Foreign Direct Investment Trends and Policies in Georgia

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Foreign Direct Investment Trends and Policies in Georgia

By Irina Guruli, Tbilisi

Abstract:
Foreign direct investment (FDI) is a volatile yet essential source of foreign currency inflow in Georgia and accounts for the bulk of total investments undertaken in the country. Nevertheless, achieving stable investment inflows remains a challenge. Moreover, the impact of FDI on economic growth and employment figures has not reached its full potential, due mainly to insufficient institution building and the failure to create a predictable and stable business environment in the country.

Understanding Georgia's Foreign Direct Investment Trends

A liberal business environment, simplified tax and administrative legislation, preferential trade regimes, a strategic geographic location and equal opportunities for domestic as well as foreign investors has transformed Georgia into an attractive place for investments. Business and investment policy can be divided before and after 2012. In the mid-2000s the government policy was directed towards radical reforms aimed at creating a favorable business and investment environment and fostering foreign investment inflows. Notwithstanding these efforts, the government policy was characterized by a number of factors that shed negative light on the investment climate of Georgia. After the election of a new government in 2012, the major priorities emphasized fostering domestic entrepreneurial activities and small and medium enterprise (SME) growth. However, legislative changes introduced by the new government questioned the liberal path that Georgia has taken and affected investors' interest in the country.

Attracting foreign direct investments has been a priority of Georgia's government for more than a decade now. The rigorous reforms resulted in substantially improved rankings in various ratings published by international organizations, the World Bank among them. Georgia was named a top reformer and the country's advance in the ranking was the most progress in a single year achieved by any country since the launch of the Doing Business Reports (World Bank, 2006). In parallel with the pronounced economic growth, the government under Saakashvili's administration was characterized by a number of factors that shed negative light on the investment climate of Georgia. The most problematic issues were protection of property rights, business seizure, favoritism issues, the rule of law, and the impartiality of the justice system.

Over the course of the past ten years, FDI inflows to Georgia amounted to roughly 4 billion USD, which translates into 755 million per year on average. GDP growth over the course of 2003–2012 on average amounted to 6.7 percent. FDI inflow trends have been characterized by high uncertainty and volatility. Net inflows of FDI peaked in 2007 at 1.8 billion USD, with real GDP growth of 12.6 percent. This tendency slumped due to the 2008 war and global economic crisis, and saw a slow and bumpy recovery. FDI was down to 0.7 billion USD in 2009. In 2014 FDI inflow increased dramatically, reaching 1.3 billion USD, a maximum since 2008 and representing around 10 percent of GDP.

FDI distribution among sectors varies greatly and not all sectors have benefited from foreign investments. Since 2007, the largest FDI recipient was the transport and communication sector, with investments amounting to almost 2 billion USD. Communications saw the least volatility over the years. The second most important FDI recipient was the energy sector; however, it was characterized by unpredictability. The real estate sector has received slightly above one billion USD with a certain slump in 2013. The manufacturing sector has been characterized by a pronounced trend with slight volatility. The least promising sector in regards to attracting investments is health and social care. During the first three quarters of 2015, the sectoral breakdown of investments looks as follows: 45 percent transport and communications, 15 percent financial sector, 13 percent construction, 7 percent manufacturing, 4 percent real estate and energy each, 3 percent mining.

In 2014, 46 percent of total investments came from EU countries, while 30 percent from the Commonwealth of Independent States (CIS). Over the past decade, the Netherlands has been the largest EU investor, with over 1.3 billion USD invested. The Dutch investments are prominent in the sectors of manufacturing, mining, transport and communication, as well as construction. The largest non-EU investor is Azerbaijan with more than 1.6 billion USD invested, mainly in transport and communication (BP Group) and energy sector (Socar Energy Georgia a subsidiary of Azerbaijani State Oil Company in Georgia).

Projections for 2016 are not very promising. The preliminary data for the first three quarters of 2015 do not give reason for optimism; statistics show a 17 percent decline in the total FDI inflows as compared to the same period last year. The outlook for developing countries suggests that regional conflict, coupled with falling oil prices and international sanctions reduced foreign investors' confidence in the strength of local economies.

FDI, Employment and Economic Growth

FDI accounts for the bulk of total investments in Georgia, as domestic savings are inadequate to meet local financing needs. Therefore, FDI is believed to be an important source of output growth and employment.

However, there is no clear correlation between the FDI inflow and economic growth in Georgia. Georgian FDI is heavily reliant on one-off, large-scale investments. It is hard to identify a consistent source of FDI and a stable investment recipient sector. The contribution of different countries and sectors vary greatly from year to year. These large-scale investments leave the statistics vulnerable to fluctuations due to the impact of the loss of a single large investor, while at the same time, suggesting that it is the smaller, more consistent investments that Georgia has failed to attract in the recent years.

When it comes to juxtaposing employment and FDI figures across different sectors, positive tendencies in FDI inflows do have positive effects on employment statistics, however these effects are not strong and not always consistent. In short, FDI in Georgia does not influence employment at its greatest potential likely due to the inconsistency and instability of FDI sources, as well as the time lag that might be deteriorating the actual effects.

Future growth prospects depend on Georgia's ability to leverage the Deep and Comprehensive Free Trade Area and Association Agreement with the EU, which will improve market access and encourage FDI. Although the EU–Georgia Association Agreement provides limited investment-related provisions, the Agreement will help establish and restore foreign investors' confidence in the country. Net FDI is likely to amount to 6.3 percent of GDP on average, while the national savings rate is expected to increase to 20.5 percent of GDP by 2017.

Business and Investment Climate in Georgia

In the mid-2000s, the Georgian government took comprehensive steps for improving Georgia's business and investment climate. As a result, Georgia's position has improved in a number of international ratings, and interest from the side of foreign investors has also increased. After the military conflict with Russia in 2008, a set of new reforms was introduced to diversify the economy and once again improve the country's image for attracting foreign investments. However, apart from the overall improvement and marked economic growth, there were a number of factors that distorted the business and investment climate in Georgia. Among these factors were: issues related with protection of property rights, appropriation of businesses and favoritism from the side of the government. In 2012, the main declared aim of the government was to free businesses from possible governmental pressure.

If the government under Saakashvili's administration was determined to attract large volumes of foreign investments and brand Georgia as a country with an investor-friendly business climate, the newly elected government placed more emphasis on spurring domestic growth. Since 2012, the government's major priorities emphasized fostering domestic entrepreneurial activities and SME growth. Major attention was paid to the agricultural sector, as well as domestic production by providing soft loans, infrastructure renovation, and capacity-building activities.

Compared with the region's advanced reformers, Georgia has had a mixed record of entrepreneurship. Despite the relatively conducive business environment, the pool of talent as well as the share of SMEs per 1,000 people is relatively low in the regional context. At the same time, Georgian entrepreneurs are less likely to engage in innovation activities[1]. Georgia ranks 73rd out of 141 countries. The Global Innovation Index (GII) report acknowledges Georgia as an innovation achiever among other countries in the same income-group. Over the course of the past few years, rankings have improved in line with institutional changes; however, there is a need for further strengthening the education and research systems and improving firms' capabilities[2]. According to the GII report, the major challenges of the Georgian private sector are low levels of capitalization, lack of training, sparse patenting activity, and few knowledge-intensive industries, all of which severely hampers innovation capacity. Investments in innovation capabilities are needed, a challenge for a country with limited resources.

To support and foster the development of micro, small, and medium-sized enterprises, two new agencies—the Entrepreneurship Development Agency and the Innovation and Technology Agency—were established under the Ministry of Economy and Sustainable Development in 2014. These agencies seek to promote entrepreneurship by improving access to finance, entrepreneurial learning, consultancy services, export promotion and innovation, and adaptation to Deep and Comprehensive Free Trade Area requirements. Moreover, for stimulating domestic production, the Produce in Georgia Program was also launched in 2014. It aims to enhance business competitiveness by providing access to commercial finance, consultancy, and new technologies.

1 World Bank Reports (2015). *The Jobs Challenge in the South Caucasus—Georgia*. <http://www.worldbank.org/en/news/feature/2015/01/12/the-jobs-challenge-in-the-south-caucasus---georgia>

2 The Global Innovation Index (2015). <https://www.globalinnovationindex.org/content/page/GII-Home>

Apart from the declared goals, the newly elected government started to pass a wide range of legislative changes that resulted in a rather unpredictable and unstable business environment. A number of legislative changes were understood as a shift from the previously declared liberal path of government. To name just a few that adversely affected Georgia's investment climate: restricting the previous migration law by imposing visa regimes and restrictions for a number of countries, prohibiting land purchase by foreign nationals, and prolonging the ambiguous process of drafting amendments to the labor code.

