



2011-2012 WEF GLOBAL COMPETITIVENESS REPORT: GEORGIA

FINAL

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2011-2012 WEF GLOBAL COMPETITIVENESS REPORT: GEORGIA

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ABSTRACT

This report provides a brief analysis of Georgia's competitiveness position as reported in the World Economic Forum (WEF) 2011-2012 Global Competitiveness Report (GCR). It compares the changes in the GCR Global Competitiveness Index (GCI) and overall country rankings between 2010 and 2011, provides possible rationale for the changes, and identifies key areas of weaknesses that Georgia needs to address in order to increase its competitiveness.

ABBREVIATIONS

BRIC	Brazil, Russia, India and China
EOS	Executive Opinion Survey
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
WEF	World Economic Forum

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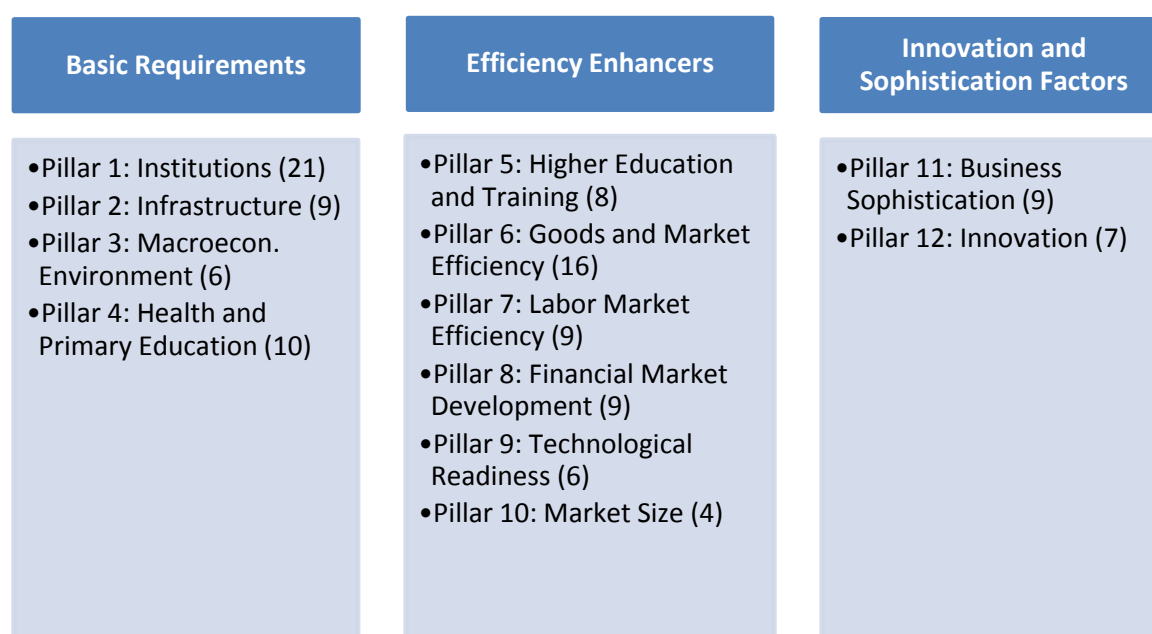
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BACKGROUND

The 2011-2012 World Economic Forum (WEF) Global Competitiveness Report (GCR) uses a Global Competitiveness Index (GCI) to assess the relative competitiveness of 142 countries. The 2010-2011 GCR assessed 139 countries. The GCI provides a weighted average of 113 indicators that affect national competitiveness. Data for approximately two-thirds of the variables come from the Executive Opinion Survey (EOS), a comprehensive annual survey conducted by the WEF in partnership with leading research institutes and business organizations in the countries covered by the report. Data for the other indicators are derived from publicly available sources such as The World Bank, The World Health Organization (WHO), and the United Nations Educational, Scientific, and Cultural Organization (UNESCO).

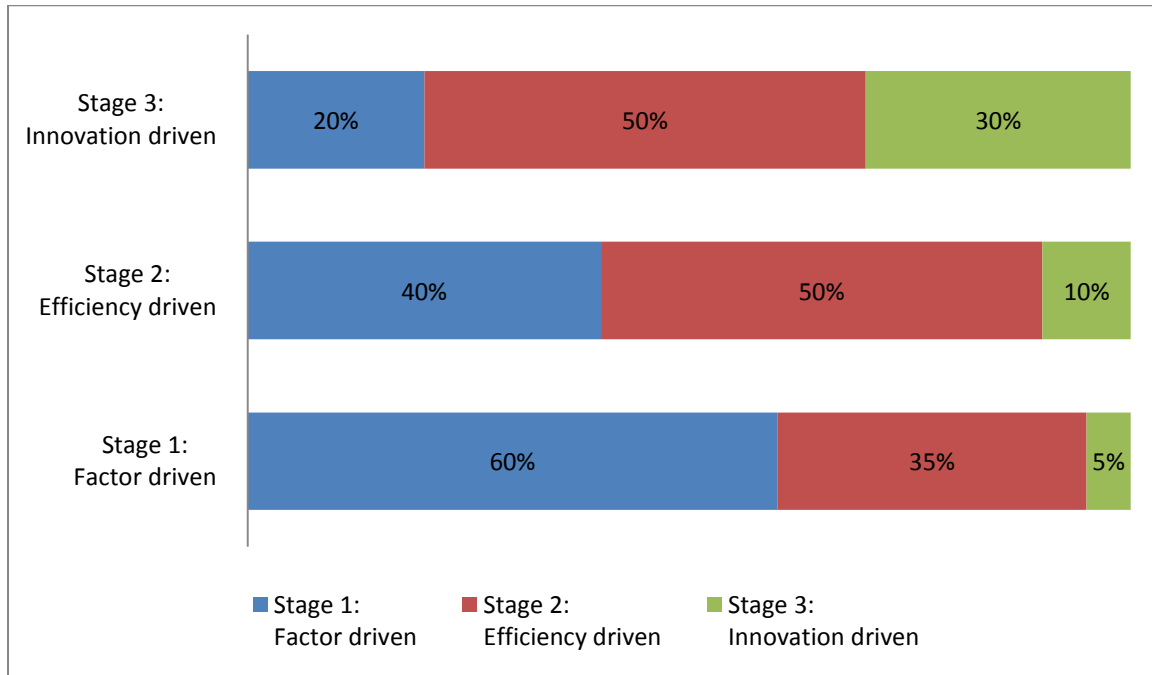
The GCI uses a 1-7 scale in which a higher numerical score indicates a higher degree of competitiveness. Country rankings accompany scores to indicate each country's relative position. Annual changes in those rankings may be due to changes in the country's scores or to changes in the scores of other countries. The GCI is derived from a combination of three subindices: Basic Requirements, Efficiency Enhancers, and Innovation and Sophistication Factors. Those subindices are derived from 12 pillars of competitiveness, which themselves are derived from numerous indicators.

