Start-up sector in Tbilisi

A bottom-up perspective on challenges and solutions

Dr Hans Gutbrod, Niklas Dornbusch, Dr Philip Steden

German Economic Team Georgia

Berlin/Tbilisi, May 2019

Start-ups on the political agenda, but sector underdeveloped

Georgian government aims at developing its start-up sector:

„You are the most important players in our economy and the government should be fully concentrated on your development and success"

(Mamuka Bakhtadze on start-ups, 2018)

Current situation: a lot of attention and interest in start-ups and start-up sector development; many stakeholders want to get engaged

However: so far, only modest pipeline of competitive start-ups; quantity of start-ups itself is small

Aim of study and approach

Definition of start-up: young enterprise; seeking to develop scalable business; usually involving advanced technology; often reliant on external funding to achieve early growth

Aim of this study:

- Identify challenges and bottlenecks in the start-up sector in Tbilisi*
- Provide solutions to improve the start-up ecosystem

Approach:

- Interviews with entrepreneurs, investors, experts in the start-up sector in Tbilisi (March/April 2019), validation through presentation to key stakeholders (May 2019) -- bottom-up approach
- Structuring of challenges and solutions along four categories
- Limitation: heterogenous and fast-moving sector

*analysis is on a city-level as start-up ecosystems vary within countries

Overview of Presentation

1. The situation of the start-up sector in Tbilisi
2. Challenges and solutions for the start-up sector in Tbilisi
3. Conclusion

Appendix

1. The situation of the start-up sector in Tbilisi

Size & structure:

- More than 100 start-ups in Tbilisi, though level of effort varies greatly
- More than 30 ventures received seed funding from government programme
- 5-7 are considered "investable", by sector insiders → relatively small number
- No particular sector specialisation; ranges from fin-tech, over marketing, sales and advertising to gastronomy & food

Funding possibilities (governmental):

- GITA: seed funding (up to GEL 5,000), grants (up to GEL 100,000) and co-matching (up to GEL 600,000)
- Start-up Georgia / Partnership fund: co-financing between GEL 15,000-100,000

Local and global connectedness:

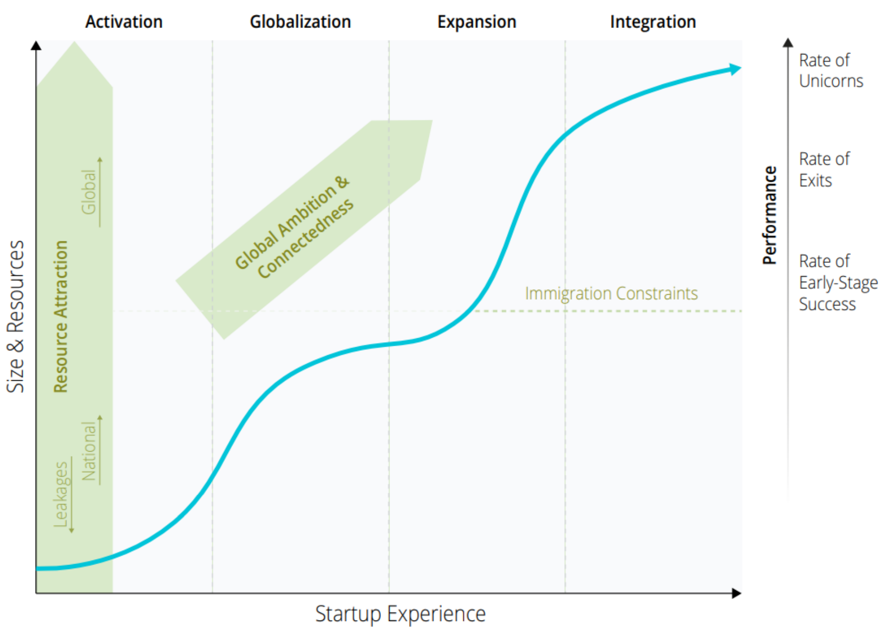
- “Start-up Grind” is promoting local & global connectedness, still evolving
- Support from local companies & esp banks, in promoting, training & services
- Some start-ups have made it to international accelerators in US, Germany, Italy

Start-up ecosystem in Tbilisi still at the beginning

- Usually start-up ecosystems go through different stages

→ Tbilisi somewhere in „activation stage“; much work to reach „globalisation stage”

Start-up ecosytem lifecycle



Source: Global start-up ecosystem report 2017

- **Activation:** “Low Output (number of start-ups), around 1,000 or fewer, limited local experience, and generalized resource gaps causing resource leakages.”