Conclusion

FDI is an important source of private capital in Georgia. However, it is a rather unstable source characterized by volatility, since the country failed to attract more consistent investments in recent years. Investments are mostly one time and relatively large. These large-scale investments leave the statistics vulnerable to fluctuations due to the impact of the loss of a single large investor. Underlying causes for this situation lie in the inability to interlink FDI with subsequent institution-building capacities which would help create a predictable and stable environment for investors.

A clear-cut, well-coordinated policy and participatory decision-making are crucial factors in overcoming major gaps that hamper domestic private sector development and the attraction of foreign investment. Of course, regional political instability and ongoing economic crisis makes it particularity hard to restore and retain investors' confidence, however a well thought out domestic policy could partially mitigate the negative externalities.

The EU–Georgia Association Agreement likely will help stimulate strong foreign investors' confidence in the country. The Agreement is believed to have a positive impact on the level of competitiveness of Georgian firms, as well as increasing interest in Georgia among foreign companies. The agreement also envisages the harmonization of Georgian legislation with that of the EU, further facilitating trade.

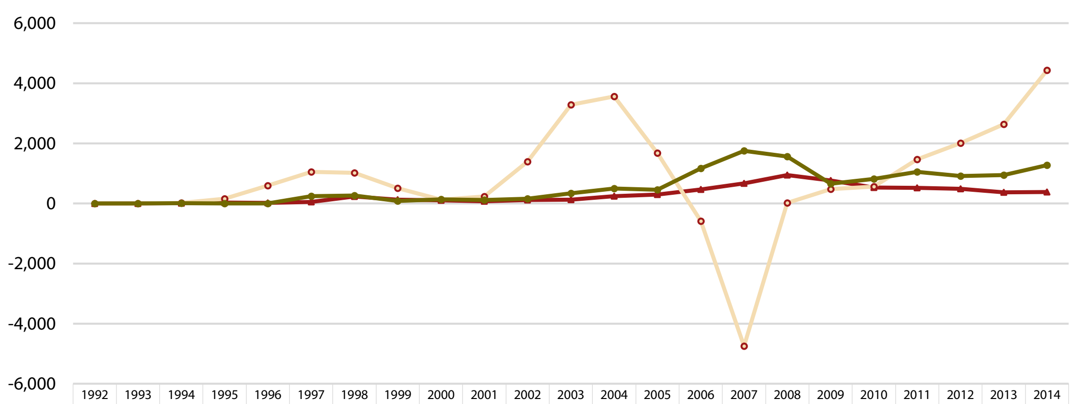
About the Author

Irina Guruli is a Program Manager at the Economic Policy Research Center (EPRC) in Tbilisi, Georgia. She is a PhD student and a visiting lecturer at Ilia State University in Tbilisi.

STATISTICS

FDI in the Countries of the South Caucasus

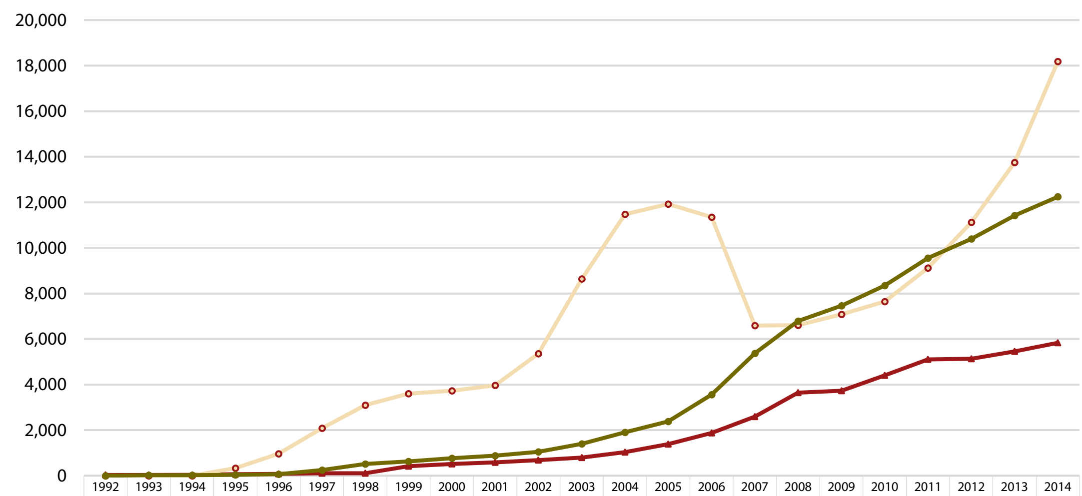
Figure 1: Net FDI Inflows 1992–2014 (in Current USD in Millions)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Armenia	2	1	8	25	18	52	232	122	104	70	111	123	247	292	467	668	944	760	529	515	489	370	383
Azerbaijan	0	0	22	155	591	1,051	1,023	510	130	227	1,392	3,285	3,556	1,680	-584	-4,749	14	473	563	1,465	2,005	2,632	4,430
Georgia	0	0	8	0	0	243	265	82	131	110	160	335	492	453	1,170	1,750	1,564	659	814	1,048	911	949	1,279

Source: UNCTAD Data Center, <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en>

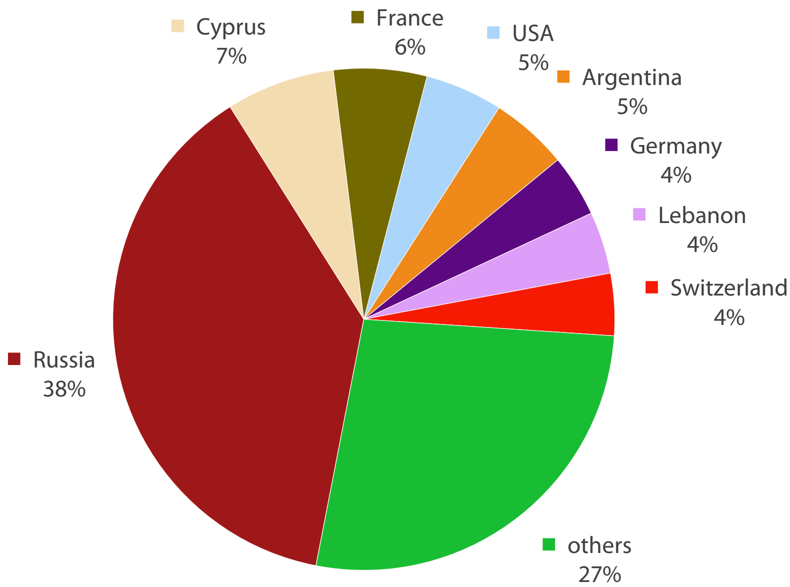
Figure 2: Net FDI Stock 1992–2014 (in Current USD in Millions)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Armenia	31	31	41	66	84	103	103	421	513	580	684	795	1,039	1,383	1,880	2,586	3,643	3,734	4,405	5,103	5,134	5,448	5,831
Azerbaijan	0	0	0	330	957	2,089	3,095	3,605	3,735	3,962	5,354	8,639	11,482	11,930	11,347	6,598	6,612	7,085	7,648	9,113	11,118	13,750	18,180
Georgia	0	18	26	32	68	246	512	631	762	879	1,049	1,395	1,908	2,374	3,559	5,372	6,786	7,466	8,350	9,550	10,389	11,418	12,241

