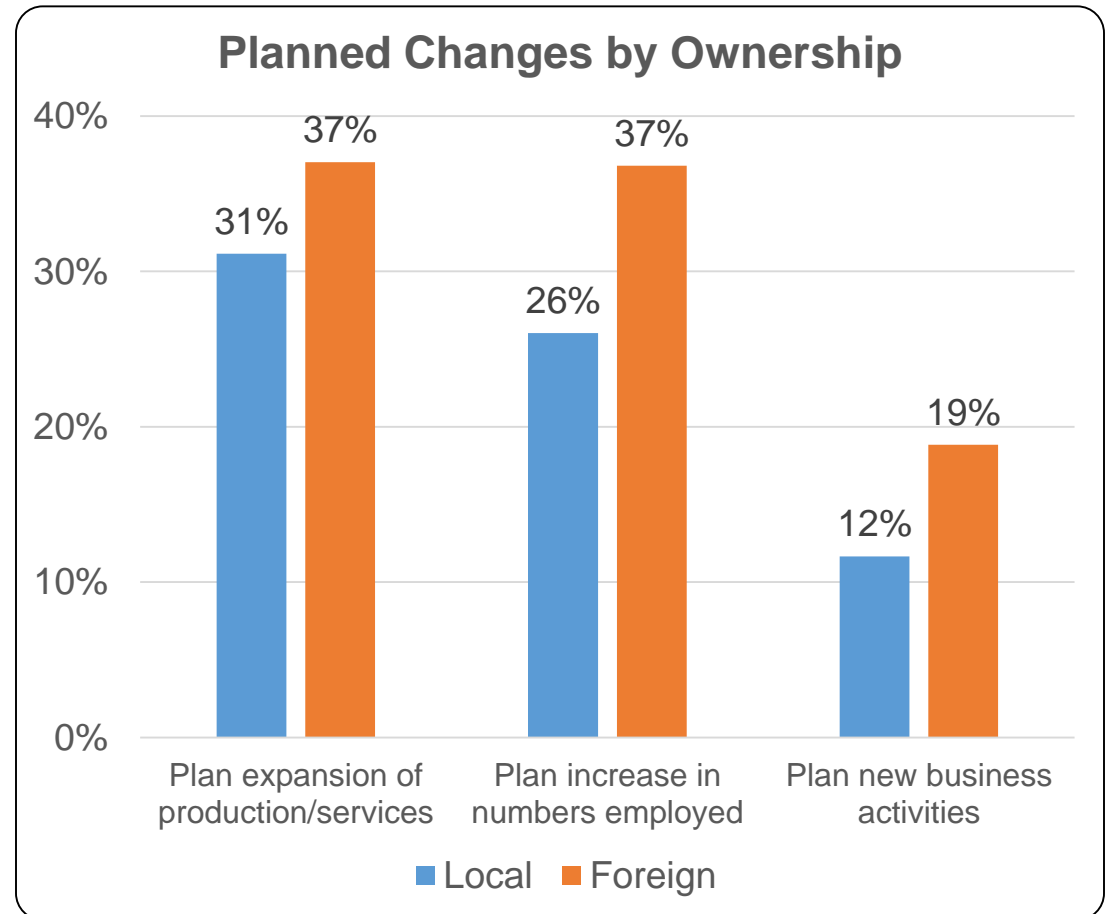
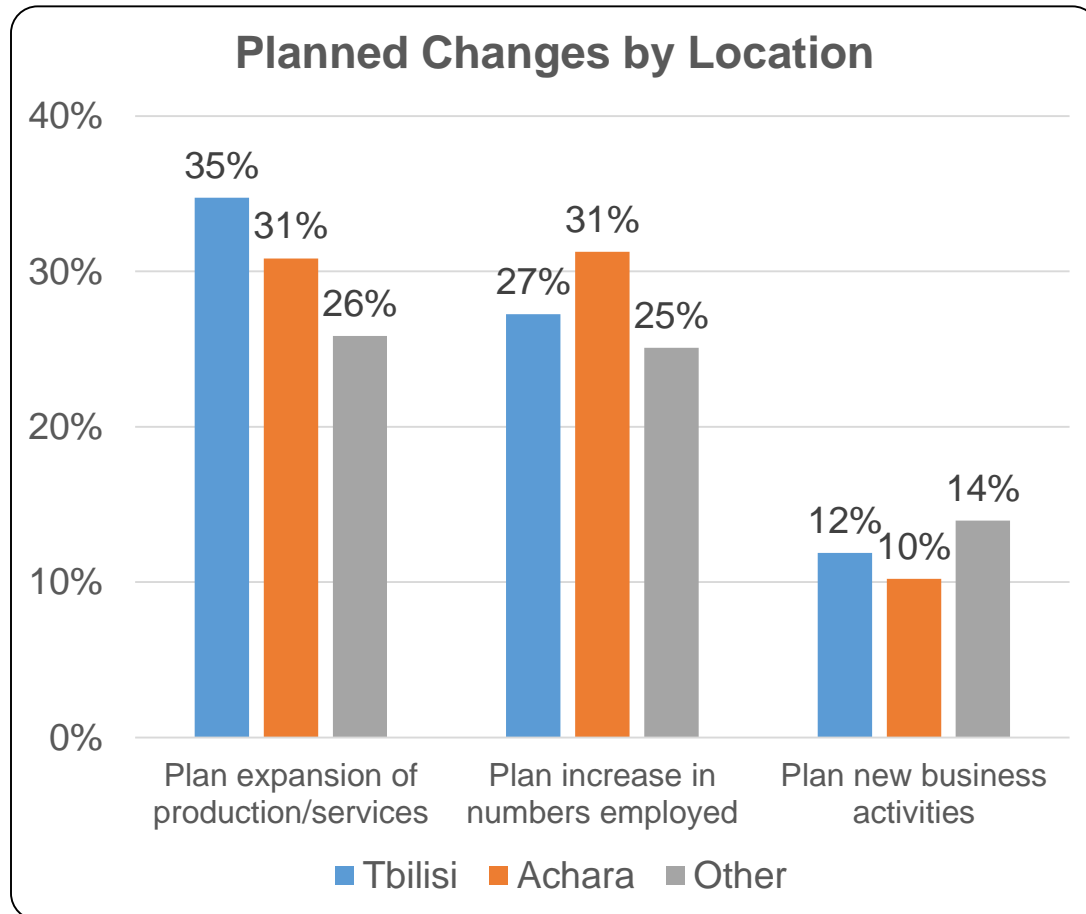
800 respondents.

4, 9 and 4 plan reduction of production and employment and shut down, respectively – 13 total.