- **Globalisation:** “Large exits (over $100 million) placed the ecosystem on the map as one of the best places in the state, province, or nation to build a start-up, attracting resources and start-ups from nearby regions.” (*Global start-up ecosystem report 2017*)

2. Challenges and solutions for the start-up sector in Tbilisi

Four categories for structuring challenges and solutions:

I. Programmers and entrepreneurs
II. Constraints of local market
III. Funding, access and angels
IV. Development of a start-up cluster

I. Programmers and entrepreneurs
a. Ensuring supply of IT professionals/programmers

Challenge: programming skills that are required for innovative technologies remain limited; there is a special lack of advanced programmers/coders.
"It's just hard to get good people, and those that are there, are expensive." (Entrepreneur)

Solutions: for next 3-5 years, attract programmers from abroad; Georgia could be an attractive destination for programmers/start-ups from abroad, for several reasons:

- Ease of doing business
- Very good tax environment for income earned abroad (concept of Digital Free Zones)
- High quality of life
- Good flight connections to Europe, Middle East, other destinations
- Comparatively inexpensive (though not in comparison with some Asian destinations)
- Low crime rate in comparison with most contexts

b. Facilitating residency for entrepreneurs & programmers

Challenge: while obtaining residency is not difficult for most Europeans and North Americans, in practice it has been a major challenge for some non-European entrepreneurs & programmers.* Even employed programmers who have been endorsed by their (internationally-owned) companies, have had to leave Georgia.

Solutions:

- Provide targeted support, similar to Estonia/Baltics, with a start-up/programmers visa
- Orient on international best practice, such as start-up Chile http://www.start-upchile.org/
- One-window principle, also with targeted advertising. ("In Tallinn, they are advertising for people to relocate to Estonia at the airport. In Tbilisi, the main advertising at the airport is for casinos.") Continued service & support useful

*the effect of new residency legislation (from July 2019) is not yet clear, though there are concerns that it does not contain provisions for early-stage entrepreneurs and start-ups.

c. Increasing programming & IT literacy

Challenge: limited supply of local programmers, described as key bottleneck by several entrepreneurs. Challenge, in particular, for C++, C# programming languages. Training takes time, ("3-5 years, to get actual experience")

Solutions:

- "Better (STEM) education, to get more qualified people on the job market (coding, but also math/data science/AI, etc.)." Start-up Entrepreneur, mid-30s
- Industry-training, innovative, with partners; if aligns with industry needs, could also charge fee; (ambitious project w 3.000 trainees over 2 years planned by GITA)
- Entrepreneurial TUMO-like system, also in regions; TUMO is going international (France/Lebanon)
- Scale up existing GITA programming, also in regions (competitions, robotics classes)
- Encouraging/forcing IT literacy via graduation requirements for all students
- Existing start-ups to cooperate with universities to channel their needs, (example of Free University Tbilisi), potentially emulating Code University in Berlin, an "applied sciences university for the digital economy"

d. Promoting “market fit”

Challenge: While there are some excellent examples of ventures that, to start with, create solutions adapted to local context, other ventures try to "create something that exists somewhere else but isn't better" (start-up mentor).

Solutions:

- Focused & realistic information on what is expected from actual start-ups
- Emphasize open exchange of experience, also on risks & failures
- Developing "market validation" (including moat/defensibility) as conceptual approach, based on international experience & train trainers
- Mentorship & interaction, especially with international peers
- Not increase funding for its own sake, as this may artificially inflate sector

II. Constraints of local market
a. Increase customer base, access to data, local application

Challenge: while some other countries with small populations (Estonia, Armenia) manage to grow the IT- and start-up sector, the small size of the market remains a challenge, in Georgia.

Solutions:

- Consider integration of start-up products/outsourcing in existing government programmes (see GENIE report), also in health, gastronomy & food, transport and agriculture
- Consider "corporate challenge", to solve major problems for prize
- Open government data for public use via APIs (air-quality, city planning, traffic, public transport, customs & more)
- Also opportunity: “focus on Georgia as a sandbox”, i.e. testing for other markets, (foreign start-up entrepreneur)

b. Develop payment, fulfillment & e-commerce

Challenge: key off-the-shelf tools for commerce (such as PayPal) are not available; e-commerce/fulfillment is still in infancy, existing tools are not well-known.

Solutions:

- What3words integration, Georgian version, to improve delivery across Georgia
- Ensuring delivery of key service providers (incl. Georgian Post, Nova Poshta)
- Connecting transport & logistics companies to entrepreneurs
- Promote platform for freight & transport aggregation

III. Funding, access and angels
a. Improve access to funding

Challenge: although the funding environment has improved greatly with GITA funding (and banks/companies engaged in sponsoring), there are a few funding sources for follow-on, and little funding in the USD 50k – 100+k to develop their early-phase enterprises (for start-ups & in general).