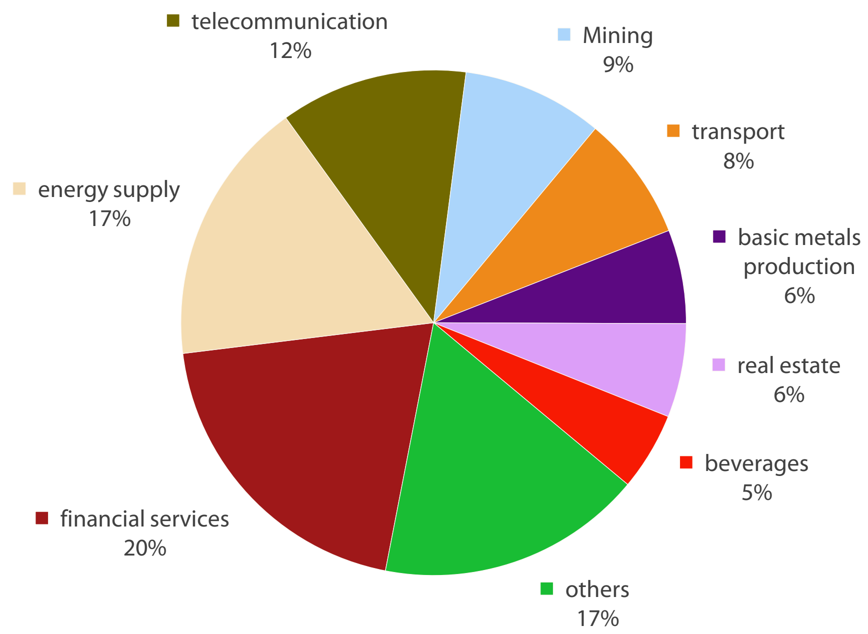
Source: UNCTAD Data Center, <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en>

Figure 3: Armenia: Net FDI Stock by Country of Origin (as of 2014)



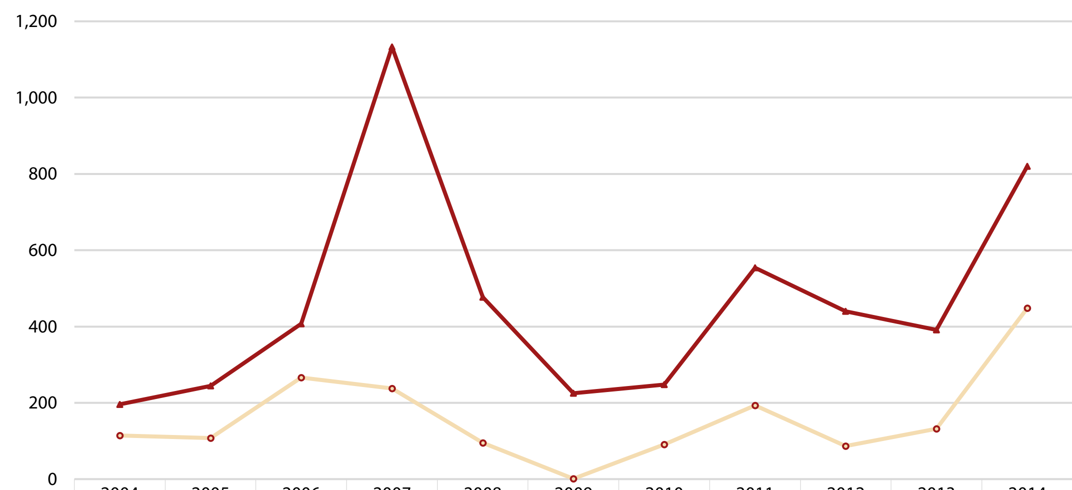
Source: Statistical yearbook of Armenia 2015, pp. 516–521, <http://www.armstat.am/en/?nid=45&year=2015>

Figure 4: Armenia: Net FDI Stock by Branch of Economy (as of 2014)



Source: Statistical yearbook of Armenia 2015, pp. 532–539, <http://www.armstat.am/en/?nid=45&year=2015>

Figure 5: Georgia: Net FDI Inflow by Country of Origin: EU vs. CIS (Million USD)

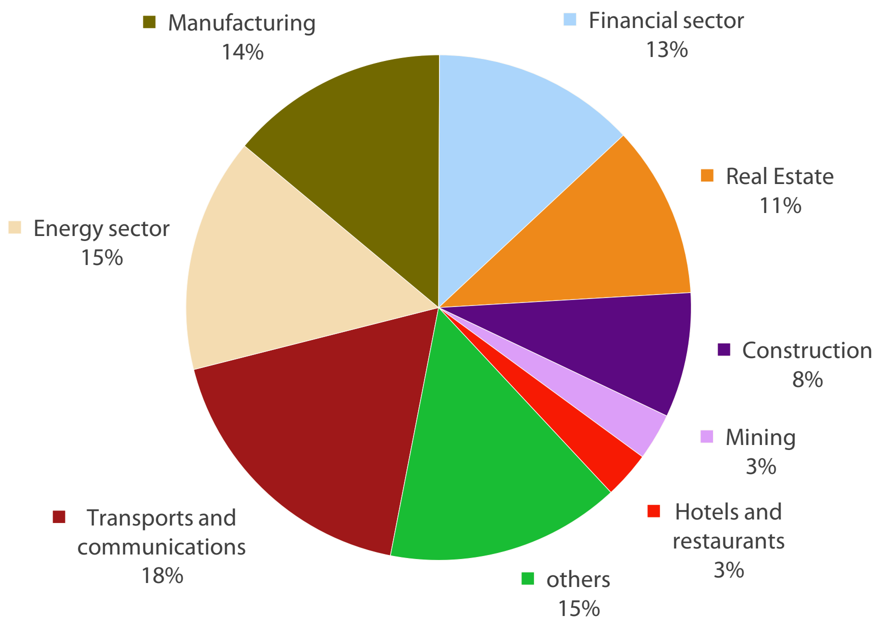


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU	196	244	407	1133	477	225	248	554	440	391	820
CIS	114	108	266	238	95	1	91	193	87	132	448

Note: CIS refers to all countries on the territory of the former Soviet Union except the Baltic States, which are counted as EU

Sources: own calculation by Irine Guruli, based on data from National Statistics Office of Georgia (Statistical survey on external economic activities), National Bank of Georgia, Ministry of Economy and Sustainable Development of Georgia, Ministry of Finance and Economy of Adjarian A/R.

Figure 6: Georgia: Net FDI Inflow by Branch of Economy, Accumlated for 2010–14



Sources: own calculation by Irine Guruli, based on data from National Statistics Office of Georgia (Statistical survey on external economic activities), National Bank of Georgia, Ministry of Economy and Sustainable Development of Georgia, Ministry of Finance and Economy of Adjarian A/R.

DOCUMENTATION

Economy-Related Country Rankings

Part 1: Economic System

Index of Economic Freedom

Prepared by: The Heritage Foundation and Wall Street Journal (USA)
Established: 1995
Frequency: Annual
The data refer to the previous respective year.
Covered countries: at present 186
URL: <http://www.heritage.org/Index/Ranking.aspx>

Brief description:

The methodology was revised in 2007 to provide an even clearer picture of economic freedom. The index measures ten specific factors, and averages them equally into a total score. Each one of the ten freedoms is graded using a scale from 0 to 100, where 100 represents the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom. The ten component freedoms are: Business, Trade and Fiscal Freedom, Government Spending, Monetary, Investment and Financial Freedom, Property Rights, Freedom from Corruption, Labor Freedom.