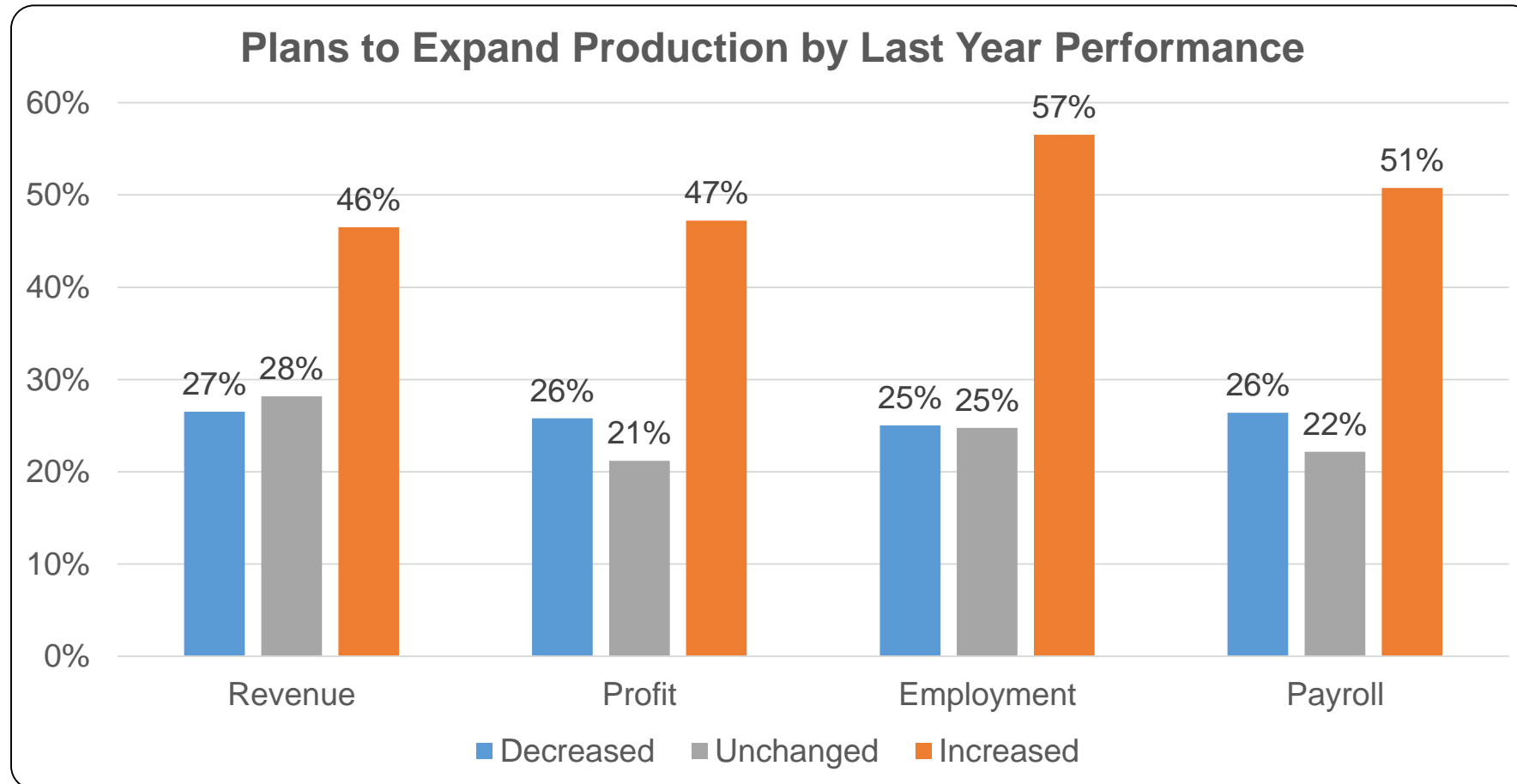
Small and trade firms have expansion plans less frequently than other size and sector subgroups.



Frequencies of expansion plans by location are relatively evenly distributed. Foreign-owned firms have expansion plans slightly more often than their local counterparts.

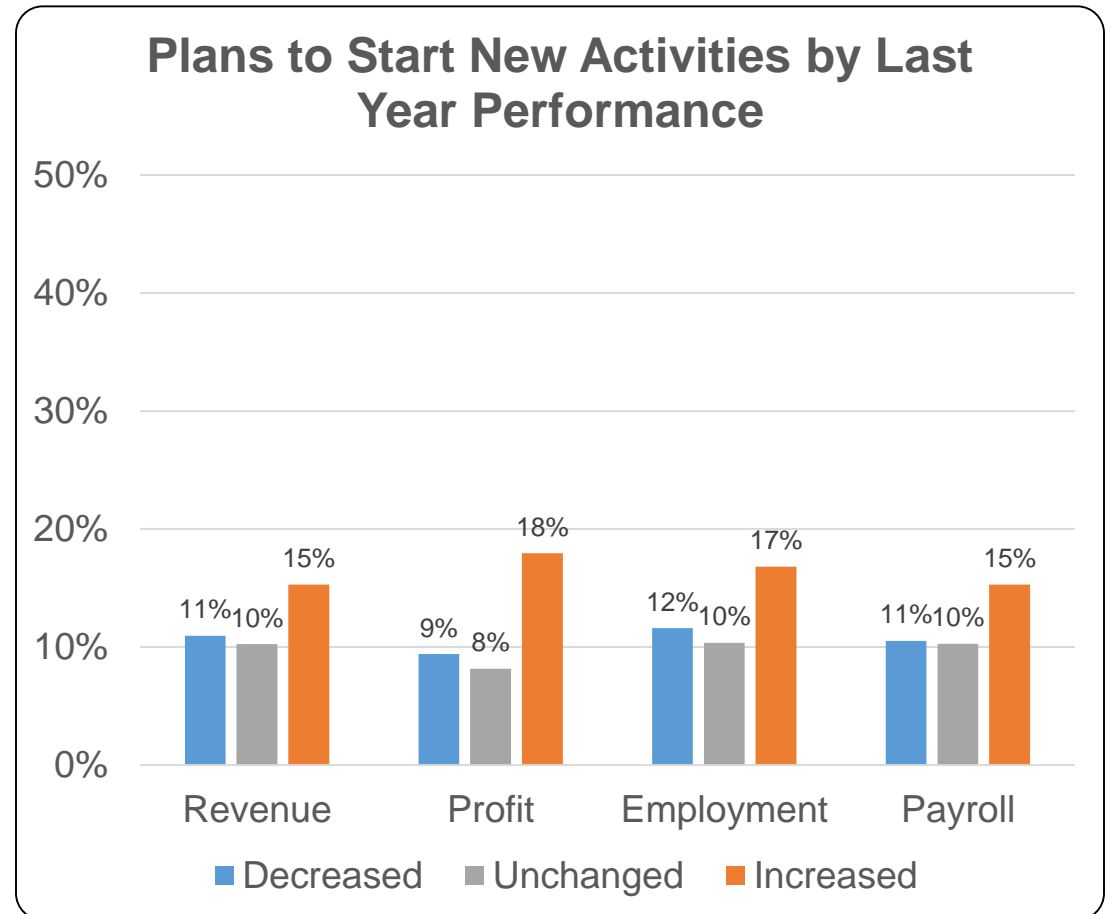
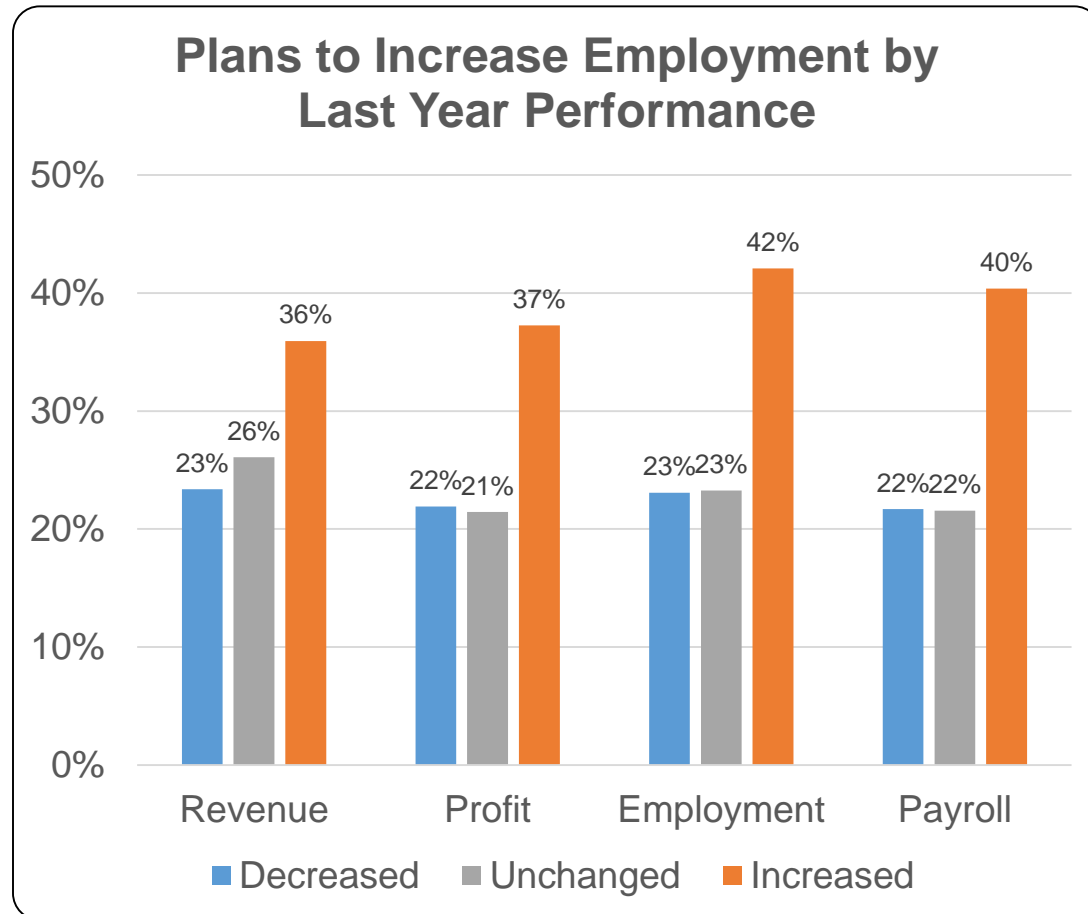


