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**RESTRUCTURING LIGHT INDUSTRY
MANUFACTURING FOR ECONOMY DEVELOPMENT
IN GEORGIA**

by

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This paper is a brief overview of the current of restructurization in field of light industry in Georgia.

It has to be admitted that the general business environment in the country is improving and conditions for development of the national economy getting better.

There is no doubt that unfortunately, restructurization instruments and methods are not sufficiently developed last fifteen years in the South Caucasus transition economies, including Georgia.

Industry in Georgia was the main branch of national economy. The difficult process of transferring on market economy, also, the political and economic events in 90-s made its negative influence and reflected on all the economic and industrial spheres.

As a result, the situation in industry was not satisfactory, the usage of production voltage was low, major enterprises couldn't produce competitive production, that's why the market was full of imported goods.

The overview of last 15 years shows that the important elements of market economy were established. The great number of industrial enterprises were privatized or transferred to joint-stock companies, Limited Liability Companies and SMEs. The new macro economic and judicial environment and also, the private producers with new mentality were created.

The process of transferring on market economy and as a result of economic reforms in industry, involves the process of restructurization of big enterprises into smaller ones, which are to be put into operation.

Though the number of enterprises increased in basic industry of 1990-2005 the number of employees was decreased every year. In 1990, there were 459.4 employees in industry, in 2002 their number was decreased almost 5-6 times and it became 76.7 thousand people. The light industry in Georgia was a significant field in manufacturing economy in Georgia. The above-mentioned process was especially critical in manufacturing industry including light industry, where the number of employees decreased correspondingly 3.5 and 7.7 times. There were 80 thousand employs at 64 enterprises. The Georgian Industry Investment Corporation Light Industry Ltd. Set up main restructurization process from the 1995. Out of 65 light industry enterprises existed in Georgia In which 75.0 thousand workers were employed nowadays only 6 sewing factories are functioning all together in Tbilisi, Kutaisi and Batumi. As a result of restructurization 6 enterprises were set up the last ten years, which are 2 thousand employs.

The above mentioned enterprises couldn't function by the known reasons and have been operating step by step since 1996 with the support and investment of famous German garment producing companies such as "Lebek International Fashion GMBH."

At present about 2000 high technological working places are operated and consequently 2000 qualified specialists are employed. They producing high quality women's garments and 99% percent of production is delivered to Germany, Scandinavian and other countries. 1% products added to the domestic demands. Based on agreement with German partners we provided the main technology and equipment transfers under their supervision. They supply us with raw materials as well.

Besides this the integration of Georgia into WTO system has enabled Georgian companies to join international business.

After The Rose Revolution Georgia still faces formidable challenges in its transition. By our experience we consider main factors and several important procedures during restructuring implementation. The main factors obtained: processes, information, human factors and procedures, which realizes specific needs during restructurization as a capacity (building) blocks.

Capacity building is not only related to a specific need at a given point in time, it also seeks to create the necessary awareness and skills to detect and solve problems, to assess training or information needs, and to seek timely support.

The capacity (building) blocks for a successful restructuring involves procedures such as:

- Selecting enterprises and organizing producers;
- Business Contracts;
- Selecting the right product for the producer organization;
- Product and market identification;
- Selection of the new Technology, product specifications and inputs;
- Financing and credit;
- Product development, product adaptation, standards and quality;
- Human resources;
- Support services;
- The gender dimension;
- The environmental dimension ; and
- The capacity blocks do not necessarily correspond to sequential steps.

Selecting enterprises and organizing producers

The selection of manufactures is closely linked to the choice of the output of product and product for export. It is necessary to review the production capacities and skills, such as an entrepreneurial processes, technical problems, and the environmental and social issues linked to the production process carefully.

Business Contracts is important

Process of cooperation after set up over the medium and long run, both producers and buyers want to guarantee that they each get the most favorable deal possible. Producers want to get paid for most of their output, buyers wish to receive the specified quantity and quality of products at a satisfactory price to remain competitive in the global market place.

Procedures for selecting the right product-market for the producer organization

The criteria for selection are typically the same as those for any profit-making venture. To begin with, there is a need to determine if the production organization is able to sustain production under competitive conditions of price, quality and quantity. To answer this first question requires looking at the existing production capacity (environment, machinery) or at the investment resources available to expand it.

As in any investment project, the playback period may be a factor based on the conditions under which investment financing is available. Another, often important, factor needing clear assessment is the availability of the required raw or other input materials.

Product and market identification

The fundamental principle underlying an restructurization is that there are products for which there is a demand in global markets and for which an appropriate value chain exists or can be constructed, linking producers and customers in international or domestic markets. Without such clear identification of a product-market target, experience shows that restructuring procedures usually are not effectively viable. At a minimum there are three corollaries to this statement.

1. The first one is that to develop a new product or enhance an existing one must be underpinned by an in-depth identification of the specific product and the specific market, as well as the marketing and distribution channels that will bring that product to the targeted market.
2. The second corollary is that no product can be viable unless it can be produced under competitive cost, quality and pricing conditions. No restructuring procedures can ever be economically and financially sustainable.
3. This second corollary leads to a third one. Under conditions of increasing competition in the global market place and increasingly short product cycles, consumer demand is continuously changing and new competitors are always trying to enter the same markets.

The sustainability of an restructuring procedures is also a function of the ability of producers regularly to revisit the product-market target and to respond to changes in competition and product demand as required.

Procedures for new Technology, product specifications and inputs

Restructuring support procedures involves next process.

Typically, the need for support will be greater in backward linkage networks and when complex industrial production is involved. At one extreme, very little support will be provided. At the other, final buyers may provide complete engineering specifications, instructing their suppliers on the technology to be used, deploying their own quality control staff, training the personnel, providing raw materials and so forth.

Realization procedures for Financing and credit

If the restructuring process considers to organize under a government- or donor-sponsored initiative, special facilities may be in place to provide financing. However, this is most likely to start-up financing for initial investment and working capital needs.

Lack of access to credit is easily one of the greatest barriers to the smooth development. The formal banking sector usually requires collateral in the form of hard assets, which the typical producer does not have. The frequent alternative is the informal 'banking' system which charges extremely high interest on loans.

In our case financing was provided by the private sector.

Product development, product adaptation, standards and quality control

Technological support required modifying existing technologies, skills or raw materials. Assistance in quality control and packaging is also required. Up to those required obtaining certification to ISO 9000. Likewise, must be able to work under conditions that meet pertinent standards for organic certification.

Procedures for implementing Marketing and distribution

Ensuring the effective marketing and distribution of the output of producers is critical for the success of the restructuring procedures. The willingness of the exporter to stay the course at the early stage of venture development, when production quality control difficulties are still being worked out, is also significant.

Procedures and relations with human resources

Every restructurization process has human resource development at several key levels. Managerial skills need to be developed or improved among producer groups. In supplier units, the focus may principally be on overall management skills, including production, productivity, benchmarking, sales and financing. Among buyer-exporters the emphasis may be on marketing and distribution, trade promotion, market development and the like.

At the level of the producers, training in technical skills related to the production process and quality improvement will need strengthening. In general, training activities must be as practical as possible.

For the future development the Georgian industry investment corporation Light Industry intends to provide Global Market intelligence in particular receive and the transmission of key information about changes in consumer demand in export markets. For this porpoise we intend to use special tools created from the International Trade Center WTO/UNCTAD.

Another approach is to make sure that support service providers follow reasonably closely changes in the markets for the products that are being exported and that they act as regular channels of market information.