Figure 1: Index of Economic Freedom: Score and Ranking 2016

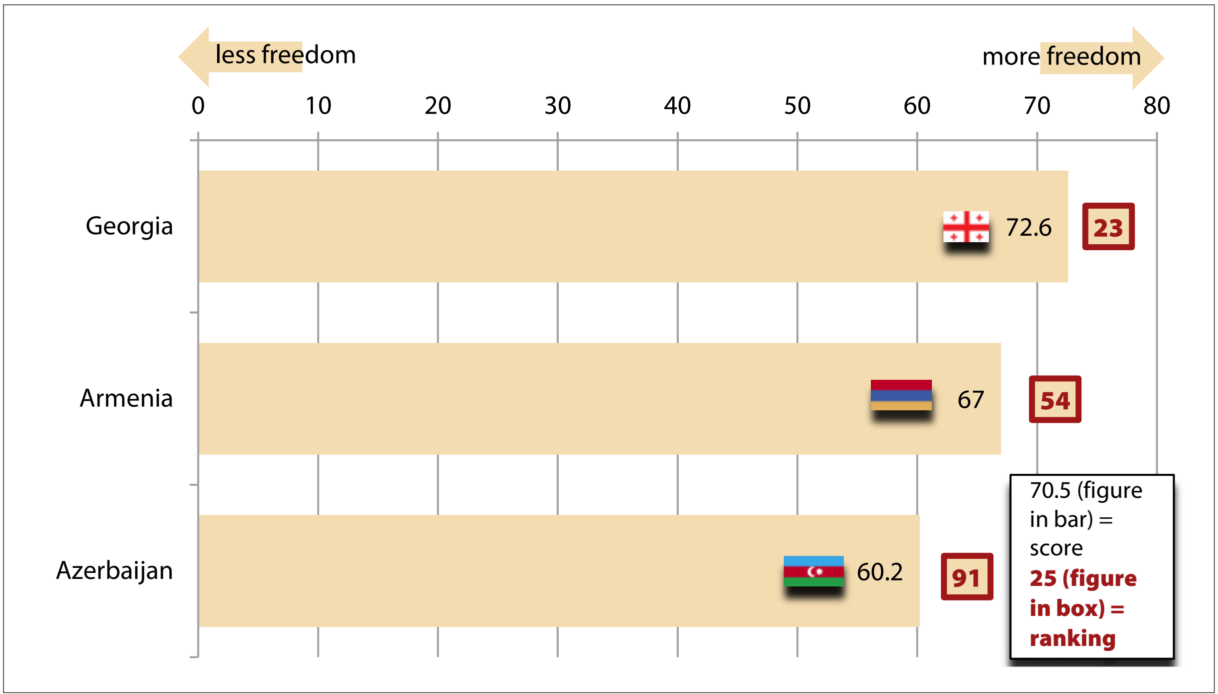


Table 1: Index of Economic Freedom: Component Scores 2016

	Azerbaijan	Armenia	Georgia
Ranking	***91***	***54***	***23***
Rule of Law			
Property Rights	20.0	20.0	40.0
Freedom from Corruption	29.0	37.0	52.0
Regulatory Efficiency			
Business Freedom	70.3	77.5	88.5
Labor Freedom	75.2	62.2	75.7
Monetary Freedom	77.0	72.8	80.5
Limited Government			
Government Spending	56.7	80.7	75.3
Fiscal Freedom	88.0	83.8	87.6
Open Markets			
Trade Freedom	75.8	85.6	88.6
Investment Freedom	60.0	80.0	80.0
Financial Freedom	50.0	70.0	60.0
Overall Score	***60.2***	***67.0***	***72.6***

Figure 2: Index of Economic Freedom: 1996–2016

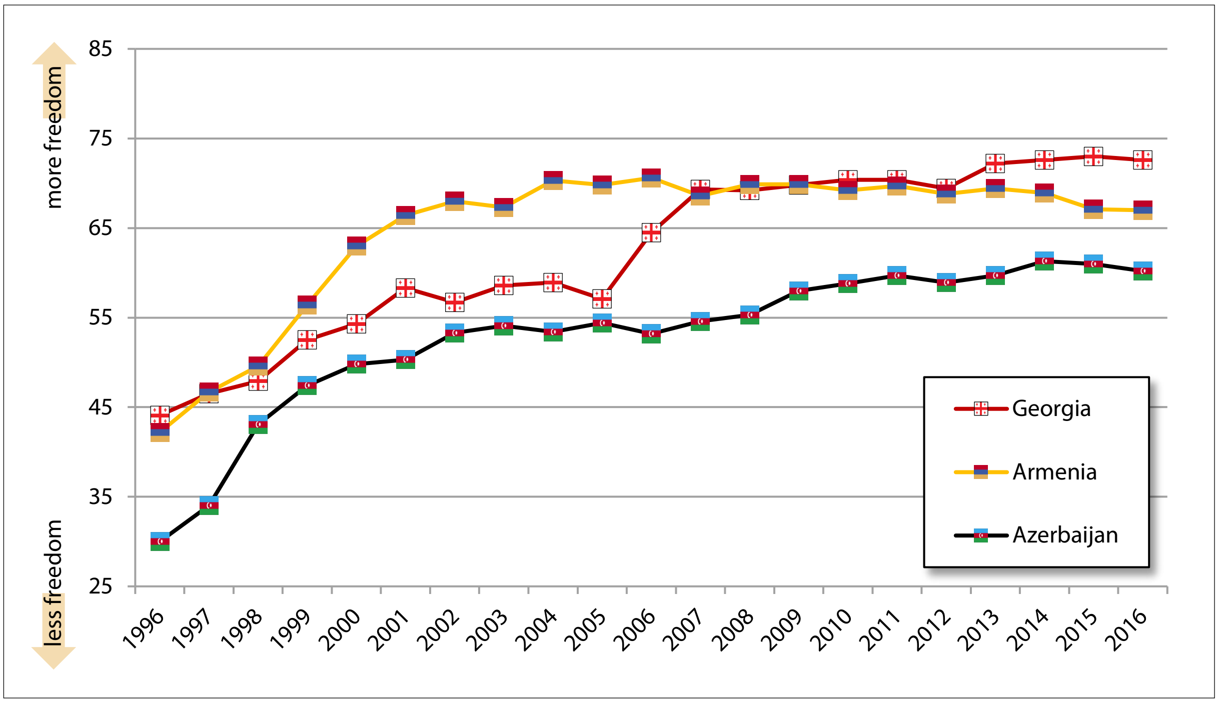


Table 2: Index of Economic Freedom: 1996–2016

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	44.1	46.5	47.9	52.5	54.3	58.3	56.7	58.6	58.9	57.1	64.5	69.3	69.2	69.8	70.4	70.4	69.4	72.2	72.6	73.0	72.6
Armenia	42.2	46.7	49.6	56.4	63.0	66.4	68.0	67.3	70.3	69.8	70.6	68.6	69.9	69.9	69.2	69.7	68.8	69.4	68.9	67.1	67.0
Azerbaijan	30.0	34.0	43.1	47.4	49.8	50.3	53.3	54.1	53.4	54.4	53.2	54.6	55.3	58.0	58.8	59.7	58.9	59.7	61.3	61.0	60.2

Global Competitiveness Index (GCI)

Prepared by: World Economic Forum
Established: 2005 (2001 – 2004: Growth Competitive Index)
Frequency: Annual
The data refer to the first year given in the title.
Covered countries: at present 144
URL: <https://www.weforum.org/reports>

Brief description:

The GCI assesses the competitiveness of nations and provides a holistic overview of factors that are critical to driving productivity and competitiveness. These factors are grouped into twelve pillars with 90 indicators: institutions (property rights, ethics and corruption, undue influence, government inefficiency, security, accountability), infrastructure (infrastructure quality, transport, energy, telecommunications), macroeconomy, health and primary education, higher education and training, market efficiency (competition, distortions), flexibility and efficiency of labor market, sophistication and openness of financial markets, technological readiness, market size, business sophistication, innovation.

The rankings are drawn from a combination of publicly available hard data and the results of the Executive Opinion Survey, a comprehensive annual survey conducted by the World Economic Forum, together with its network of Partner Institutions. By now over 15,000 business leaders are polled in the 144 economies worldwide which are included in the index. The survey questionnaire is designed to capture a broad range of factors affecting an economy's business climate that are critical determinants of sustained economic growth.