Those businesses that performed well last year are more likely to expand production. Those who did not perform well, still quite often plan to expand.

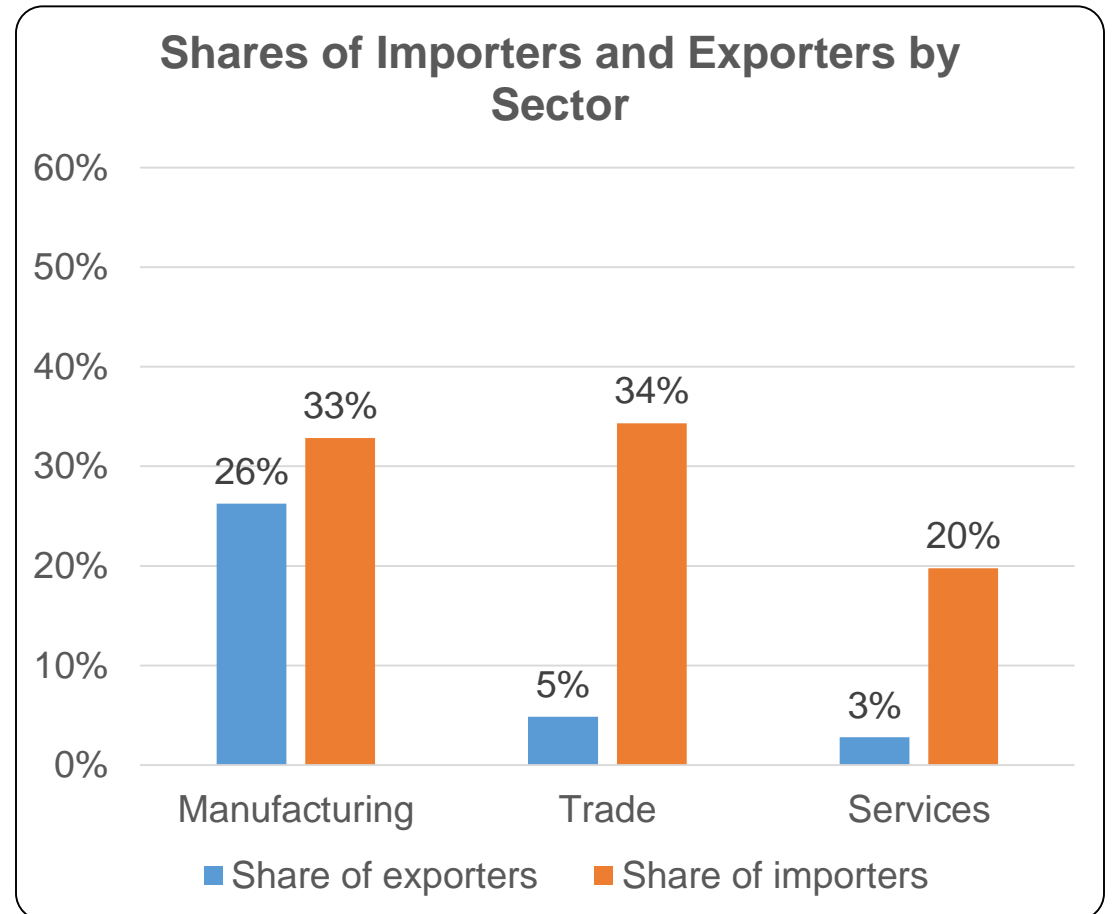
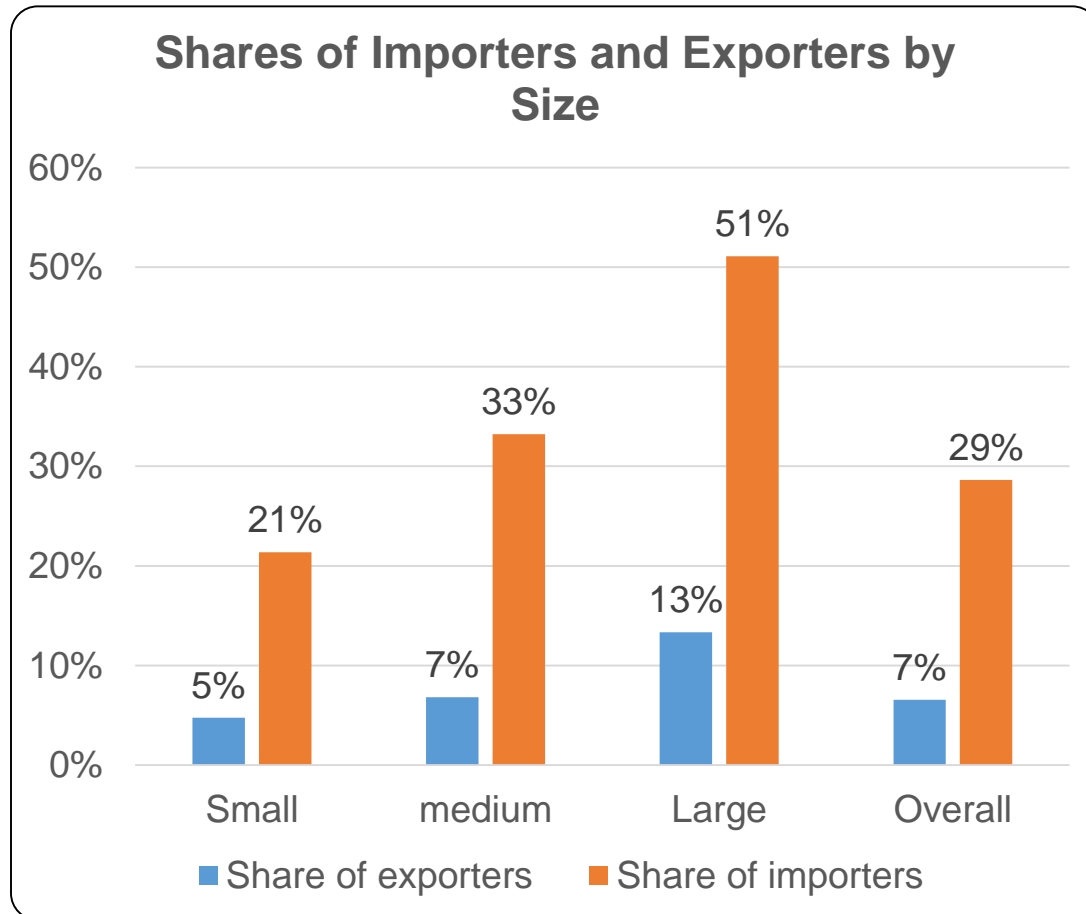