Solutions:

- Keep bringing international investors to Georgia, to spark conversations
- Support networking events, see separately
- Learn from international "systemic" approaches to government co-funding (such as forgivable loans, warrants), encouraging co-investment where private sectors ready to do deal
- Include small percentage of future pension fund to invest in scalable ventures (Note: GET Georgia skeptical of this idea; in any case, only once sector reaches globalisation stage)

b. Foster angel-network (& incubators)

Challenge: there are no established & active angel networks (though some are in development), nor clubs/groups. A few of the early potential investors requested 50% for the first investment, deterring some of the start-ups.

Solutions:

- Connecting to diaspora; small but high-impact, some mentors & markets
- Bring international investors for regular events, also to engage potential local investors, even before developing joint ventures
- Identify & engage local partners, that may consider becoming investors in the future
- Pool potential investors, to share risk, highlight comparable models in other contexts; provide platforms & templates, to give more understanding of what is typical
- Potentially also as service by banks for wealthy clients (NL example)

c. Integrate efforts across agencies

Challenge: efforts don't integrate across government ministries and agencies, according to some people in sector. (Entrepreneurs complain about programmers "lost" to military service, for example.)

Solutions:

- Holistic long-term effort needed, for full impact (incl. early education)
- Integrate as much as possible; consider using innovation & programming talent in the military, as part of obligatory military service
- Look to models that are successful in other countries, including Estonia, Israel & others
- Role of schools: focus on education & curricula, to blend learning and IT, and engage students early
- If "innovation" is priority, it also needs appropriate funding; spending allocated budget effectively sometimes also appears to be a challenge

IV. Development of a start-up cluster
a. Optimise regulation, templates & models for start-ups

Challenge: some start-ups report that they need an international entity, to receive some funding (and to sell), and a local entity for operations. Integrating these entities apparently remains difficult, uncertain and expensive.

Solutions:

- Facilitate hybrid-location start-ups & offer clarification, in terms of taxation & regulation
- Potentially, for banks & relevant institutions (NBG, MoF) have a point of contact for start-ups
- Share actual models of integrating local and international operations (legal, tax, regulatory aspects), for others to emulate and adapt
- Potential role for advisory services, also by private sector

b. Encourage start-up eco-system

Challenge: In the absence of a stronger start-up cluster, there are not many collegial get-togethers and start-up events. Expectations are often unrealistic, few comparisons, no immediate access to peers or professional services like graphic design, tax, accounting, legal advice, or targeted e-solutions, .

Solutions:

- Importance of startups contributing focused & relevant input, potentially through association
- Ensure that relevant agencies (incl. GITA) can act flexibly, in supporting efforts & events
- Major role of effective communications & engaging PR, to raise awareness
- Work to host international start-up events in Georgia & provide funding for such efforts

c. Build & increase community

Challenge: community comparatively small; limited attention of the public; tech audiences are not just on Facebook (main presence of community so far)

Solutions:

- Identify and measure “Key Performance Indicators” (KPIs), for outreach
- Communicate actively, across platforms, via Email (mail-list, tracking statistics), Twitter, in addition to the start-up portal/website for Georgia
- Engage business associations, as potential angels & investors
- Attract through in-city events
- Most of all: create spaces/events/opportunities, where founders can work, meet and exchange

d. Develop cluster in central Tbilisi

Challenge: so far, no cluster in central Tbilisi comparable to in-city tech parks in other contexts (Rotermanni in Tallinn, etc.)

Solutions:

- Identify & develop key locations, for start-up cluster, with access to services & context
- Potentially in public private partnership
- Promising idea of re-dedicating empty Europe Park concert halls, as workspace & incubator
- Iconic appeal matters, esp in international context ("everyone is passing these buildings when coming into Tbilisi")