Figure 3: Global Competitiveness Index: Scores and Ranks 2015–2016

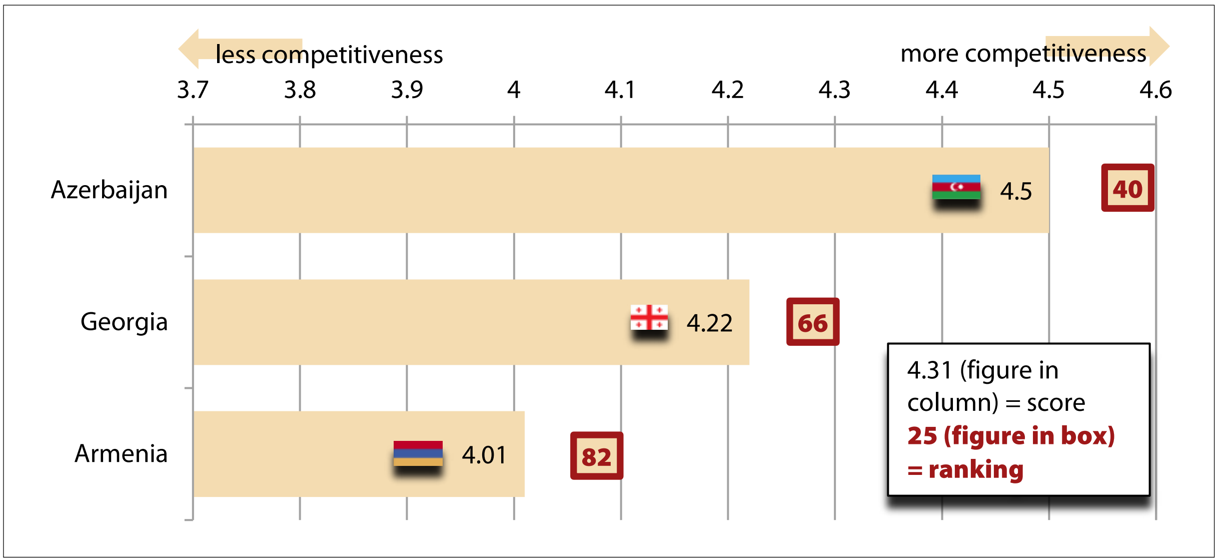


Table 3: Global Competitiveness Index: Component Scores 2015–2016

	Armenia	Azerbaijan	Georgia
1. Subindex: basic requirements	*4.4*	*4.9*	*4.8*
Institutions	3.8	3.9	4.4
Infrastructure	3.7	4.1	4.2
Macroeconomic environment	4.7	6.4	5.0
Health and primary education	5.4	5.2	5.8
2. Subindex: efficiency enhancers	*3.8*	*4.0*	*4.0*
Higher education and training	4.3	3.9	4.0
Goods market efficiency	4.5	4.3	4.5
Labor market efficiency	4.3	4.6	4.6
Financial market development	3.5	3.3	3.9
Technological readiness	3.7	4.3	3.8
Market size	2.8	3.9	3.0
3. Subindex: Innovation	*3.3*	*3.6*	*3.1*
Business sophistication	3.7	3.9	3.5
Innovation	3.0	3.3	2.7
Scores	*4.01*	*4.50*	*4.22*

Figure 4: Global Competitiveness Index: Scores 2006–2015/16

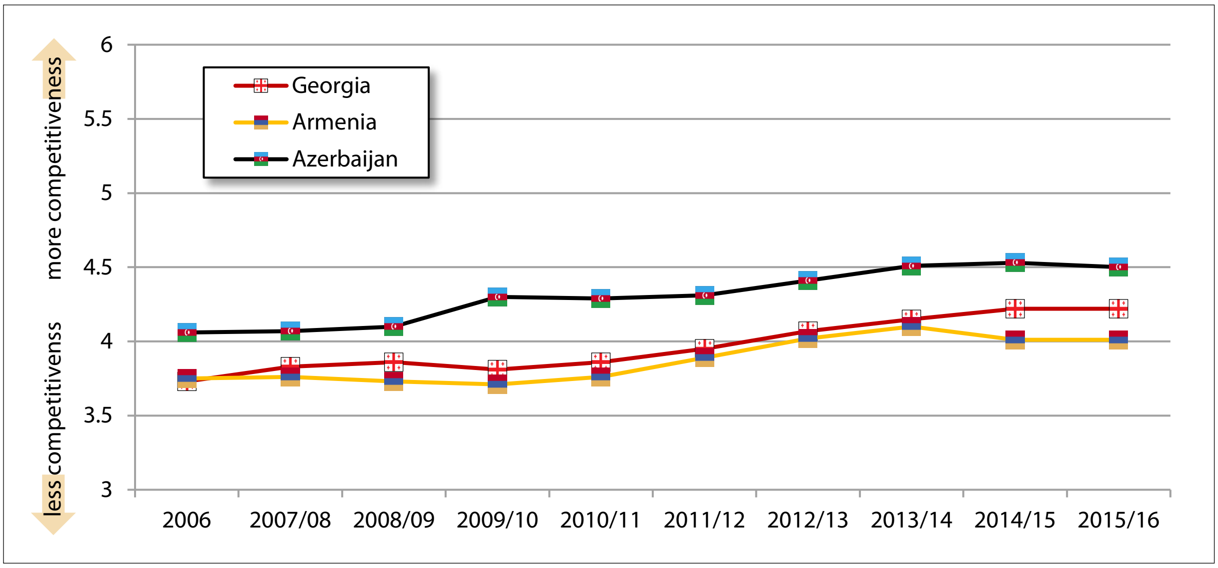


Table 4: Global Competitiveness Index: Scores 2006–2015/16

Country	2006	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2015/16
Azerbaijan	4.06	4.07	4.10	4.30	4.29	4.31	4.41	4.51	4.50
Georgia	3.73	3.83	3.86	3.81	3.86	3.95	4.07	4.15	4.22
Armenia	3.75	3.76	3.73	3.71	3.76	3.89	4.02	4.10	4.01

Part 2: Business Environment

Country Risk Assessments by Delcredere | Ducroire

Prepared by: Delcredere | Ducroire
Frequency: current updates
URL: <http://www.delcredereducroire.be/en/country-risks/#focusCountry=&focusContinent=&filter=undefined&min=0&max=7&tab=undefined>

Brief description:

For assessing the risk of export transactions and direct investments Delcredere | Ducroire, a public credit insurer, uses four plus three categories. These categories are rated from 1 to 7, with 1 expressing the lowest risk and 7 the highest. The category Commercial Risk, expressing the risk of default by a foreign private buyer, is rated from A to C. The category also includes macroeconomic and systemic factors impacting the payment capacity of debtors located in a country. Category A contains countries in which the systemic commercial risk is the lowest, while category C contains countries with the highest risk. To rank all categories and to assess risk, Delcredere | Ducroire uses various indiactors and expert opinions.

Table 5: Risk Assessments March 2016

	Armenia	Georgia	Azerbaijan
Export Transactions			
Political Risk			
Short Term	5	3	4
Medium/Long Term	6	6	5
Special Transactions	5	4	4
Commercial Risk	C	C	C
Direct Investments			
War Risk	5	5	4
Risk of Expropriation and Government Action	4	4	4
Transfer Risk	6	6	4

Ease of Doing Business

Prepared by: Worldbank
Established: 2003
Frequency: Annual
The data refer to the respective previous year.
Covered countries: at present 189
URL: <http://www.doingbusiness.org/economyrankings/>

Brief description:

The ease of doing business index ranks economies from 1 to 189. The index is calculated as the ranking on the simple average of country percentile rankings on each of the ten topics covered. The survey uses a simple business case to ensure comparability across countries and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Surveys are administered through more than 10,200 local experts. In 2014 the ranking was adjusted. Eight of ten Ease of doing Business' indicators were changed.

Figure 5: Ease of Doing Business. Overall Ranking 2016

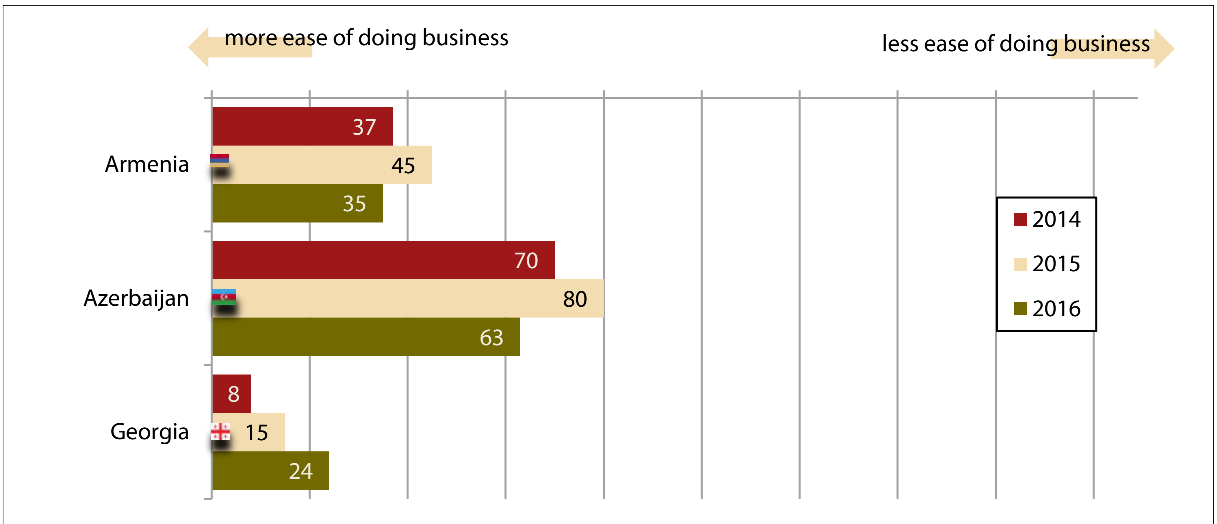


Table 6: Ease of Doing Business. Individual Topic Rankings 2016

	Armenia	Azerbaijan	Georgia
Overall rank	*35*	*63*	*24*
Starting a Business	7	5	6
Dealing with Construction Permits	114	62	11
Getting Electricity	110	99	62
Registering Property	22	14	3
Getting Credit	109	42	7
Protecting Investors	36	49	20
Paying Taxes	34	41	40
Trading Across Borders	94	29	78
Enforcing Contracts	40	28	13
Resolving Insolvency	84	71	101

Index of Economic Freedom—Business Freedom

Prepared by: The Heritage Foundation and Wall Street Journal (USA)
Established: 1995
Frequency: Annual
The data refer to the respective previous year.
Covered countries: at present 186
URL: <http://www.heritage.org/Index/Ranking.aspx>

Brief description:

Business freedom is the ability to create, operate, and close an enterprise quickly and easily. Burdensome, redundant regulatory rules are the most harmful barriers to business freedom. Business freedom is graded using a scale from 0 to 100, where 100 represents the maximum freedom.