Interestingly, optimistic future plans are more strongly determined by last year's employment and payroll increases than by revenue and profit gains.

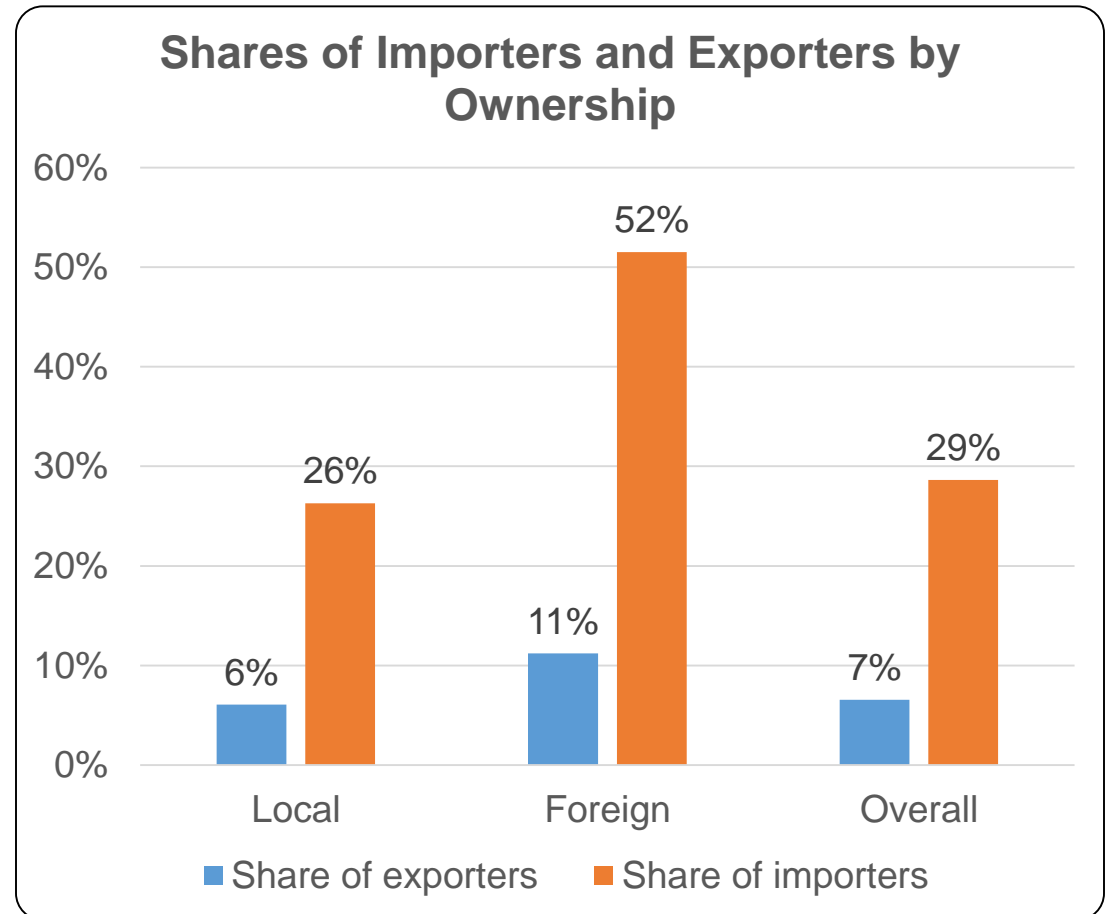
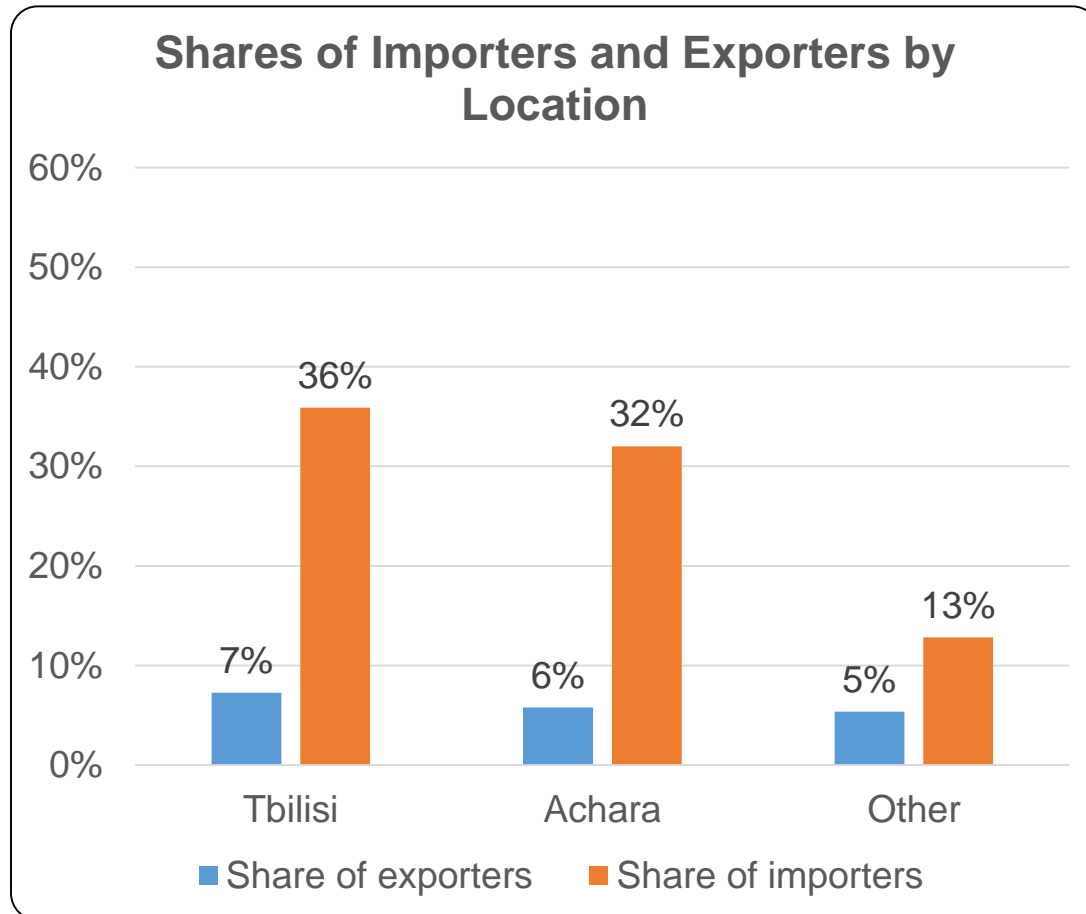
Similarly, businesses that performed well last year are more likely to increase employment and start new activities.