FIGURE 1: GCI SUBINDICES AND PILLARS TAXONOMY



To assign a GCI to a given countries, they are grouped into the following stages of development based on their GDP per capita and the extent to which they are factor driven: Stage 1: Factor driven; Stage 2: Efficiency driven; and Stage 3: Innovation driven. Weights are assigned to each subindex according to the country's stage of development, following the theory of stages of economic development, which emphasizes factors less and innovation more as economies develop. Georgia is classified as in transition from development Stage 1: Factor Driven to Stage 2: Efficiency Driven.

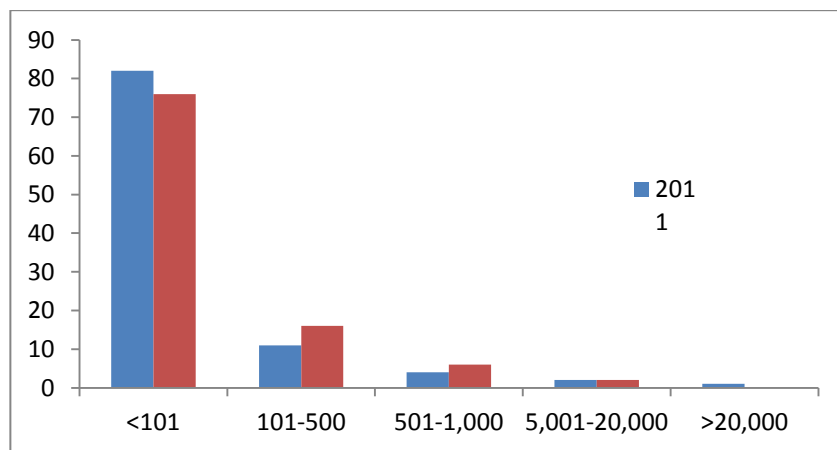
FIGURE 2 : SUBINDEX WEIGHTS, BY COUNTRY STAGE OF DEVELOPMENT



EXECUTIVE OPINION SURVEY (EOS) METHODOLOGY

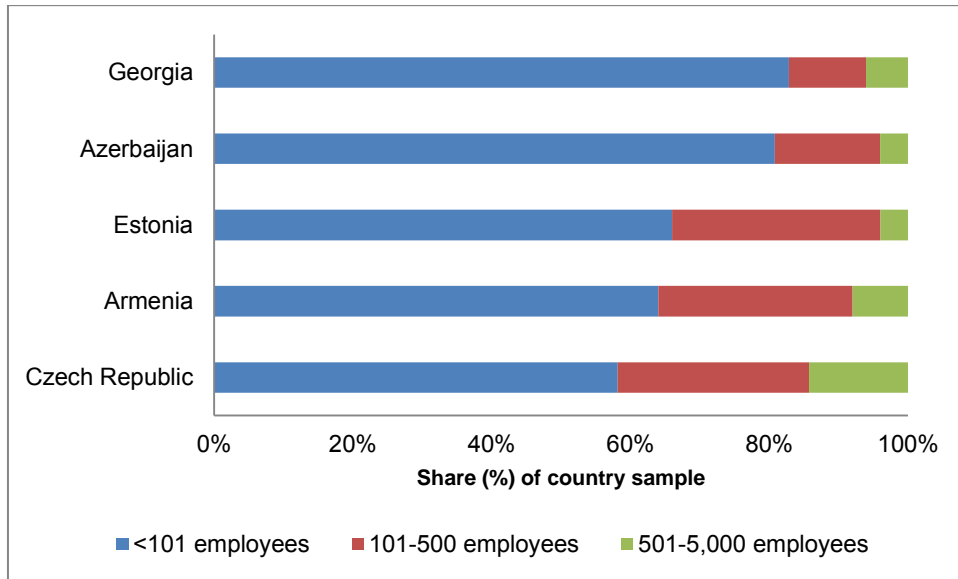
The WEF EOS methodology requires at least 300 responses for the BRIC countries and the United States, and at least 80 responses for all other countries. In 2011-2012, 95 Georgia respondents participated in the EOS, compared to the median country response rate of 89. The vast majority of Georgia’s respondents (82%) were from companies with 100 employees or less. The remaining respondents came from companies with 101-500 employees (11%), and 501-5000 employees (6%). The relatively small proportion of responses from large companies reflects the relatively small share of total number of businesses in the Georgian economy, given the country’s current level of economic development and relatively small economy. Figure 3 below compares the percentage of Georgian EOS respondents by company size in 2011 and 2010.

FIGURE 3: PERCENTAGE OF GEORGIAN EOS RESPONDENTS BY COMPANY SIZE



The distribution of respondents per firm size in Georgia is similar to that of Azerbaijan, while Estonia, Armenia and Czech Republic reported a higher share of respondents from larger firms,

FIGURE 4: RESPONDANTS BY FIRM SIZE, SELECTED COUNTRIES



GEORGIA IN 2011-2012 WEF GCR

Georgia ranked 88th in the 2011 GCI rankings, up from the 93rd place in 2010 – performing best in the Basic Requirements subindex, followed closely by the Efficiency Enhancers subindex.

While most of Georgia's rank in individual pillars is close to its rank for that respective subindex, there are two notable outliers: Georgia ranked 32 in Labor Market Efficiency, and 137 in Pillar 3: Macroeconomic Environment.

WEF Indicators	GCR 2011-2012	
	Rank	Score
OVERALL GCI	88	4
Basic Requirements	86	4.3
1st pillar: Institutions	60	4
2nd pillar: Infrastructure	68	4
3rd pillar: Macroeconomic environment	137	3.7
4th pillar: Health and primary education	67	5.7
Efficiency enhancers	89	3.7
5th pillar: Higher education and training	88	3.9
6th pillar: Goods market efficiency	74	4.2
7th pillar: Labor market efficiency	32	4.7
8th pillar: Financial market development	99	3.7
9th pillar: Technological readiness	100	3.2
10th pillar: Market size	106	2.8
Innovation and Sophistication	117	3
11th pillar: Business sophistication	110	3.4
12th pillar: Innovation	118	2.6

Drilling down into the indicators that are combined to determine pillar rank shows there are 11 indicators for which Georgia ranked in the top 10 percentile of country ranks (a rank of 14 or better), and 6 for which Georgia is in the bottom 10 percentile (a rank of 128 or worse).

