

# ESTABLISHING A LABOR MARKET FOR SMALL AND MEDIUM ENTERPRISES

POLICY PAPER SUMMARY



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Authors: Nana Phirosmanashvili, Mariam Goginashvili



Eastern Partnership Civil Society Forum Georgian National Platform is an association of local and international non-commercial legal entities registered in Georgia, aiming to promote and implement the goals set by the Joint Declarations of the Prague, Warsaw and Vilnius Eastern Partnership Summits and the EU-Georgia Association Agreement of European Neighborhood Policy and other joint events.

Authors: Nana Phirosmanashvili, Mariam Goginashvili

Editing by: Inge Snip

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## Summary

The aim of the present policy document is to analyze the issue of establishing a small and medium enterprise (SME) labor market in Georgia, study existing problems, and design recommendations based on international experiences. Developing the SME labor market is an important part of the agenda of the EU-Georgia Association Agreement, Association Agenda da the DCFTA 2014-2017 and 2015 Action Plan. Despite numerous supportive mechanisms, forming a labor market in the Country today is difficult, which significantly damages the field of SMEs. The purpose of this policy document is to analyze the challenges faced by the labor market and identify ways to solving them.

The notion of a labor market – is one of the driving forces of the market economy. The general results of economic reform are reflected on it directly. Based on the law of supply and demand cycle, the labor market ensures that the labor force is reproduced, distributed and utilized. Georgia has had success with reforming the right to exercise the right to labor. Changes were made in the organic law of Georgia “Labor Code of Georgia”, and other steps are taken to form the labor market and develop it. During the 2014-2016, the Labor, Healthcare and Social Welfare Ministry compiled a list of orders and decisions.

To establish a competitive market, it is important to find qualified personnel, who are professional and have the necessary skill sets – a task sometimes impossible to accomplish. In order to soften social, professional and qualification inequality, employment opportunities in the SMEs are offered to the representatives of closed circles of friends and families. These persons are not competitive and are less likely able to support in business development. In total, 60,9 % of the all employed are in large businesses, 14,4% in medium sized businesses and the rest, 24,7%, are employed by small businesses. A total of 564,5 thousand individuals (3,1% more, compared to the same period of the last year) are employed and the total cost of enterprises on HR equals to GEL 1668,4 Million (7% more, compared to the same period of the last year).

SMEs are satisfied with what the market is able to offer them and is not particularly motivated to find or train their employees, which would increase their financial expenditures (and would require them to pay higher salaries and provide better insurance packages, etc.)

Adapting to the DCFTA requirements today is a challenge for SMEs today, since it not only requires necessary and required knowledge to establish oneself on new markets, but also requires them to expend financial resources to prepare human resources to meet these requirements. SME operator knowledge is quite poor with regard to export market requirements, their conditions and standards and logistics, dialogue, business negotiations and risks and force-majeure management issues.

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Our analysis and research also covered those regulatory-institutional issues, which impact and establish SMEs competition based on human capital, their professional and qualification skills, grounded on market requirements for adequate employment and ensuring of social equality. Professional education can have multi-effect on personal and organizational level – support employment and therefore, income procurement. Equally important are individual career growth, achievement of work satisfaction and social inclusion, positive self-evaluation, motivation growth, etc. as all will be reflected in the end on the labor-market participation and reduction of unemployment, via competition and innovative development growth.

Therefore, we believe, that a working group should be established, which will be composed of representatives of the Ministries of Labor, Health, and Social Welfare, Economy and Sustainable Development, Agriculture and also, the Enterprise Development Agency and NGO representative experts. They should study the labor market, the existing problems, evaluate the possibility of establishing labor-exchange while taking into account Western models.

Labor agents should be involved and employment centers should be created. The main demands on the job market should be listed, which qualifications are required. This should be compiled in a specific database, with respective statistics and market prognosis indicators, accompanied with a list of potential employers.

Students and young specialists should be supported to study and intern abroad, while Georgian educational institutions must ensure that foreign consulates present in Georgia provide student visas without further complications.

A data bank should be created of individuals in SMEs with marketing-managerial skills and practice, of which their selection should take place in an open and transparent manner. At the same time, a unified electronic system with should be introduced, to facilitate data-mining of professional data consistent with market demands.

**EaP Civil Society Forum Georgian National Platform**

Tbilisi, Georgia 0108

50, Rustaveli ave. II entrance, 4 fl.

Tel/Fax: +995 322 931128

Cell.: +995 599 551128

E-mail: [np\\_events@ei-lat.ge](mailto:np_events@ei-lat.ge)

URL: <http://eap-csf.ge>