29% and 7% of businesses are involved in import and export, respectively. Larger firms are involved in international trade more often. Exporters are most frequently manufacturing businesses. Services are less likely to import.



Exporters are evenly distributed across locations, while importers are mostly concentrated in Tbilisi and Adjara. Foreign-owned businesses are twice as likely to be involved in international trade.

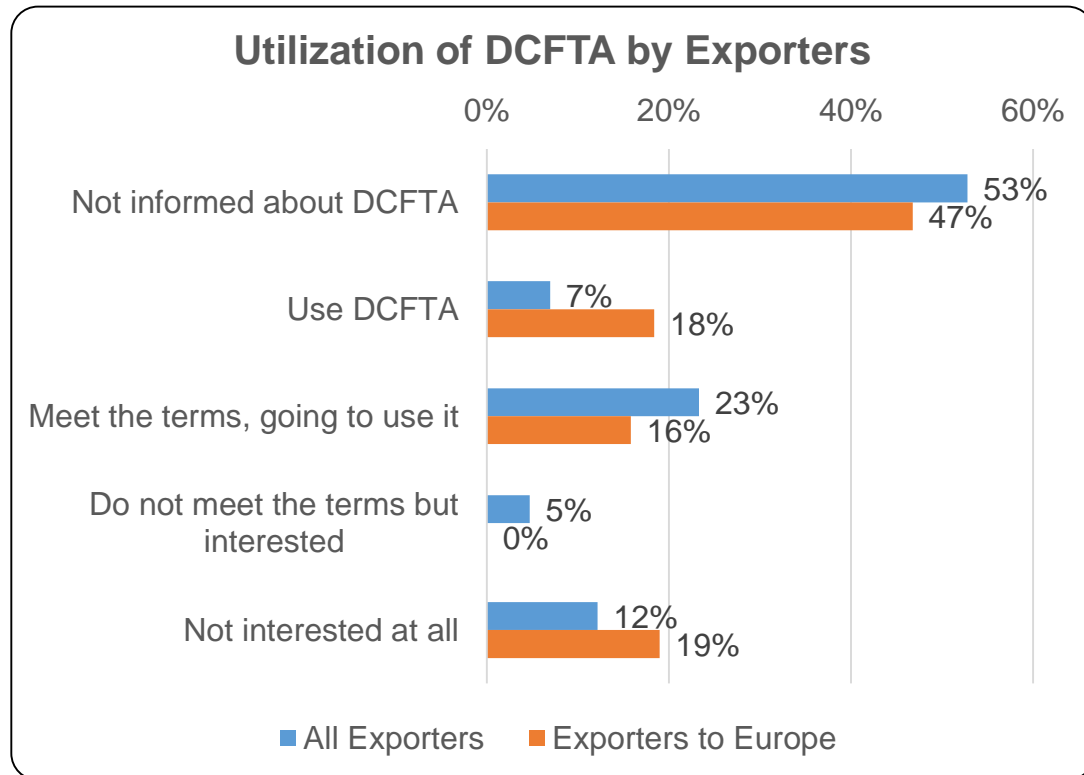


International traders rarely encounter problems: Only 4 out of 62 exporters and only 13 out of 263 importers reported having problems.

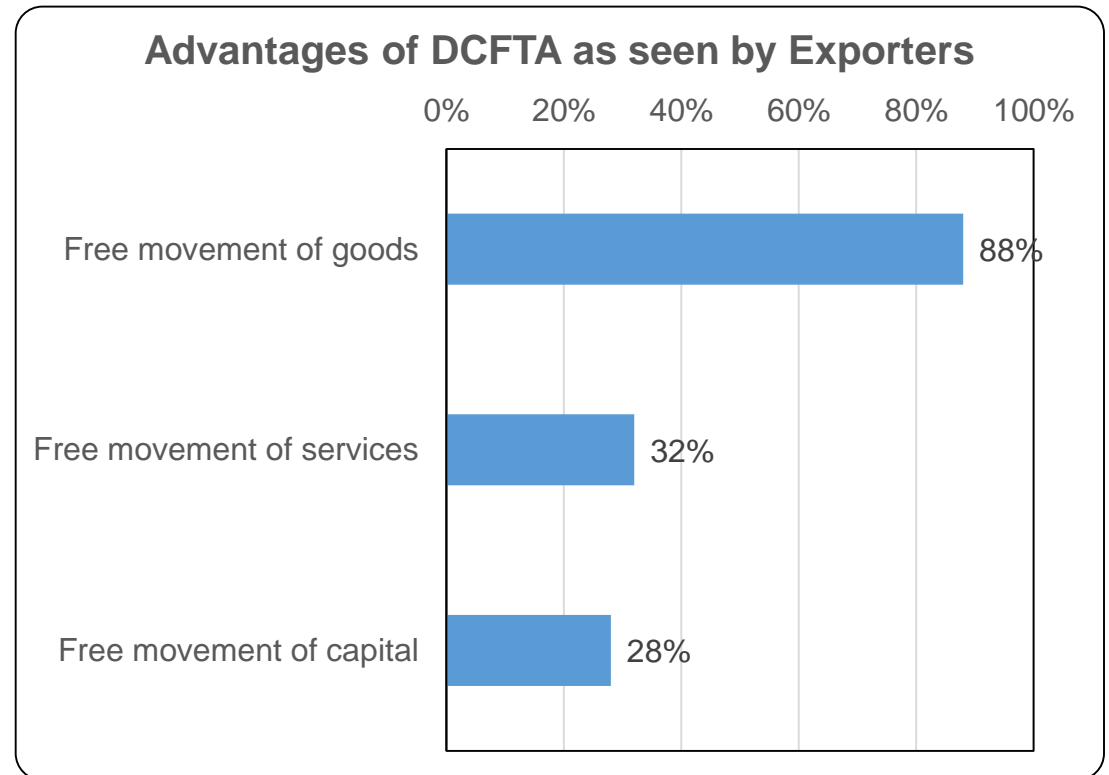
Numbers of Respondents Reporting the Given Problem In International Trade

Problem	Export	Import
Duration of Procedures at Georgian Customs	4	7
Documentation problems (proper functioning of electronic system, clearance procedures)	1	3
Cost of procedures at Georgian Customs	1	3
Corruption at customs of a foreign country		1
Problem with certificate of conformity		1
Problem with customs valuation method		1

Less than half of exporters are not aware of the DCFTA. A small share uses DCFTA (7% of all exporters; 18% of exporters to Europe) and an additional 23% plans to use it. The major perceived benefit of this agreement is the free movement of goods.