Figure 6: Index of Economic Freedom: Business Freedom 2016

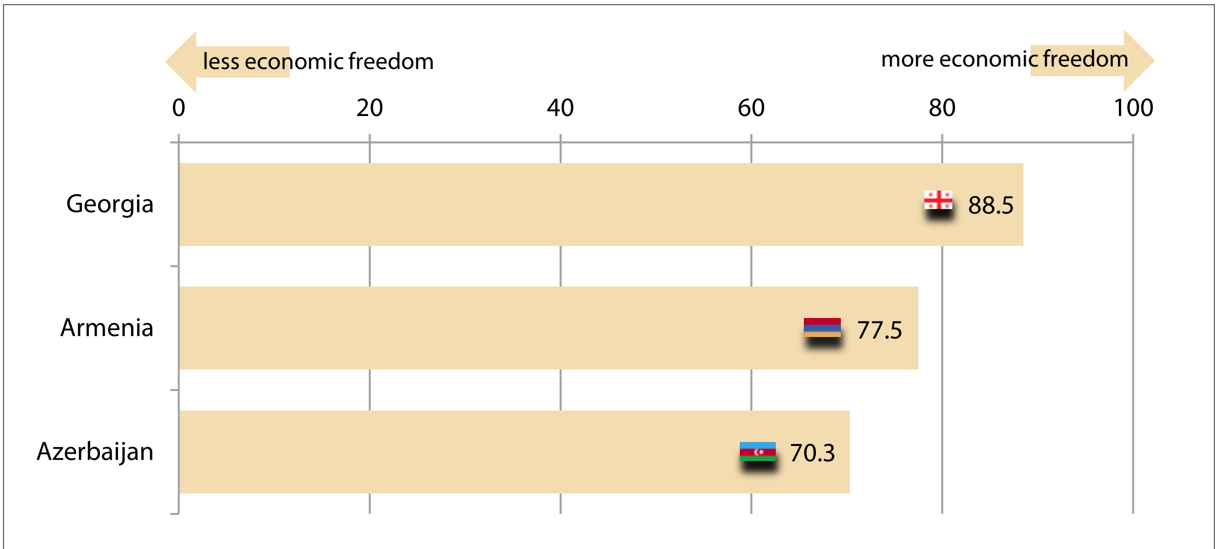


Table 7: Index of Economic Freedom: Business Freedom 1995–2016

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Georgia	55	55	55	55	55	55	55	55	55	55	73.9
Armenia	55	55	55	55	55	55	55	55	55	55	77.6
Azerbai-jan	40	55	55	55	55	55	55	55	55	55	56.7

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	80.8	85.0	86.6	87.9	87.3	86.9	90.6	87.8	88.6	88.5
Armenia	80.8	81.3	83.7	83.4	82.4	87.8	87.6	83.1	82.7	77.5
Azerbai-jan	58.0	62.6	74.6	74.6	72.9	68.6	69.2	73.5	74.5	70.3

Part 3: Corruption and Transparency

Corruption Perception Index

Prepared by: Transparency International
Established: 1995
Frequency: Annual
The data refer to previous 24 months
Covered countries: at present 168
URL: <http://www.transparency.org/policy_research/surveys_indices/cpi>

Brief description:
The Corruption Perceptions Index is a composite index that draws on multiple expert opinion surveys that poll perceptions of public sector corruption in 168 (in 2015) countries around the world. It scores countries on a scale from zero to ten, with zero indicating high levels of perceived corruption and ten indicating low levels of perceived corruption. Since December 2012 the score ranges from 0 (highly corrupted) to 100 (very clear).

Figure 7: Corruption Perception Index 2015: Scores and Ranking

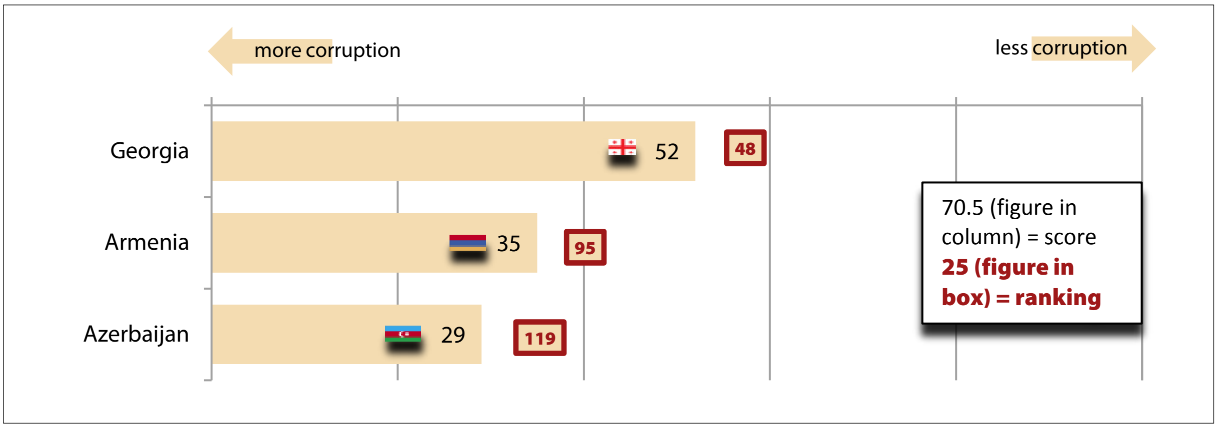
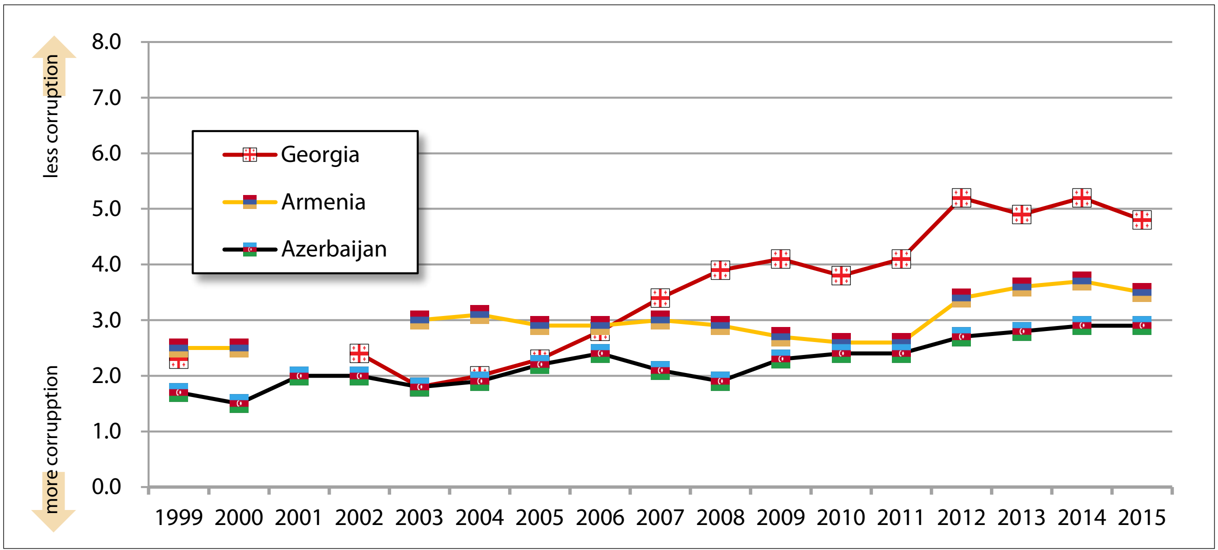