TABLE 1: GEORGIA'S 2011-2012 GCI INDICATOR RANKS, 90TH PERCENTILE OR HIGHER

WEF Indicator	GCR Rank 2011-2012
<i>Pillar 1: Institutions</i>	
1.09 Burden of government regulation	7
1.21 Strength of investor protection	20
<i>Pillar 4: Health and Primary Education</i>	
4.10 Primary education enrollment rate	3

<i>Pillar 5: Higher Education and Training</i>	
5.01 Secondary education enrollment rate	11
<i>Pillar 6: Goods Market Efficiency</i>	
6.05 Total tax rate	8
6.06 Number of procedures required to start a business	8
6.07 Time required to start a business	3
6.10 Trade tariffs	3
<i>Pillar 7: Labor Market Efficiency</i>	
7.03 Rigidity of employment	10
7.04 Hiring and firing practices	10
7.05 Redundancy costs	6

*142 countries were sampled: 90th percentile is equal to a country rank of 14

TABLE 2: GEORGIA'S 2011-2012 GCI INDICATOR RANKS, 10TH PERCENTILE OR LOWER*

WEF Indicators	GCI Rank 2011-2012
<i>Pillar 3: Macroeconomic Environment</i>	
3.02 National savings rate	135
3.04 Interest rate spread	129
<i>Pillar 6: Goods Market Efficiency</i>	
6.01 Intensity of local competition	128
6.03 Effectiveness of anti-monopoly policy	135
<i>Pillar 11: Business Sophistication</i>	
11.01 Local supplier quantity	138
11.02 Local supplier quality	130

*142 countries were sampled: 10th percentile is equal to a country rank of 128

AREAS OF GEORGIA'S IMPROVED COMPETITIVENESS

The 2011-2012 GCR revealed Georgia exhibited improvements in each of the three subindices: Basic Requirements, Efficiency Enhancers, and Innovation and Sophistication Factors. The most significant improvement was seen in the Basic Requirements subindex, which jumped in rank by 9 places. Of the 12 pillars, Pillar 1: Institutions, Pillar 4: Health and Primary Education, and Pillar 8: Financial Market Development.

TABLE 3: GEORGIAN WEF GCR 2010-2011 AND 2011-2012 COMPARISON, BY SUBINDEX AND PILLAR

WEF Indicator	GCR 2011-2012		GCR 2010-2011		Change	
	Rank (%ile)	Score	Rank (%ile)	Score	Rank (%ile)	Score
OVERALL GCI	88th (38)	4	93rd (33)	3.9	5 (5)	0.1
Basic Requirements	86th (40)	4.3	95th (32)	4.1	9 (8)	0.2
Pillar 1: Institutions	60 th (58)	4	69 th (50)	3.9	9 (8)	0.1
Pillar 2: Infrastructure	68 th (52)	4	73 rd (47)	3.8	5 (5)	0.2
Pillar 3: Macroeconomic Environment	137 th (4)	3.7	130 th (6)	3.3	-7 (-2)	0.4
Pillar 4: Health and Primary Education	67 th (53)	5.7	73 rd (47)	5.6	6 (6)	0.1
Efficiency Enhancers	89th (37)	3.7	94th (32)	3.7	5 (5)	0
Pillar 5: Higher Education and Training	88 th (38)	3.9	90 th (35)	3.7	2 (3)	0.2
Pillar 6: Goods Market Efficiency	74 th (48)	4.2	64 th (54)	4.2	-10 (-6)	0
Pillar 7: Labor Market Efficiency	32 nd (78)	4.7	31 st (78)	4.8	-1 (0)	-0.1
Pillar 8: Financial Market Development	99 th (31)	3.7	108 th (22)	3.6	9 (8)	0.1
Pillar 9: Technological Readiness	100 th (30)	3.2	98 th (29)	3.1	-2 (1)	0.1
Pillar 10: Market Size	106 th (26)	2.8	107 th (23)	2.8	1 (3)	0
Innovation and Sophistication	117th (18)	3	121st (13)	2.9	4 (5)	0.1
Pillar 11: Business Sophistication	110 th (23)	3.4	111 th (20)	3.3	1 (3)	0.1
Pillar 12: Innovation	118 th (17)	2.6	125 th (10)	2.5	7 (7)	0.1

The indicators with the greatest improvement in rank and score are shown in the charts below.

TABLE 4: GCI INDICATORS WITH IMPROVED RANK OF 10 OR GREATER

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
<i>Pillar 1: Institutions</i>						
1.04 Public Trust of Politicians	65	2.8	78	2.6	13	0.2
1.06 Judicial independence	91	3.2	104	2.9	13	0.3
1.07 Favoritism in decisions of government officials	54	3.2	68	3	14	0.2
1.17 Ethical behavior of firms	61	3.9	78	3.8	17	0.1
1.21 Strength of investor protection	20	6.7	33	6	13	0.7
<i>Pillar 3: Macroeconomic environment</i>						
3.01 Government budget balance	87	-4.8	127	-9.4	40	4.6
<i>Pillar 4: Health and Primary Education</i>						
4.10 Primary education enrollment rate	3	99.6	17	98.7	14	0.9
<i>Pillar 5: Higher Education and Training</i>						
5.01 Secondary education enrollment rate	11	108.5	59	90	48	18.5
5.07 Local availability of research and training services	115	3.2	125	3	10	0.2
<i>Pillar 6: Goods market efficiency</i>						
6.13 Burden of customs procedures	27	4.9	39	4.7	12	0.2
<i>Pillar 8: Financial Market Development</i>						
8.02 Affordability of financial services	96	3.7	108	3.5	12	0.2
8.05 Venture capital availability	97	2.2	109	2.1	12	0.1
8.09 Legal rights index	39	7	60	6	21	1.0
<i>Pillar 9: Technological Readiness</i>						
9.02 Firm-level technology absorption	115	4.1	125	4	10	0.1
9.06 Internet bandwidth	62	5.7	77	7.5	15	-1.8
<i>Pillar 12: Innovation</i>						
12.05 Gov't procurement of advanced tech products	76	3.5	102	3.2	26	0.3

TABLE 5: GCI INDICATORS WITH IMPROVED SCORE OF .0.3 OR MORE*

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
<i>Pillar 1: Institutions</i>						
1.03 Diversion of public funds	39	4.5	46	4.1	7	0.4
1.05 Irregular payments and bribes	33	5.3	42	4.9	9	0.4
1.06 Judicial independence	91	3.2	104	2.9	13	0.3
1.16 Reliability of police services	42	5	45	4.7	3	0.3
1.21 Strength of investor protection	20	6.7	33	6	13	0.7
<i>Pillar 2: Infrastructure</i>						

2.02 Quality of roads	57	4.2	65	3.9	8	0.3
2.03 Quality of railroad infrastructure	35	3.9	41	3.6	6	0.3
2.07 Quality of electricity supply	52	5.4	58	5.1	6	0.3
<i>Pillar 5: Higher Education and Training</i>						
5.06 Internet access in schools	67	4.1	74	3.7	7	0.4
<i>Pillar 9: Technological Readiness</i>						
9.05 Broadband Internet subscriptions	72	5.1	75	3.5	3	1.6
<i>Pillar 12: Innovation</i>						
12.05 Gov't procurement of advanced tech products	76	3.5	102	3.2	26	0.3
12.07 Utility patents per million population	65	0.5	72	0.2	7	0.3

*Only includes indicators collected through the EOS

BASIC REQUIREMENTS

Georgia made overall improvements in the Basic Requirements subindex, increasing in rank by 9 places, and in score by 0.2. The improvement is the result of gains in Pillar 1: Institutions, Pillar 2: Infrastructure and Pillar 4: Health and Primary Education, which helped counteract the fall in rank of Pillar 3: Macroeconomic Environment.