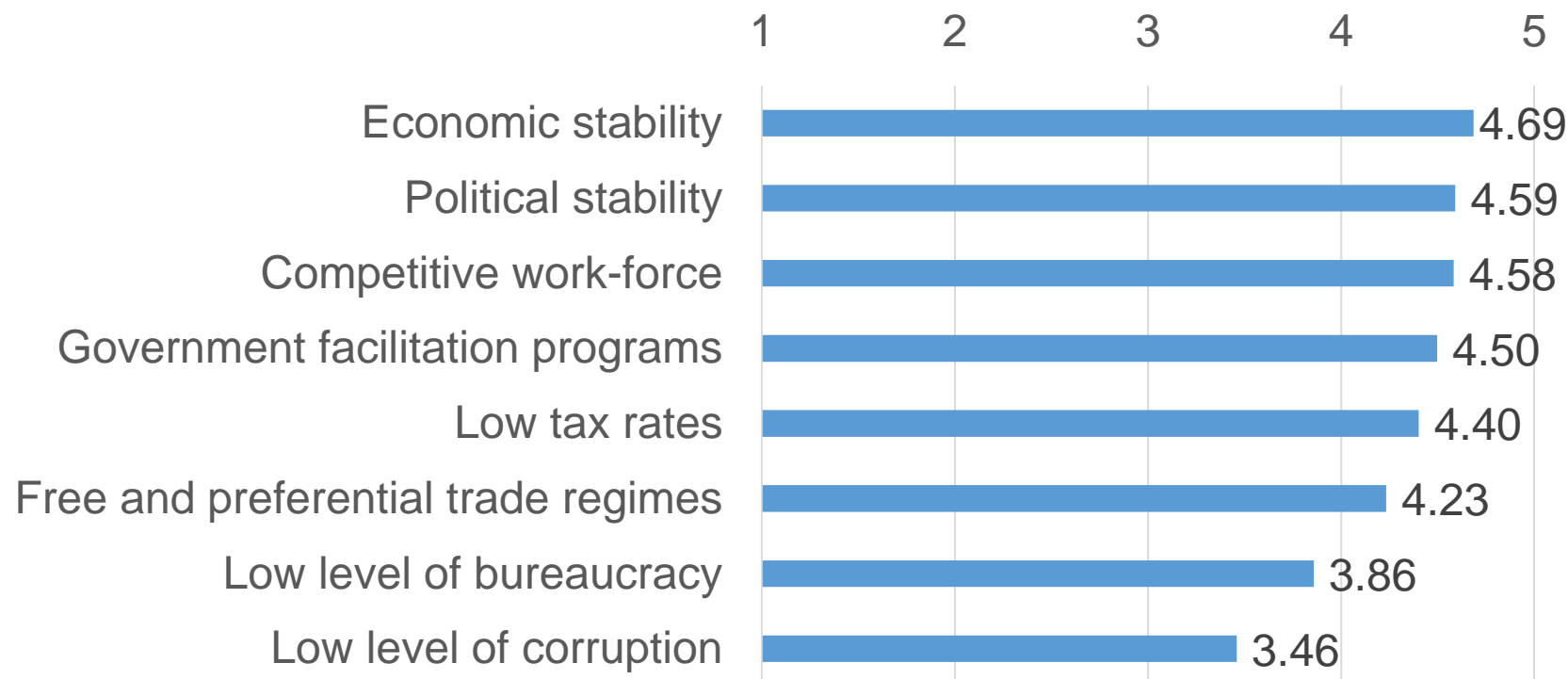
Q19. Do you possess information on DCFTA? 62 resp.
 Q20. At what extent do you use Deep and Comprehensive Free Trade Agreement with the EU (DCFTA) in your business? 29 resp.
 Q13. Which countries is your company exporting goods to? 60 resp., 20 in Europe.



Q19.1. What is the advantage provided by Deep and Comprehensive Free Trade Agreement with the EU (DCFTA)? 25 resp.

According to businesses with foreign investments (129 respondents), economic and political stability were the most important factors in making decisions to invest in Georgia. Importance of other factors is evident as well.

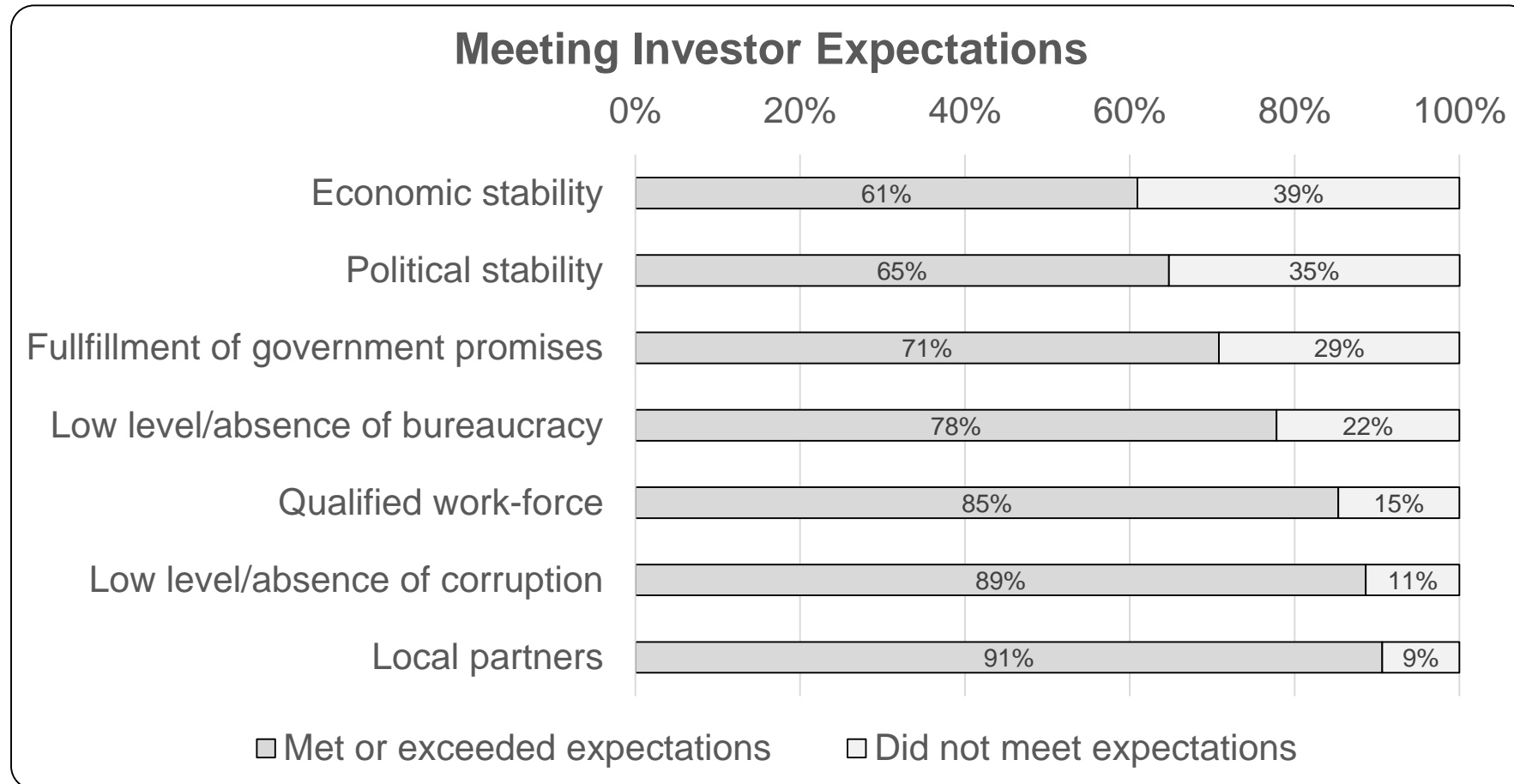
Ranking of Investment Facilitation Factors on 1-5 scale



