

# SMALL BUSINESS ACT AND LEGISLATIVE ENVIRONMENT IN GEORGIA IN THE CONTEXT OF THE EU-GEORGIA ASSOCIATION AGREEMENT

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

The State promoting small business development has gained much significance after signing the EU-Georgia Association Agreement. Which, in turn may have significantly contributed to overcoming poverty and unemployment, and developing the economy inclusively and sustainably.

The Government of Georgia has taken a number of positive steps to implement the Association Agreement during recent years. Not only was the Association Agreement action plan created and adopted, but also strategic directions were determined in several fields. Moreover, two new institutes were established, namely the agency for entrepreneurial development and agency for innovations and technologies.

A special emphasis should be placed on the adoption of the 2016-2020 Small and Medium Enterprise Development Strategy and the 2016-2017 Action Plan. These strategies are based on the most crucial part of the small business act "Think of the Small Ones First", prioritizing the development of small and medium businesses.

The goal of this policy paper is to analyze the legislative environment for small and medium businesses in Georgia and recommend steps to be taken to harmonize the legislation in accordance with the Association Agreement, implementing a European model for policies regarding small businesses.

The legislative environment of a country is key in the development of small businesses. The failure of the State to promote small and medium businesses in recent years have led to a recession.

The EU-Georgia Association Agreement were at the foundation of changes in the national entrepreneurial legislation, as it placed new issues on agenda which were not discussed previously on the national level. Georgia reformed its legislation to establish a new vision and new approaches in this field. Unfortunately, small and medium businesses still face underdevelopment and insufficient growth perspectives: their share in employment, gross domestic product and general turn-over is low. Moreover, the implementation of the principles determined in the small business act has not received the attention it deserves.

Small businesses are unable to carry out radical changes and improve their existing situation independently. They need the State's support. Therefore, the active support policy, part of Georgia's national agenda the EU action plan, should be implemented.

The implementation of the small and medium business policy, in line with the European small business act, represents one of the most important requirements of Chapter V (articles 313, 314 and 315) of the EU Association Agreement. It envisions close cooperation in the

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industrial and entrepreneurial policies between the EU and Georgia. Its implementation will lead to a fast-tracked approximation processes with the EU legislative model.

Consequently, it is crucial to implement the small business act. The main principle of this act “think of small at first” highlights the importance to consult with small and medium entrepreneurs and to consider their needs. To implement the issue on the political, administrative and institutional levels, special activities should be carried out by the State. Moreover, one of the most important objectives it to eliminate disproportions in sectoral and geographic perspectives of small business.

It should be noted that the EUs main focus is on the establishing forms of businesses and their development, meaning to simplify the registration procedures. The majority of changes is related to the small and medium businesses and includes both simplifying the licensing requirements, as well as abolishing several regulatory provisions, while decreasing regulations by the supervisory council.

During the implementation of the conditions determined for the small businesses, a decrease in taxes could be considered as a relatively rational solution as certain economic expenses lay a heavy burden, especially for small entrepreneurs. Therefore, priorities of small business, e.g. the correction of expenses, should be determined, leading to equal conditions.

While implementing the small and medium business policy, due attention should be paid to abolish regulations which harden the registration process.

In addition, establishing and increasing companies exporting local products (mainly to EU market) should be a priority. Their activities should be supported and additional tax benefits should be granted.

The principle of the European small business act “think of the small at first” envisions the existence of an RIA system to regulate the entrepreneurial environment more effectively and to avoidance/decrease the non-proportional burden on small and medium entrepreneurs. Currently, Georgia has no system for regulatory impact assessment (RIA) which determines the impact new regulations may have on the business sector, in particular the development of small and medium enterprises. To create a new legislative environment, new legislative proposals and existing legislation should be assessed to identify the regulatory burden and compliance costs. It is important to simplify the process of closing a business, as it is currently a long and difficult process.

Moreover, the Law of Georgia on Small Business should be adopted, determining the actual status of small business and regulating all related legal issues. Namely, the small business status should include micro and small business, and should be extended to economic activities carried out by not only natural persons, but legal entities doing business in any organizational form determined in the Law of Georgia on Entrepreneurs.

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Moreover, the elaboration of specific measures to strengthen, empower, and increase of women entrepreneurs is vitally important.

Considering the principles of the small business act, the government should:

- Harmonize its legislations based on the EU-Georgia Association Agreement. The small business act should be elaborated and implemented, determining the actual status of the small business and regulating all related legal issues which will promote the internationalization of business.
- Approximate the Georgian legislative environment with the specific EU policies; and approximate the status of small, micro and medium enterprises EU legislation;
- Implement the Regulatory Impact Analysis of current legislative provisions through a “small and medium enterprise test”, envisioning constant assessment of legislative amendments on small and medium enterprises and considering the assessment results in planning amendments.
- Eliminate frequent tax law amendments; existence of small terms for amending the laws, delays in the public dissemination of information about amendments, existence of provisional conditions, and ambiguous articles in legislation which causes misinterpretation, faulty processing of documents and unjustified penalties for the businesses.

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