Figure 8: Corruption Perception Index 1998–2015:Scores



NB: scores 2012–2015 have been divided by ten

Table 8: Corruption Perception Index 1998–2015: Scores

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Georgia	2.3	*	*	2.4	1.8	2.0	2.3	2.8	3.4	3.9	4.1	3.8	4.1	52	49	52	48
Armenia	2.5	2.5	*	*	3.0	3.1	2.9	2.9	3.0	2.9	2.7	2.6	2.6	34	36	37	35
Azerbaijan	1.7	1.5	2.0	2.0	1.8	1.9	2.2	2.4	2.1	1.9	2.3	2.4	2.4	27	28	29	29

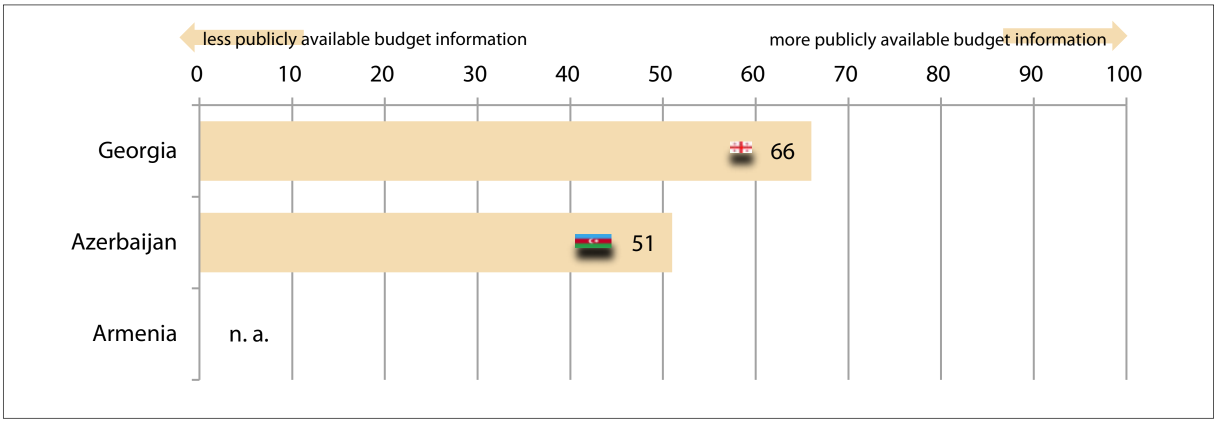
Open Budget Index

Prepared by: Center on Budget and Policy Priorities
Since: 2006
Frequency: every two years (planned)
The data refer to the respective previous year.
Covered countries: 102
URL: <http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/>

Brief description:

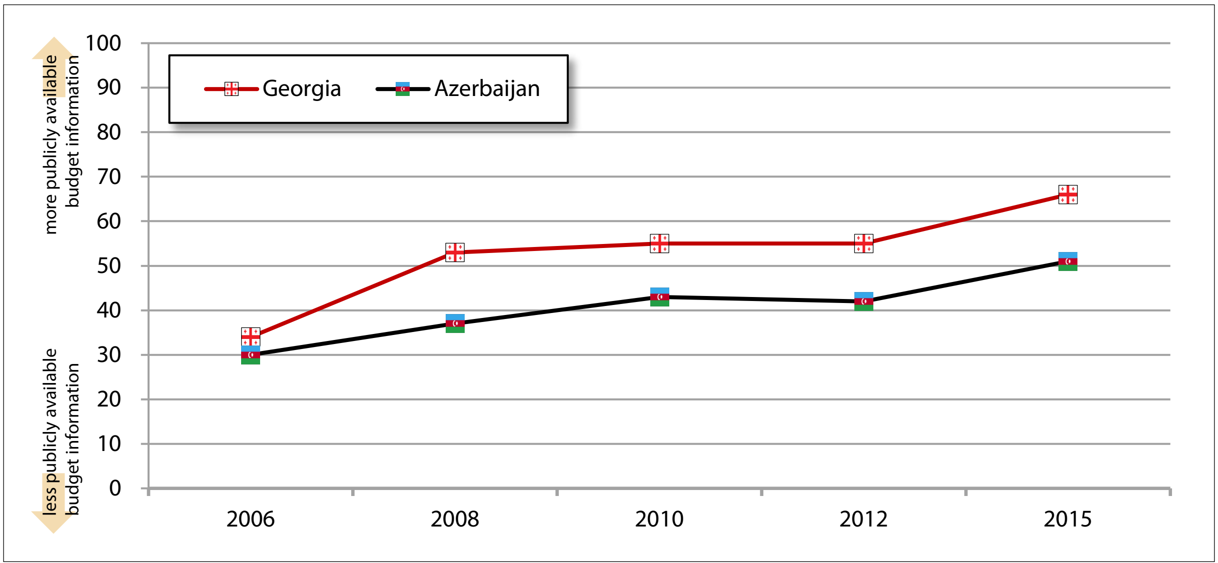
The Open Budget Index measures a country's budget transparency, the degree to which opportunities for public participation in the budget process are present, and the strength of the two formal oversight institutions, the legislature and the supreme audit institution. Assigning each country a score based on the average of the responses (in 2015) to 109 questions related to public availability of information on the Open Budget Questionnaire. This score reflects the quantity of publicly available budget information in the eight key budget documents. The scores ranging from 100 to 0 were calculated for the transparency standards. The index is a simple average of these percentages.

Figure 9: Open Budget Index 2015



Note: There are no values for Armenia.

Figure 10: Open Budget Index 2006–2015



Note: There are no values for Armenia.

Table 9: Open Budget Index 2006–2015

	2006	2008	2010	2012	2015
Georgia	34	53	55	55	66
Azerbaijan	30	37	43	42	51
Armenia	n. a.	n. a.	n. a.	n. a.	n. a.

Note: There are no values for Armenia.

Part 4: Socioeconomic Level of Development

Human Development Index

Prepared by: United Nations Development Program (UNDP)
Since: 1990 (back calculation of data for 1975 to 1990 for non-socialist countries)
Frequency: Annual
The data refer to the corresponding year of evaluation and are published two years later.
Covered countries: at present 188
URL: <http://hdr.undp.org/en/statistics/data/>

Brief description:

The Human Development Index (HDI) measures the average achievements in a country in three basic dimensions of human development: a long and healthy life (life expectancy), knowledge (adult literacy (2/3) and school enrolment (1/3) rate) and a decent standard of living (GDP per capita in purchasing power parity). Performance in each dimension is expressed as a value between 0 and 1. The HDI is then calculated as a simple average of the dimension indices.

Since 2012 the dimension knowledge is measured by mean of years of schooling for adults aged 25 years and expected years of schooling for children of school entering age (capped at 18 years).

