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MUNICIPAL AND REGIONAL DEVELOPMENT CONCEPTS IN SECTORAL CLUSTERS

POLICY PAPER SUMMARY



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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.

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Summary

A modern market economy based on healthy market relations is the basis for establishing a middle class and for establishing social protection of the citizens. It is recognized as one of the main advances of our civilization, invented throughout history, hence chosen by Georgia as its strategic direction. Georgia aims to become a socially oriented market economy.

Agriculture is strategically important for Georgia. To increase its competitiveness and produce goods in line with global standards, increasing demand not only in Georgia, but abroad as well, the introduction of new technologies is necessary. Furthermore, regional cooperation must become a priority in order for Georgian farmers to produce effectively, to reduce individual costs, and to allow the small and medium farms to become more efficient.

The middle class is at the core of private property and competition. It creates a high-tech economy, establishing an institutional basis for society – social, economic and political fundaments for a self-regulating society.

Georgia, its nature and geographic peculiarities, is an agrarian country at heart. Farmers have always had the function of feeding cities and reviving villages. Loosing this function has caused unemployment, while the absence of markets to sell the products led to the depopulation of villages and caused internal and international emigration. As a result, social levels have fallen drastically.

Small entrepreneurs in Georgia do not have the experience working on internal markets. They have very little control on distribution, are less actively marketing their products, do not research markets, and their skills in sales is insignificant. Product distribution and reconstruction development requires small and medium enterprises, which unlike large enterprises, cannot discount prices, cannot master advertisement skills, and cannot support their products on a mass scale.

To develop small enterprises in Georgia, the following supporting conditions need to be present:

- diversity of natural resources and their relatively equal distribution on the entire territory of the country (present);
- sufficient unemployed labor in certain regions;
- existence of territories that have monopoly on agricultural production;
- drive for individual labor.

Georgia is an agrarian country and agriculture could be seen as the backbone for the development of its economy. Its strength and health determines the revival of its economy and determines the improvement of the social and economic state of its individual citizens. As a result, it heavily influences the growth of its GDP.

As a rule, small and medium enterprise state policy is formed on a federal level, which includes consistent legislative labor programs, mechanisms for the reduction of administrative barriers, programs, etc.

The Georgian agricultural field needs to design a list of actions to be carried out to improve the rational use of land and increase fertility - complex mechanisms, actions aimed at reducing soil erosion, and others, which will ensure fertility increase, especially its economic fertility. This will allow to protect the joined interests of the state, the entrepreneurs (farmers), and the population, which in turn will increase the efficiency of farming. Not only will local budgets grow while land tax will become more affordable for entrepreneurs, but also the population will enjoy increased social protection.

Despite recent positive developments in the business sector regulation, several issues have been neglected. For example, the business sector is poorly connected with civil society. To remedy this, a mechanism, such as business incubators, should be implemented, supporting individual initiatives and the rapid implementation of scientific-technological progress. The implementation of these technologies in Georgia is needed to support entrepreneurs and to develop entrepreneurship in the service sector.

Furthermore, Georgia should:

- Utilize the rich global experience to implement models for SME development and support. This process must take into the account the national, territorial, climate, entrepreneurial and infrastructural specificities, accumulated knowledge and experience.
- Define SME criteria using the scale of the country, peculiarities of national economy, specifics of sectoral structures and the level of economic development. These criteria must be unified and periodically revised (3-4 years) to update them.
- Create benefits for small enterprises. During the first 2 years of operation, they must be freed from income tax (Turkish example).
- Allow small entrepreneurs to enjoy rapid amortization norms.
- Relief border regional village SMEs of water, land and electricity taxes, or minimal (symbolic) duties must be taxed. This will support re-population of these regions.
- Set up factories and reception points which will collect agricultural products (local population could create such enterprises and cooperate on it).

Agriculture could support rapid export growth. In terms of sustainable economic development, it has the biggest potential. However, poverty mostly occurs in rural areas in Georgia. Therefore, the Government must prioritize regional development and agricultural programs.

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