Q45. What did contribute to making a decision to invest in Georgia? (Please use 5 point scale for evaluation where „1” means “Not significant at all”, while „5” means “Very significant”)

129 respondents.

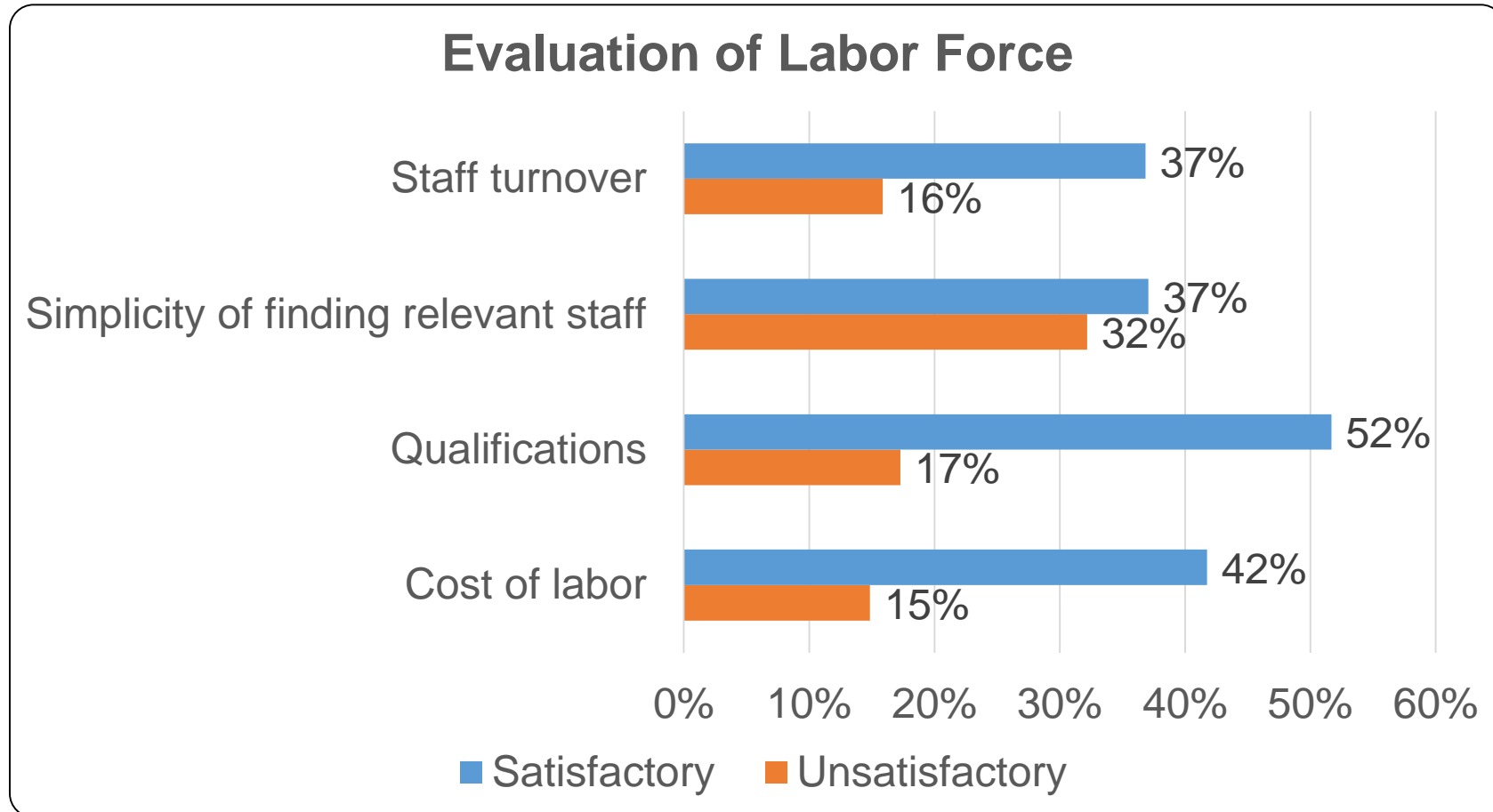
Investor expectations are most frequently met. However, least frequently expectations are met for the most critical factors such as the economic and political stability.



Q48. From today's perspective, please tell us whether the investor's expectations with respect to investing in Georgia are met?

100-119 valid responses to each factor.