Figure 11: Human Development Index: Scores and Rankings 2014

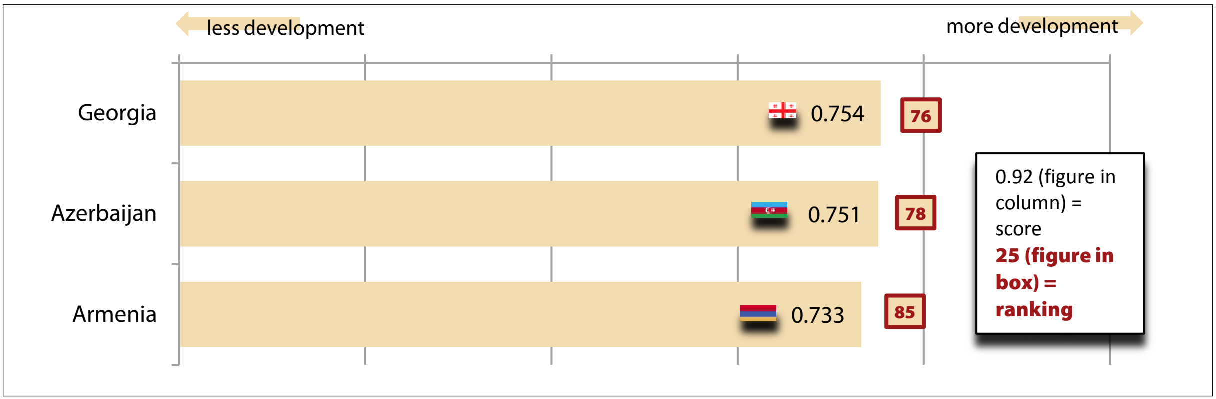


Figure 12: Human Development Index: 1990–2014

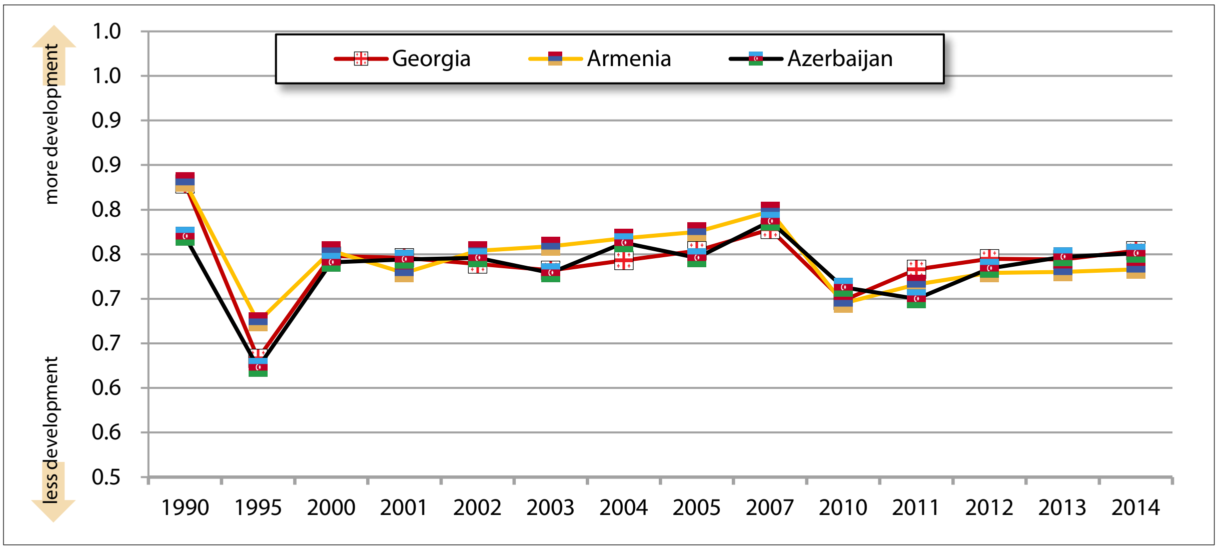


Table 10: Human Development Index: 1990–2014

	1990	1995	2000	2001	2002	2003	2004	2005	2007	2010	2011	2012	2013	2014
Georgia	0.829	0.633	0.748	0.746	0.739	0.732	0.743	0.754	0.778	0.698	0.733	0.745	0.744	0.754
Azerbai-jan	0.770	0.623	0.741	0.744	0.746	0.729	0.763	0.746	0.787	0.713	0.700	0.734	0.747	0.751
Armenia	0.831	0.674	0.754	0.729	0.754	0.759	0.768	0.775	0.798	0.695	0.716	0.729	0.730	0.733

The Global Innovation Index

Prepared by: Cornell University, INSEAD, the World Intellectual Property Organization (WIPO)
Established: 2007
Frequency: annual
The data refer to the previous respective year
Covered countries: at present 141
URL: <https://www.globalinnovationindex.org/content.aspx?page=data-analysis>

Brief description:

The Global Innovation Index (GII) relies on two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index, each built around pillars.

Five input pillars capture elements of the national economy that enable innovative activities: (1) Institutions, (2) Human capital and research, (3) Infrastructure, (4) Market sophistication, and (5) Business sophistication. Two output pillars capture actual evidence of innovation outputs: (6) Knowledge and technology outputs and (7) Creative outputs.

Each pillar is divided into sub-pillars and each sub-pillar is composed of individual indicators (79 in total). Sub-pillar scores are calculated as the weighted average of individual indicators; pillar scores are calculated as the weighted average of sub-pillar scores. The Innovation Input Sub-Index is the simple average of the first five pillar scores. The Innovation Output Sub-Index is the simple average of the last two pillar scores. The overall GII is the simple average of the Input and Output Sub-Indices.

The framework is revised every year in a transparent exercise to improve the way innovation is measured. In 2015, a total of six indicators were modified. Scores and rankings from one year to the next are not directly comparable. Each ranking reflects the relative positioning of that particular country/economy.

Figure 13: Global Innovation Index Score 2015

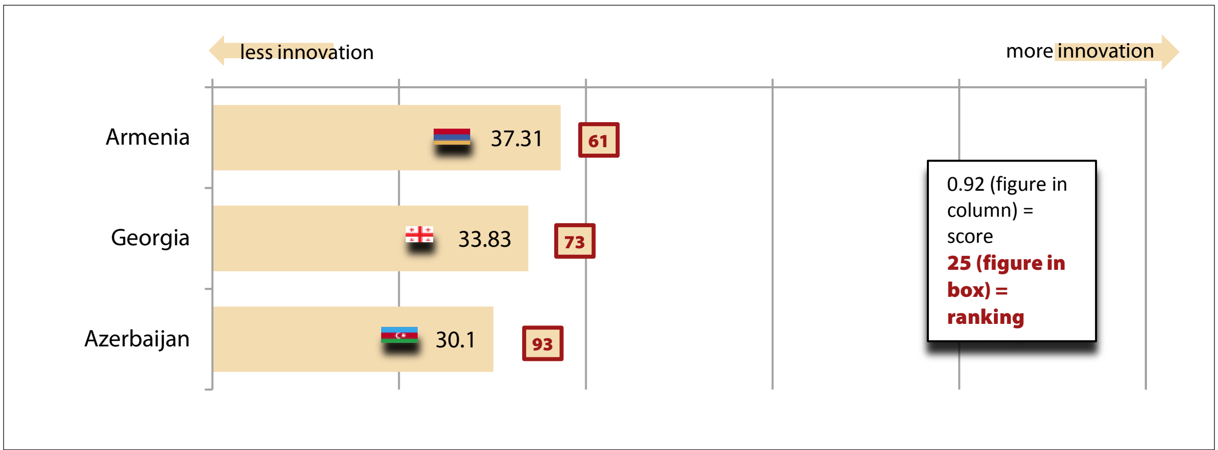


Table 11: Global Innovation Index Component Scores 2015

		Armenia	Azerbaijan	Georgia
Overall rank		*61*	*93*	*73*
Global Innovation Index		*37.3*	*30.1*	*33.8*
Innovation Input Sub-index		*41.8*	*37.6*	*41.8*
1	Institutions	67.0	56.2	68.2
1.1.	Political environment	54.5	41.5	54.2
1.2.	Regulatory environment	70.3	53.0	78.0
1.3.	Business environment	76.0	74.1	72.3
2	Human capital and research	19.0	21.9	23.6
2.1.	Education	26.4	31.2	38.4
2.2.	Tertiary education	27.9	22.1	30.5
2.3.	Research and development (R&D)	2.7	12.3	2.0
3	Infrastructure	37.3	37.1	36.5
3.1.	Information and communication technologies (ICT)	50.2	47.8	51.1
3.2.	General infrastructure	25.4	23.5	26.5
3.3.	Ecological sustainability	36.4	40.1	32.1
4	Market sophistication	54.7	52.0	52.8
4.1.	Credit	59.6	26.8	52.8
4.2.	Investment	26.1	59.2	26.4
4.3.	Trade and competition	78.3	70.1	79.3
5	Business sophistication	31.0	20.7	28.0
5.1.	Knowledge workers	39.9	23.8	27.1
5.2.	Innovation linkages	20.8	17.4	31.7
5.3.	Knowledge absorption	32.4	21.0	25.3
Innovation Output Sub-index		*32.8*	*22.6*	*25.8*
6	Knowledge and technology outputs	30.6	19.0	26.6
6.1.	Knowledge creation	25.4	2.8	20.2
6.2.	Knowledge impact	36.5	33.0	39.6
6.3.	Knowledge diffusion	29.8	21.2	20.1
7	Creative outputs	35.1	26.2	25.0
7.1.	Intangible assets	51.3	39.8	36.2
7.2.	Creative goods and services	23.7	20.1	22.1
7.3.	Creation of online content	14.1	5.1	5.5

Country rankings compiled by Anastasia Stoll