3. Conclusion

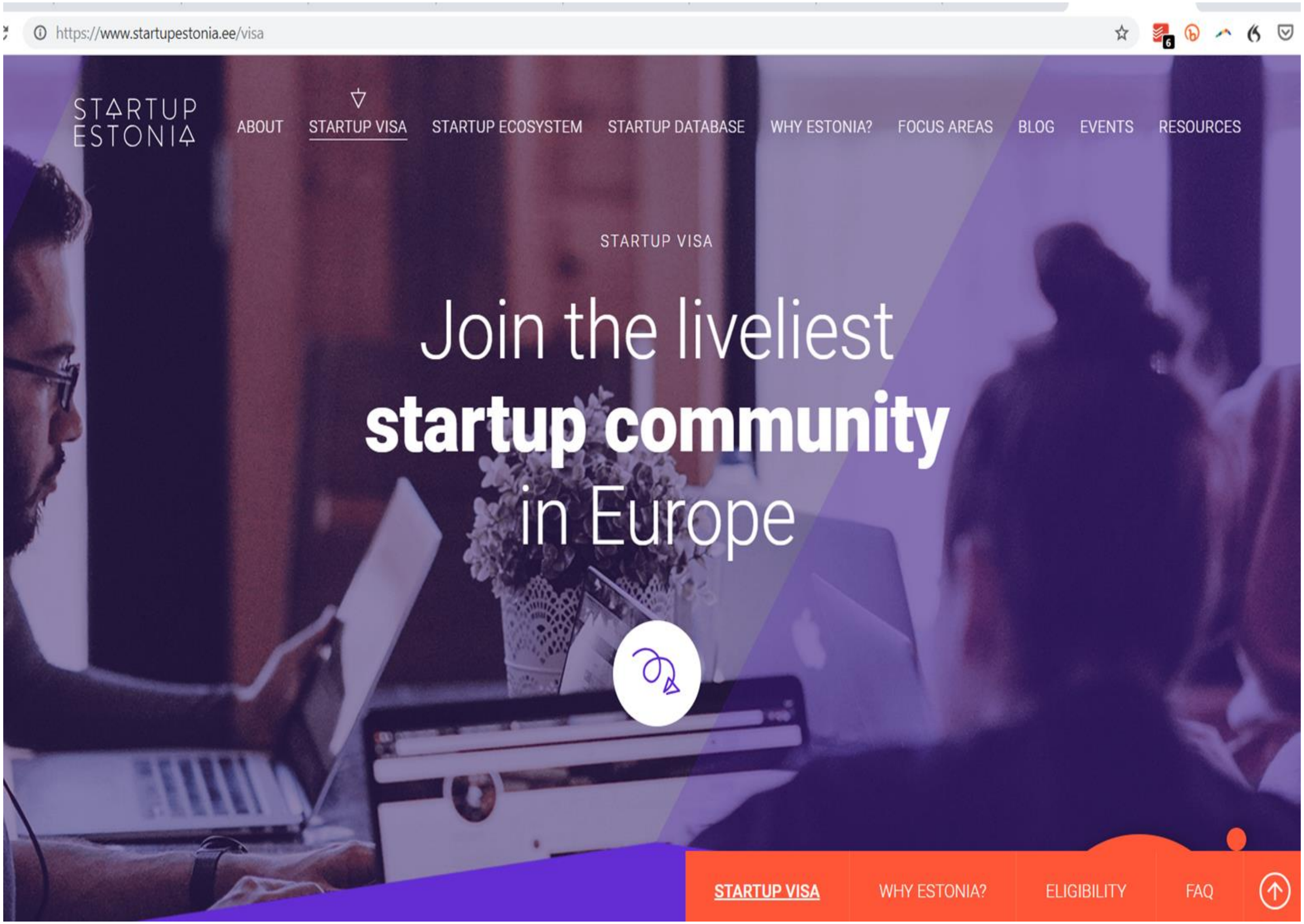
- Start-up sector in Tbilisi still small and in an early development stage, but potential is there