Pillar 1: Institutions

Rank Change: 9; Score Change 0.1

Georgia's improvement in this pillar is due to improved rank and score in the following sub-indicators:

- 1.03 Diversion of public funds (rank change: 7, score change 0.4)
- 1.04 Public Trust of Politicians (rank change: 13; score change: 0.2)
- 1.05 Irregular Payments and Bribes (rank change: 9; score change: 0.4)
- 1.06 Judicial Independence (rank change: 13; score change: 0.3)
- 1.07 Favoritism in Decisions of Government Officials (rank change: 14; score change: 0.2)
- 1.17 Ethical Behavior of Firms (rank change: 17; score change: 0.1)
- There has been a perception change in this EOS-based indicator. The change in score for this variable is marginal, indicating that the change in rankings is largely due to changed perceptions, and subsequently ranks, in other countries.
- 1.21 Strength of Investor Protection (rank change: 13; score change: 0.7)

Pillar 2: Infrastructure

Rank Change: 5; Score Change 0.2

Georgia's improvement in this pillar is due largely to improved rank and score in the following sub-indicators:

- 2.01 Quality of Overall Infrastructure (rank change: 8, score change: 0.2)
- 2.02 Quality of Roads (rank change: 8, score change: 0.3)
- 2.03 Quality of Railroad Infrastructure (rank change: 6, score change: 0.3)

- 2.04 Quality of Port Infrastructure (rank change: 7, score change: 0.2)
- 2.07 Quality of Electricity Supply (rank change: 6, score change: 0.3)

Pillar 3: Macroeconomic Environment

Rank Change: -7; Score Change 0.4

While Georgia showed an overall drop in rank in the third pillar, it is important to note the substantial increase in rank of indicator 3.01: Government budget balance. With an increased score of 4.6, Georgia's rank in this indicator jumped by 40 places. In the previous year, the budget deficit was extremely high at - 9.4. and the improvement during 2010 resulted in an improved score - 4.8 and ranking of Georgia for this indicator.

Pillar 4: Health and Primary Education

Rank Change: 6; Score Change 0.1

Georgia's improvement in this area is due to improved rank and score in education-related sub-indicators:

- 4.09 Quality of Primary Education (rank change: 6, score change: 0.2)
- 4.10 Primary Education Enrollment rate (rank change: 14, score change: 0.9)

EFFICIENCY ENHANCERS

Georgia's rank in the Efficiency Enhancers subindex increased by 5 places, as well as 5 percentiles, though its score remained unchanged. The data indicate that the most influential factor within the Efficiency Enhancers subindex is Pillar 8: Financial Market Development, with Pillars 5: Higher Education and Training, and 10: Market Size also contributing to advances in the subindex.

Pillar 5: Higher Education and Training

Rank Change: 2; Score Change 0.2

Though Georgia fell in rank by 16 places for indicator 5.02: Tertiary education enrollment rate, Georgia improved markedly in the following indicators:

- 5.01 Secondary education enrollment rate (rank change: 18.5; Score change: N/A - not on 7 point scale) The rank change is largely due to the change of school years from 11 to 12 for secondary education that occurred in 2009, as the 2011 GCI is based on 2009 data. However, the change in school years also resulted in a decline in the tertiary education enrolment rate.
- 5.06 Internet access in schools (rank change: 7; score change: 0.4)
- 5.07 Local availability of research and training services (rank change: 10; score change: 0.2)

Pillar 6: Goods Market Efficiency

Rank Change: -10; Score Change 0

While Georgia's rank in this Pillar declined, Indicator 6.13: Burden of custom procedures showed significant improvement, increasing in rank by 12 places and score by 0.2.

Pillar 8: Financial Market Development

Rank Change: 9; Score Change 0.1

Georgia's rank in Pillar 8 improved by 1 place, or 8 percentiles, and its score remained the same. Although the majority of the indicators in the eighth pillar still rank below Georgia's overall rank, a positive change has been reported in eight of the nine financial market development indicators, especially the indicator that measures affordability of financial services, and availability of venture capital.

- 8.02 Affordability of financial services (rank change: 12, score change: 0.2)
- 8.05 Venture capital availability (rank change: 12, score change: 0.1)
- 8.09 Legal rights index (rank change: 64; score change: 21). This indicators comes from the World Bank Doing Business report, measuring the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The improved rank reflects legislative changes made in previous years which were taken into account by the World Bank 2010 Doing Business report.

Pillar 9: Technological Readiness

Rank Change: -2; Score Change 0.1

This pillar recorded no significant change overall, but the indicator 9.02: Firm-level technology absorption increased its rank by 10 places, with a score increase of 0.1. Indicator 9.06: Internet bandwidth also increased significantly in rank, by 15 places, but this is due to a WEF's recent change in the measurement unit for the internet bandwidth variable, making changes in rank meaningless for this year's report.

INNOVATION AND SOPHISTICATION

Georgia's rank in the Innovation and Sophistication subindex increased by 4 places (5 percentiles), due to moderate progress in both indicators in the pillar.

Pillar 11: Business Sophistication

Rank Change: 1; Score Change 0.1

While no significant change was recorded in Pillar 11, and the majority of the indicators recorded a slight decline in ranking. a significant increase was seen in indicator 11.04: nature of competitive advantage. (rank change: 9, score change: 0.2)

Pillar 12: Innovation

Rank Change: 7; Score Change 0.1

All indicators of Pillar 12 demonstrated increased scores and rankings, most notably:

- 12.01 Capacity for innovation (rank change: 9, score change: 0.2)
- 12.05 Gov't procurement of advanced tech products (rank change: 26, score change: 0.3) The investments that the Government of Georgia has made in technological solutions, such as e-governance, are demonstrated by the gains in government procurements of advanced technological products.

AREAS OF GEORGIA'S REDUCED COMPETITIVENESS

While Georgian data sources are reporting an increase in the number of internet users, the WEF uses data from the International Telecommunications Union's World Telecommunication/ICT Indicators 2011 report for the WEF GCR. The data on imports and exports as a percentage of GDP come from the World Trade Organization's Statistics Database: Time Series on International Trade, referenced on July 4, 2011. Georgia needs to improve the timing and accuracy of supplying hard data to the WEF and work with those Georgian agencies that are providing such data on an annual basis. Using the latest data alone will improve Georgia's rankings in some areas. There was discrepancy in indicators: 4.04 Tuberculosis incidence, 4.07 Infant mortality, 4.08 Life expectancy, 2.08 Fixed telephone lines and 2.09 Mobile telephone subscriptions.