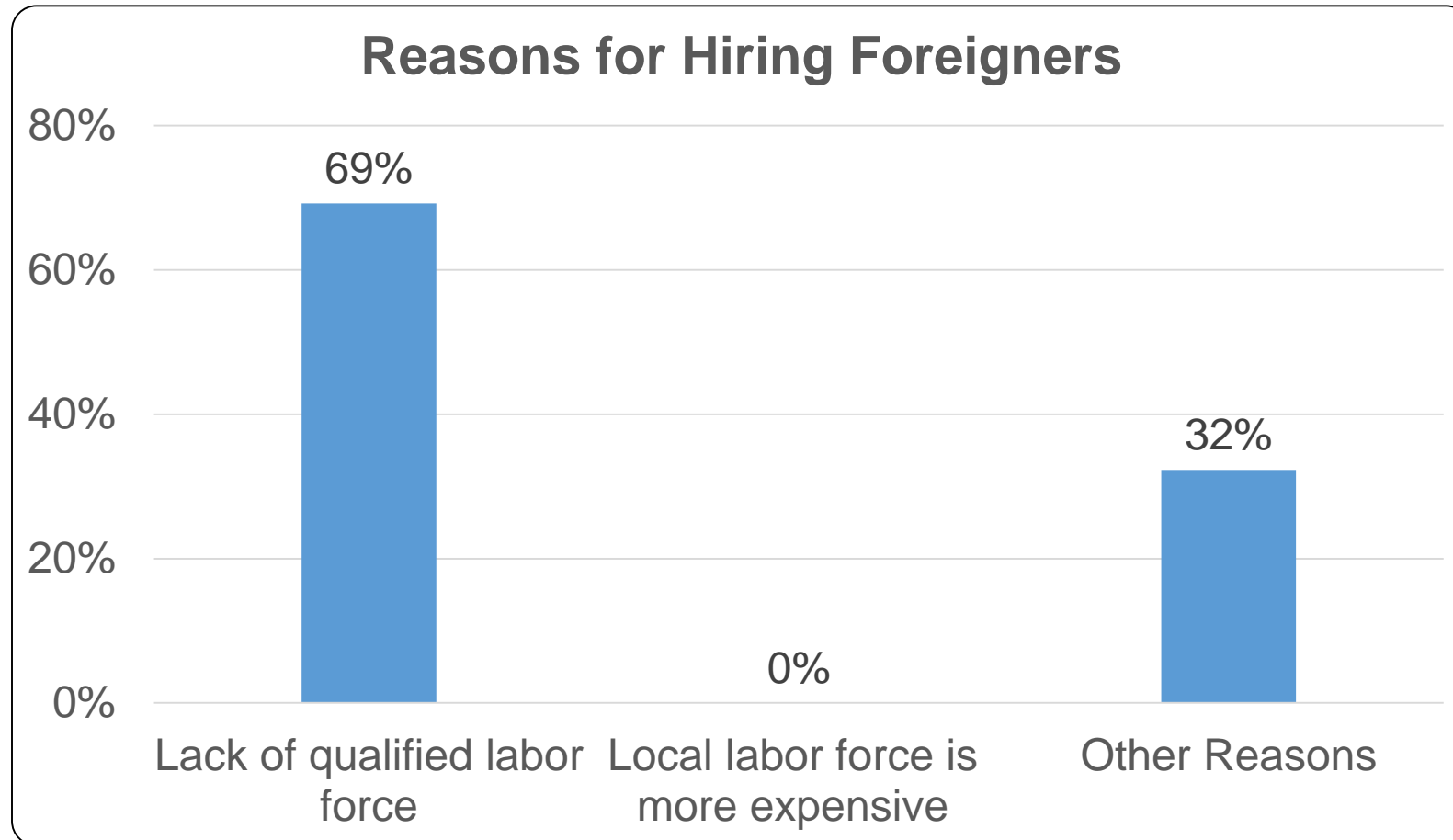
**More respondents are satisfied than unsatisfied with the local labor force.
Most frequently complaints are reported about difficulties in finding relevant staff.**



Q62. Please assess the local labor force on a 5-point scale, where 1 means "Very unsatisfactory" and "5" means "Very satisfactory".

800 respondents.

Employment of foreign citizens is uncommon – foreigners are employed in 6% of businesses. The most frequent reason for hiring foreigners is the lack of qualified work-force (69%). None of the respondents mentioned the high cost of local labor.

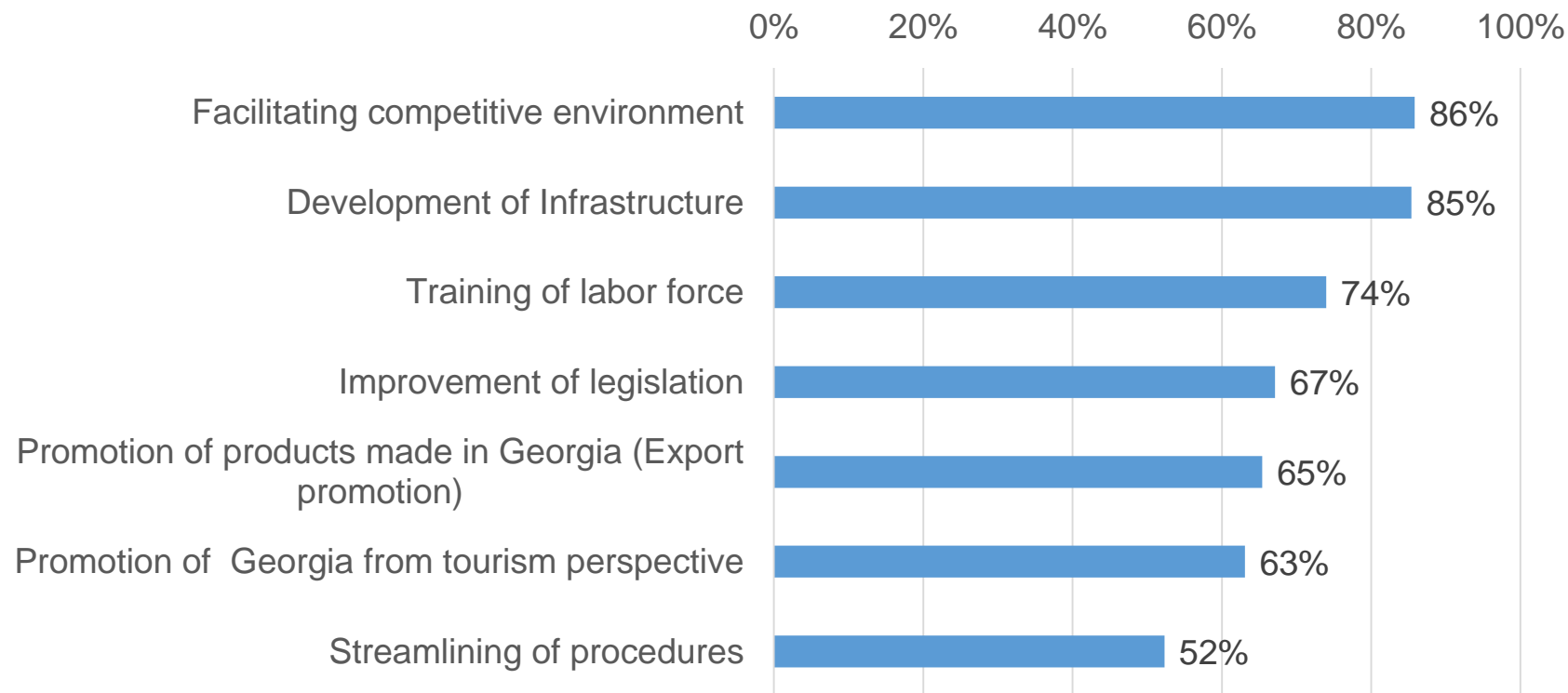


Q66. Please specify which factors made you decide to hire foreign citizens in your company.
60 respondents.

Professions of foreign employees: cook, manager, metalworker, doctor, driver, technician, laborer, engineer, IT specialist, economist, etc.

The majority of respondents view the implementation of certain business facilitation activities as very important or quite important. Developing infrastructure and facilitating a competitive environment are considered the most important measures.

Share of Respondents Saying that Given Activity is Quite or Very Significant



Q75. How important is for you implementation of the following activities for facilitating your business? Use five point scale, where “1” means that it is “Completely insignificant” while “5” means “Very significant”.

800 respondents.

Summary of Findings

- Corruption is almost absent.
- Problems with customs clearance are rarely reported.
- Less than 25 percent of respondents experience any problems when dealing with government bodies. Most frequent complaints are about service fees.
- Less than half of exporters know about DCFTA, and a small share of exporters uses it. There is a clear need for an awareness campaign.
- Political and economic stability are considered the most important factors for investment facilitation.
- Employment and outlays on labor are improving weekly, however revenues and profits are declining.
- The reduced purchasing power of the population and currency devaluation are seen as the most important causes of revenue and profit decline.
- Performance of small and trade businesses worsened the most compared to the last year. Their future plans are the least ambitious.
- Businesses suggest various facilitation measures, most frequently the development of infrastructure and the facilitation of competitive environment.