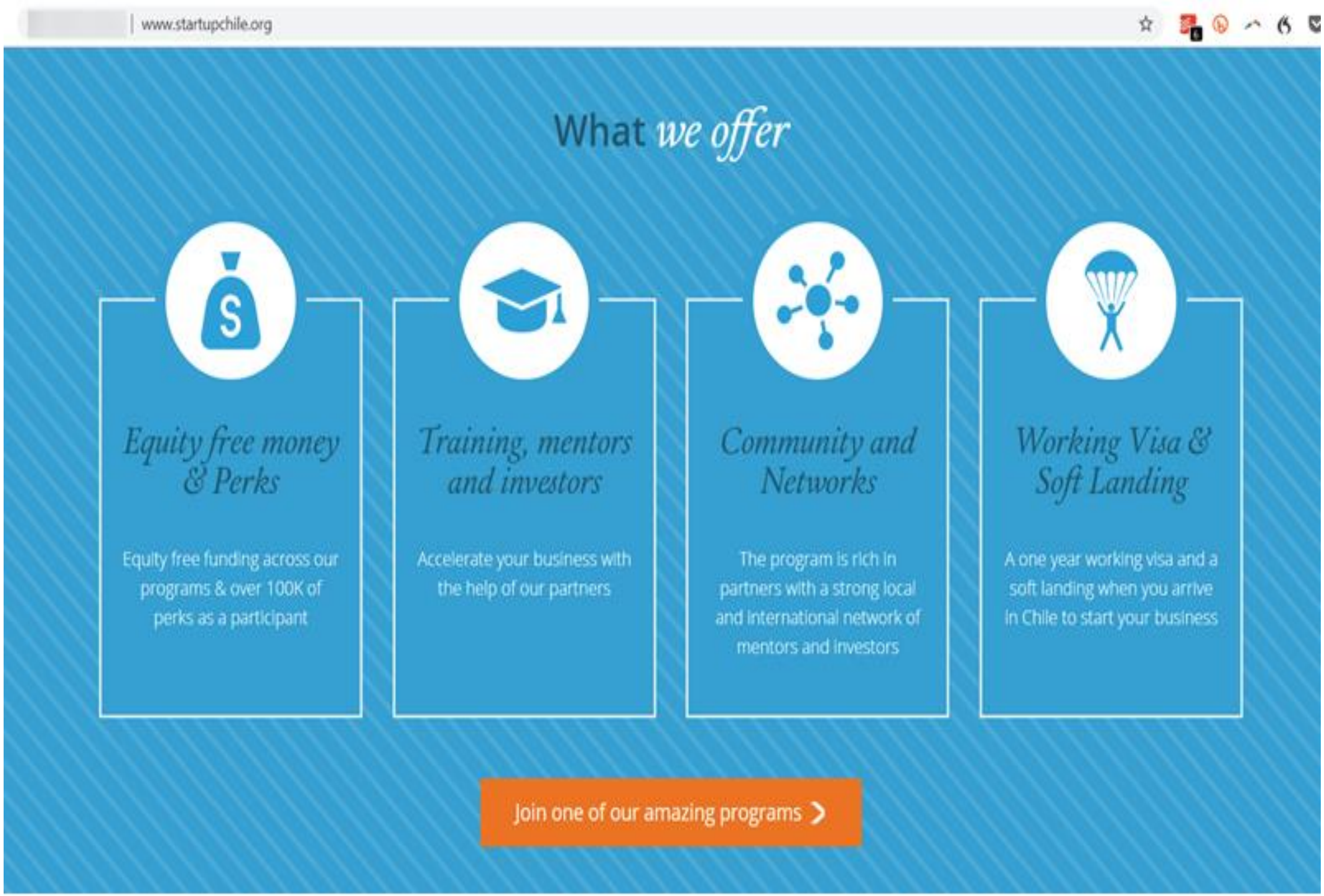
Key recommendations:

- Attract programmers by increasing visibility of Georgia as an attractive start-up location as well as by facilitating the process to obtain residency, especially for non-Europeans/Americans
- Increase IT-literacy by focusing on STEM education and by fostering entrepreneurial systems such as TUMO (see Armenia)
- Tackle constraints of local market by drawing on experiences from Estonia and by focusing on realistic projects
- Develop the necessary payment infrastructure (e.g. Paypal, Mastercard)
- Increase funding opportunities besides GITA by bringing international investors to Tbilisi and by connecting more to diaspora in order to establish an angel-network
- Support development of a start-up cluster by integrating across agencies, promoting networking events and potentially moving GITA to city center

Appendix: financial data

- Cost of Junior Developer (no experience): USD 400 - 600
- Top level developers: USD 3000+
- Top level developers at banks: various figures, up to USD 5000 per month according to some sources
- Several start-ups in Georgia report that they outsource to Ukraine & Belarus
- while many things are cheap, corporate Internet is not: connections are often 3500 GEL or more


https://www.startupestonia.ee/visa
STARTUP ESTONIA
ABOUT
STARTUP VISA
STARTUP ECOSYSTEM
STARTUP DATABASE
WHY ESTONIA?
FOCUS AREAS
BLOG
EVENTS
RESOURCES
STARTUP VISA
Join the liveliest
startup community
in Europe
STARTUP VISA
WHY ESTONIA?
ELIGIBILITY
FAQ


www.startupchile.org
What we offer
Equity free money & Perks
Equity free funding across our programs & over 100K of perks as a participant
Training, mentors and investors
Accelerate your business with the help of our partners
Community and Networks
The program is rich in partners with a strong local and international network of mentors and investors
Working Visa & Soft Landing
A one year working visa and a soft landing when you arrive in Chile to start your business
Join one of our amazing programs