The indicators with the greatest decrease in rank and score are indicated in the charts below.

TABLE 6: GCI INDICATORS WITH DECREASED RANK OF 10 OR GREATER

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
Pillar 3: Macroeconomic Environment						
3.02 National savings rate	135	5.2	110	12.3	-25	-7.1
3.03 Inflation	115	7.1	47	1.7	-68	5.4
Pillar 4: Health and Primary Education						
4.03 Business impact of tuberculosis	92	4.9	78	5.4	-14	-0.5
Pillar 5: Higher Education and Training						
5.02 Tertiary education enrollment rate	82	25.5	66	34.3	-16	-8.8
Pillar 6: Goods Market Efficiency						
6.04 Extent and effect of taxation	35	3.9	24	4.2	-11	-0.3
6.11 Prevalence of foreign ownership	110	4.1	89	4.5	-21	-0.4
Pillar 9: Technological Readiness						
9.04 Internet users	85	27	73	30.5	-12	-3.5

TABLE 7. GCI INDICATORS WITH DECREASED SCORE OF 0.3 OR MORE

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
Pillar 1: Institutions						
1.13 Business costs of terrorism	69	5.6	61	5.9	-8	-0.3
1.14 Business costs of crime and violence	49	5.2	41	5.5	-8	-0.3

Pillar 4: Health and Primary Education						
4.01 Business impact of malaria	83	5.8	79	6.2	-4	-0.4
4.03 Business impact of tuberculosis	92	4.9	78	5.4	-14	-0.5
Pillar 6: Goods Market Efficiency						
6.04 Extent and effect of taxation	35	3.9	24	4.2	-11	-0.3
6.11 Prevalence of foreign ownership	110	4.1	89	4.5	-21	-0.4
Pillar 9: Technological Readiness						
9.04 Internet users	85	27	73	30.5	-12	-3.5
9.06 Internet bandwidth	62	5.7	77	7.5	15	-1.8

BASIC REQUIREMENTS

Pillar 3: Macroeconomic Environment

Rank Change: -7; Score Change: 0.4

Due to large decreases in rank for National Savings and Inflation indicators, Georgia fell in rank for the 3rd pillar. The negative impact of these two indicators was enough to overtake the 40 place increase in rank Georgia exhibited for indicator 3.01: Government budget balance.

- 3.02 National savings rate (rank change: -25; score change: -7.1)
- 3.03 Inflation (rank change: -68, score change: -5.4)

Pillar 4: Health and Primary Education

Rank Change: 6; Score Change 0.1

Georgia's overall rank in this pillar increased due to increases in education related indicators, despite the decrease in rank of the following health-related indicators:

- 4.01 Business impact of malaria (rank change: -4, score change: -0.4)
- 4.03 Business impact of tuberculosis (rank change: -14, score change: -0.5)
- 4.05 Business impact of HIV/AIDS (rank change: -8 , score change: -0.2)

Pillar 5: Higher Education and Training

Rank Change: 2; Score Change: 0.2

While Georgia's rank for this pillar increased slight, indicator 5.02: Tertiary education enrollment rate fell by in rank by 16 places.

EFFICIENCY ENHANCERS

Pillar 6: Goods Market Efficiency

Rank Change: -10, Score Change: 0

While the overall score of the sixth pillar remained unchanged, Georgia's rank declined by 10 places (6 percentiles) for this indicator. While indicator 6.13: Burden of custom procedures increased in rank by 12 places, a significant drop in rank was reported for the following indicators:

- 6.04: Extent and effect of taxation (rank change: -11, score change: -0.3)

“What impact does the level of taxes in your country have on incentives to work or invest?”

[1 = significantly limits incentives to work or invest; 7 = has no impact on incentives to work or invest]

Given the overall low level of taxes in Georgia (Georgia ranks 8th among 140 countries in terms of the lowest total tax level), it would have been expected that the score would be higher given that low tax level do not limit incentives to work or invest. However, the score has been reduced by 0.3 (from 4.2 to 3.9), and the country ranking worsened by 11 places. This worsening of the perception is likely due to changes in tax levels effective as of January 2011, just before the EOS was conducted.

- *6.11: Prevalence of foreign ownership (rank change: -21, score change: -0.4)*

“How prevalent is foreign ownership of companies in your country?”

[1 = very rare; 7 = highly prevalent]

The score has been reduced by 0.4 (from 4.5 to 4.1), and the country ranking worsened by 21 places. The worsening may be attributed to a lower level of foreign investment in Georgia in comparison to pre-crisis years, or due to lower awareness of the selected group of respondents about firms' with foreign ownership.

GEORGIA'S POSITION RELATIVE TO OTHER COUNTRIES

Of Georgia's 12 peer countries, it scores tenth highest in the GCI. Of the three GCI subindices, Georgia's score relative to its peers is highest in the Basic Requirements subindex, followed by Efficiency Enhancers and then Innovation and Sophistication.

TABLE 8. COMPARISON OF RANKINGS AND SCORES, WEF GCR 2011-2012

Overall Index				Basic Requirements				Efficiency Enhancers				Innovation and Sophistication			
	Country	Rank	Score		Country	Rank	Score		Country	Rank	Score		Country	Rank	Score
1	Estonia	33	4.62	1	Estonia	27	5.41	1	Czech Republic	29	4.63	1	Czech Republic	32	4.09
2	Czech Republic	38	4.52	2	Czech Rep.	45	4.9	2	Estonia	36	4.52	2	Estonia	37	3.98
3	Azerbaijan	55	4.31	3	Croatia	52	4.76	3	Turkey	52	4.22	3	Turkey	58	3.62
4	Turkey	59	4.28	4	Azerbaijan	59	4.68	4	Bulgaria	59	4.1	4	Azerbaijan	67	3.51
5	Bulgaria	74	4.16	5	Turkey	64	4.61	5	Romania	62	4.09	5	Croatia	82	3.37
6	Croatia	76	4.08	6	Macedonia, FYR	69	4.55	6	Croatia	72	4.01	6	Ukraine	93	3.29
7	Romania	77	4.08	7	Bulgaria	74	4.46	7	Ukraine	74	4	7	Bulgaria	96	3.24
8	Macedonia, FYR	79	4.05	8	Georgia	86	4.32	8	Azerbaijan	77	3.99	8	Romania	99	3.2
9	Ukraine	82	4	9	Romania	89	4.28	9	Macedonia, FYR	87	3.83	9	Macedonia, FYR	104	3.14
10	Georgia	88	3.95	10	Serbia	88	4.28	10	Georgia	89	3.74	10	Armenia	110	3.09
11	Armenia	92	3.89	11	Armenia	94	4.24	11	Armenia	91	3.73	11	Georgia	117	3.01
12	Moldova	93	3.89	12	Ukraine	98	4.18	12	Serbia	90	3.73	12	Serbia	118	2.99
13	Serbia	95	3.88	13	Moldova	102	4.13	13	Moldova	103	3.62	13	Moldova	127	2.86

In the **Basic Requirements subindex** Georgia has the best position in the institutions pillar, 60th rank in the world and the second place among peer 12 countries. This position is conditioned by the following indicators: Burden of government regulation (world rank 7), Strength of investor protection (world rank 20), Irregular payments and bribes (world rank 33), Transparency of government policymaking (world rank 36), Diversion of public funds (world rank 39) and Reliability of police services (world rank 42).

In the same subindex, Georgia has the worst position in the Macroeconomic Environment, 137th rank in the world and the last, 13th place among peer countries. This undesirable position was caused by high inflation and government budget deficit in 2010. Also, interest rate spread increased in 2010 and reached to 15 percent point.

Pillar 1: Institutions				Pillar 2: Infrastructure				Pillar 3: Macroeconomic Environment				Pillar 4: Health and Primary Education			
	Country	Rank	Score		Country	Rank	Score		Country	Rank	Score		Country	Rank	Score
1	Estonia	29	4.99	1	Czech Republic	36	4.87	1	Azerbaijan	16	5.89	1	Estonia	26	6.26
2	Georgia	60	3.97	2	Croatia	39	4.73	2	Estonia	21	5.71	2	Croatia	48	5.96
3	Azerbaijan	68	3.84	3	Estonia	40	4.71	3	Macedonia, FYR	37	5.34	3	Czech Republic	51	5.91
4	Turkey	80	3.69	4	Turkey	51	4.39	4	Czech Republic	43	5.17	4	Serbia	52	5.82
5	Macedonia, FYR	81	3.68	5	Georgia	68	3.95	5	Bulgaria	46	5.13	5	Bulgaria	57	5.8
6	Czech Republic	84	3.65	6	Azerbaijan	73	3.87	6	Turkey	69	4.76	6	Romania	66	5.72
7	Armenia	83	3.65	7	Ukraine	71	3.87	7	Croatia	70	4.75	7	Georgia	67	5.7
8	Croatia	90	3.59	8	Armenia	77	3.75	8	Romania	87	4.52	8	Ukraine	74	5.64
9	Romania	99	3.49	9	Serbia	84	3.67	9	Serbia	91	4.48	9	Turkey	75	5.62
10	Moldova	106	3.38	10	Macedonia, FYR	86	3.66	10	Moldova	103	4.34	10	Macedonia, FYR	80	5.53
11	Bulgaria	110	3.32	11	Bulgaria	87	3.62	11	Ukraine	112	4.21	11	Moldova	86	5.46
12	Serbia	121	3.15	12	Romania	95	3.37	12	Armenia	114	4.19	12	Armenia	94	5.37
13	Ukraine	131	2.98	13	Moldova	96	3.32	13	Georgia	137	3.65	13	Azerbaijan	105	5.12

In the **Efficiency Enhancers subindex** Georgia has the best position in the Labor Market Efficiency pillar, 32th rank in the world and the third place among peer countries, which one is conditioned by the following indicators: Redundancy costs (world rank 6), Hiring and firing practices (world rank 10), Rigidity of employment index (world rank 10) and Flexibility of wage determination (world rank 34), but Brain drain (world rank 102) and Reliance on professional management (world rank 85) still stay a problematic issue.

In the same subindex, among peer 12 countries, Georgia has the worst position in the Higher Education and the Technological Readiness pillars. Quality of education system and Availability of research and training services indicators received low estimations – 3.0 and 3.2. The low rank in the Technological Readiness is conditioned by bad estimations in the availability of latest technologies and firm-level technology absorption.

Pillar 5: Higher Education and Training				Pillar 6: Goods Market Efficiency				Pillar 7: Labor Market Efficiency				Pillar 8: Financial Market Development			
	Country	Rank	Score		Country	Rank	Score		Country	Rank	Score		Country	Rank	Score
1	Estonia	23	5.15	1	Estonia	29	4.74	1	Azerbaijan	14	4.95	1	Estonia	41	4.51
2	Czech Republic	30	4.95	2	Czech Republic	36	4.58	2	Estonia	16	4.92	2	Czech Republic	53	4.31
3	Ukraine	51	4.58	3	Turkey	47	4.38	3	Georgia	32	4.74	3	Turkey	55	4.26
4	Romania	55	4.42	4	Macedonia, FYR	63	4.26	4	Armenia	34	4.71	4	Bulgaria	75	3.99
5	Croatia	56	4.41	5	Georgia	74	4.16	5	Czech Republic	42	4.62	5	Macedonia, FYR	82	3.94
6	Bulgaria	70	4.16	6	Azerbaijan	79	4.12	6	Bulgaria	56	4.49	6	Romania	84	3.91
7	Turkey	74	4.02	7	Bulgaria	86	4.08	7	Ukraine	61	4.44	7	Croatia	87	3.87
8	Azerbaijan	75	4.01	8	Romania	96	3.96	8	Macedonia, FYR	72	4.33	8	Azerbaijan	94	3.76
9	Armenia	76	4.01	9	Moldova	98	3.94	9	Moldova	75	4.31	9	Armenia	95	3.76
10	Macedonia, FYR	80	3.98	10	Armenia	108	3.88	10	Romania	92	4.1	10	Serbia	96	3.74
11	Serbia	81	3.98	11	Croatia	114	3.81	11	Serbia	112	3.94	11	Georgia	99	3.68
12	Moldova	83	3.93	12	Ukraine	129	3.58	12	Croatia	116	3.89	12	Moldova	105	3.6
13	Georgia	88	3.87	13	Serbia	132	3.49	13	Turkey	133	3.51	13	Ukraine	116	3.39

Pillar Financial Market Development stays one of the weak area in the Georgia's competitiveness (99th rank in the world), but it is closed to neighbor countries positions, Armenia and Azerbaijan take 95th and 94th places. Georgia's financial market main disadvantages are low availability of financing through local equity market (world rank 122), Venture capital availability (world rank 97) and Regulation of securities exchanges (world rank 122).

Innovation and Sophistication subindex is a weak area in Georgia's competitiveness, Company spending on R&D (world rank 124), Quality of scientific research institutions (world rank 117), Availability of scientists and engineers (world rank 120) and University-industry collaboration in R&D (world rank 126) receives the low estimations.

Pillar 9: Technological Readiness				Pillar 10: Market Size			Pillar 11: Business Sophistication			Pillar 12: Innovation					
	Country	Rank	Score		Country	Rank	Score		Country	Rank	Score		Country	Rank	Score
1	Estonia	27	4.95	1	Turkey	17	5.19	1	Czech Republic	36	4.42	1	Estonia	30	3.81
2	Czech Republic	31	4.82	2	Ukraine	38	4.54	2	Estonia	53	4.16	2	Czech Republic	33	3.77
3	Croatia	38	4.5	3	Czech Republic	40	4.48	3	Turkey	58	4.09	3	Azerbaijan	60	3.2
4	Bulgaria	50	4.11	4	Romania	44	4.39	4	Azerbaijan	73	3.81	4	Turkey	69	3.15
5	Turkey	55	3.95	5	Bulgaria	64	3.8	5	Croatia	88	3.66	5	Ukraine	74	3.11
6	Romania	60	3.76	6	Serbia	70	3.61	6	Bulgaria	96	3.55	6	Croatia	76	3.09
7	Macedonia, FYR	67	3.67	7	Croatia	72	3.57	7	Romania	102	3.48	7	Bulgaria	93	2.94
8	Serbia	71	3.63	8	Azerbaijan	75	3.5	8	Ukraine	103	3.48	8	Romania	95	2.91
9	Azerbaijan	74	3.6	9	Estonia	100	2.89	9	Macedonia, FYR	105	3.47	9	Serbia	97	2.9
10	Moldova	78	3.52	10	Georgia	106	2.8	10	Armenia	107	3.43	10	Macedonia, FYR	105	2.81
11	Ukraine	82	3.47	11	Macedonia, FYR	107	2.79	11	Georgia	110	3.39	11	Armenia	112	2.74
12	Armenia	88	3.43	12	Armenia	115	2.57	12	Moldova	117	3.27	12	Georgia	118	2.62
13	Georgia	100	3.23	13	Moldova	122	2.43	13	Serbia	130	3.08	13	Moldova	128	2.44

CONCLUDING REMARKS

While Georgia continues to show improvements in its competitiveness, there are still significant development areas that need to be addressed in order to allow Georgia to increase its competitiveness.

Georgia ranked 88th in the 2011 GCI rankings, up from the 93rd place in 2010. Georgia has performed best in the Basic Requirements subindex, followed closely by the Efficiency Enhancers subindex. While most of Georgia's rank in individual pillars is close to its rank for that respective subindex, there are two notable outliers: Georgia ranked 32nd in Pillar 7: Labor Market Efficiency, and 137th in Pillar 3: Macroeconomic Environment.

Since the Georgian government already carried out macroeconomic stabilization policy, budget deficit has diminished in 2011 to 1 % of GDP, the national saving rate increased up to 10 % and the interest rate spread diminished to 10 %. All of these changes are anticipated to positively impact the overall score and associated ranking for the upcoming GCR.

For Georgia's competitiveness, the main challenges include higher education system improvement and financial market development, with the latter significantly depending on the local equity market expansion.

According to the WEF's methodology, it is anticipated that Georgia will be classified as an Efficiency Driven Economy in the WEF GCR 2012-2013. Therefore, Efficiency Enhancers and Innovation and Sophistication subindices will have more weight in the estimated overall Georgia's competitiveness score and rank than it did for the this latest GCR. Technological readiness and innovation's indicators will have a higher weight, and this may worsen the overall positions for Georgia given the country's currently weaker performance (around 100th rank) in this pillar. Innovation improvement requires an increase in R&D, an increased capacity level of research institutions and tightening of the university-industry collaboration.

Georgia has the highest ranks in the primary education enrollment rate (rank 3), time required to start a business (rank 3), trade tariffs (3 rank), redundancy costs (rank 6) and burden of government regulation (rank 7). Georgia's worst rankings include national savings rate (rank 135), interest rate spread (129), local supplier quantity (rank 138), local supplier quality (rank 130) and effectiveness of anti-monopoly policy (rank 135).

To ensure that the WEF EOS is an accurate representative of business opinions in Georgia, EPI is assisting Business Initiative for Reforms in Georgia (BIRG) with outreach efforts to increase awareness and knowledge about the importance of the WEF EOS. This assistance began earlier this year with a presentation on the WEF GCR 2011-2012 results at the annual American-Georgian Business Council Competitiveness Conference. EPI also works with BIRG to increase its sampling frame of businesses to ensure a more accurate representation of Georgian businesses.

EPI also assisted with the hard data analysis and improvement of linkages between Georgian national agencies (National Communications Commission and the Ministry of Health) to improve the accuracy and timeliness of data submission to relevant international agencies.

ANNEX A: GEORGIAN 2011-2012 AND 2010-2011 WEF GCR INDICATORS

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
OVERALL GCI	88	4	93	3.9	5	0.1
Basic Requirements	86	4.3	95	4.1	9	0.2
1st pillar: Institutions	60	4	69	3.9	9	0.1
101 Property rights	120	3.2	120	3.2	0	0
102 Intellectual property protection	105	2.8	97	2.9	-8	-0.1
103 Diversion of public funds	39	4.5	46	4.1	7	0.4
104 Public trust of politicians	65	2.8	78	2.6	13	0.2
105 Irregular payments and bribes	33	5.3	42	4.9	9	0.4
106 Judicial independence	91	3.2	104	2.9	13	0.3
107 Favoritism in decisions of government officials	54	3.2	68	3	14	0.2
108 Wastefulness of government spending	52	3.5	52	3.4	0	0.1
109 Burden of government regulation	7	4.5	4	4.6	-3	-0.1
110 Efficiency of legal framework in settling disputes	82	3.4	89	3.4	7	0
111 Efficiency of legal framework in challenging regulations	92	3.1	98	3.1	6	0
112 Transparency of government policymaking	36	4.8	33	4.9	-3	-0.1
113 Business costs of terrorism	69	5.6	61	5.9	-8	-0.3
114 Business costs of crime and violence	49	5.2	41	5.5	-8	-0.3
115 Organized crime	67	5.2	63	5.4	-4	-0.2
116 Reliability of police services	42	5	45	4.7	3	0.3
117 Ethical behavior of firms	61	3.9	78	3.8	17	0.1
118 Strength of auditing and reporting standards	88	4.3	92	4.3	4	0
119 Efficacy of corporate boards	116	4.1	109	4.1	-7	0
120 Protection of minority shareholders' interests	119	3.5	122	3.5	3	0
121 Strength of investor protection	20	6.7	33	6	13	0.7
2nd pillar: Infrastructure	68	4	73	3.8	5	0.2
201 Quality of overall infrastructure	54	4.6	62	4.4	8	0.2
202 Quality of roads	57	4.2	65	3.9	8	0.3
203 Quality of railroad infrastructure	35	3.9	41	3.6	6	0.3
204 Quality of port infrastructure	68	4.2	75	4	7	0.2

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
205 Quality of air transport infrastructure	88	4.2	86	4.2	-2	0
206 Available airline seat kilometers	106	33.3	111	23.6	5	9.7
207 Quality of electricity supply	52	5.4	58	5.1	6	0.3
208 Fixed telephone lines	85	13.7	84	14.6	-1	-0.9
209 Mobile telephone subscriptions	104	73.4	103	66.6	-1	6.8
3rd pillar: Macroeconomic environment	137	3.7	130	3.3	-7	0.4
301 Government budget balance	87	-4.8	127	-9.4	40	4.6
302 National savings rate	135	5.2	110	12.3	-25	-7.1
303 Inflation	115	7.1	47	1.7	-68	5.4
304 Interest rate spread	129	15	128	15.2	-1	-0.2
305 Government debt	66	39.1	n/a			
306 Country credit rating	97	35.2	104	30.9	7	4.3
4th pillar: Health and primary education	67	5.7	73	5.6	6	0.1
401 Business impact of malaria	83	5.8	79	6.2	-4	-0.4
402 Malaria incidence	75	1.9	76	1.9	1	0
403 Business impact of tuberculosis	92	4.9	78	5.4	-14	-0.5
404 Tuberculosis incidence	92	107	89	106.9	-3	0.1
405 Business impact of HIV/AIDS	78	5.1	70	5.3	-8	-0.2
406 HIV prevalence	21	0.1	22	0.1	1	0
407 Infant mortality	94	26	92	26.5	-2	-0.5
408 Life expectancy	87	71.7	86	71.5	-1	0.2
409 Quality of primary education	99	3.2	105	3	6	0.2
410 Primary education enrollment rate	3	99.6	17	98.7	14	0.9
Efficiency enhancers	89	3.7	94	3.7	5	0
5th pillar: Higher education and training	88	3.9	90	3.7	2	0.2
501 Secondary education enrollment rate	11	108.5	59	90	48	18.5
502 Tertiary education enrollment rate	82	25.5	66	34.3	-16	-8.8
503 Quality of the educational system	116	3	119	2.9	3	0.1
504 Quality of math and science education	100	3.4	104	3.2	4	0.2
505 Quality of management schools	115	3.4	116	3.4	1	0
506 Internet access in schools	67	4.1	74	3.7	7	0.4
507 Local availability of research and training services	115	3.2	125	3	10	0.2
508 Extent of staff training	106	3.5	108	3.4	2	0.1
6th pillar: Goods market efficiency	74	4.2	64	4.2	-10	0
601 Intensity of local competition	128	3.9	124	3.9	-4	0
602 Extent of market dominance	112	3.2	113	3.2	1	0

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
603 Effectiveness of anti-monopoly policy	135	2.9	135	2.8	0	0.1
604 Extent and effect of taxation	35	3.9	24	4.2	-11	-0.3
605 Total tax rate	8	15.3	7	15.3	-1	0
606 Number of procedures required to start a business	8	3	6	3	-2	0
607 Time required to start a business	3	3	3	3	0	0
608 Agricultural policy costs	115	3.3	114	3.5	-1	-0.2
609 Prevalence of trade barriers	37	4.9	33	5	-4	-0.1
610 Trade tariffs	3	0.7	3	0.7	0	0
611 Prevalence of foreign ownership	110	4.1	89	4.5	-21	-0.4
612 Business impact of rules on FDI	53	4.9	44	5	-9	-0.1
613 Burden of customs procedures	27	4.9	39	4.7	12	0.2
614 Import as percentage of GDP	52	52.2	43	55.1	-9	-2.9
615 Degree of customer orientation	118	3.9	127	3.7	9	0.2
616 Buyer sophistication	93	3.1	87	3.2	-6	-0.1
7th pillar: Labor market efficiency	32	4.7	31	4.8	-1	-0.1
701 Cooperation in labor-employer relations	76	4.2	77	4.2	1	0
702 Flexibility of wage determination	34	5.5	26	5.6	-8	-0.1
703 Rigidity of employment	10	7	10	7	0	0
704 Hiring and firing practices	10	5	9	5.2	-1	-0.2
705 Redundancy costs	6	4	6	4	0	0
706 Pay and productivity	57	4	59	4.1	2	-0.1
707 Reliance on professional management	85	3.9	88	4	3	-0.1
708 Brain drain	102	2.9	104	2.7	2	0.2
709 Female participation in labor force	75	0.76	81	0.75	6	0.01
8th pillar: Financial market development	99	3.7	108	3.6	9	0.1
801 Availability of financial services	107	3.9	106	3.9	-1	0
802 Affordability of financial services	96	3.7	108	3.5	12	0.2
803 Financing through local equity market	122	2.4	125	2.2	3	0.2
804 Ease of access to loans	79	2.7	83	2.5	4	0.2
805 Venture capital availability	97	2.2	109	2.1	12	0.1
806 Restriction on capital flows			40	5		
807 Soundness of banks	104	4.6	109	4.5	5	0.1
808 Regulation of securities exchanges	122	3.3	124	3.1	2	0.2
809 Legal rights index	39	7	60	6	21	1
9th pillar: Technological readiness	100	3.2	98	3.1	-2	0.1
901 Availability of latest technologies	99	4.5	98	4.3	-1	0.2

WEF Indicators	GCR 2011-2012		GCR 2010-2011		Rank Change	Score Change
	Rank	Score	Rank	Score		
902 Firm-level technology absorption	115	4.1	125	4	10	0.1
903 FDI and technology transfer	98	4.2	92	4.3	-6	-0.1
904 Internet users	85	27	73	30.5	-12	-3.5
905 Broadband Internet subscriptions	72	5.1	75	3.5	3	1.6
906 Internet bandwidth	62	5.7	77	7.5	15	-1.8
10th pillar: Market size	106	2.8	107	2.8	1	0
1001 Domestic market size index	102	2.7	102	2.7	0	0
1002 Foreign market size index	114	3.2	115	3.2	1	0
1003 GDP PPP	107	22.4	107	20.9	1	1.5
1004 Exports as percentage of GDP	100	26.3	94	27.3	1	-1
Innovation and Sophistication	117	3	121	2.9	4	0.1
11th pillar: Business sophistication	110	3.4	111	3.3	1	0.1
1101 Local supplier quantity	138	3.7	137	3.6	-1	0.1
1102 Local supplier quality	130	3.6	131	3.4	1	0.2
1103 State of cluster development	102	3	98	3	-4	0
1104 Nature of competitive advantage	73	3.3	82	3.1	9	0.2
1105 Value chain breadth	87	3.3	93	3.2	6	0.1
1106 Control of international distribution	95	3.8	88	3.8	-7	0
1107 Production process sophistication	110	3	116	2.9	6	0.1
1108 Extent of marketing	107	3.5	102	3.4	-5	0.1
1109 Willingness to delegate authority	116	3	115	3	-1	0
12th pillar: Innovation	118	2.6	125	2.5	7	0.1
1201 Capacity for innovation	103	2.6	112	2.4	9	0.2
1202 Quality of scientific research institutions	117	2.7	119	2.7	2	0
1203 Company spending on R&D	124	2.5	132	2.3	8	0.2
1204 University-industry collaboration in R&D	126	2.6	134	2.5	8	0.1
1205 Gov't procurement of advanced tech products	76	3.5	102	3.2	26	0.3
1206 Availability of scientists and engineers	120	3.3	122	3.2	2	0.1
1207 Utility patents per million population	65	0.5	72	0.2	7	0.3

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