

Startups in Tbilisi: what is needed to accelerate their development?

In recent years, Tbilisi has begun to develop a startup sector. There now are more than 100 small companies, working to develop scalable solutions for problems in Georgia and beyond. Many of these startups are supported by the government through a targeted programme. Several startups have international ambitions, and some founders have gone to highly regarded incubator programmes in Europe or the United States.

The startup sector in Tbilisi thus shows promise. Four steps can accelerate its development. First, Georgia needs to educate and attract more programmers and entrepreneurs. Second, targeted initiatives could set incentives for startups to develop solutions for local challenges, especially to counteract the disadvantage of having a market of limited size in Georgia. Third, startups in Tbilisi need more private sector funding, including angel networks to provide funding for growth. Fourth, Georgia needs to develop more of a startup cluster in Tbilisi, to connect entrepreneurs with investors, with service providers, and with each other.

Medium-term, the startup sector has good prospects. Entrepreneurs value attractive locations, and Georgia has a fairly attractive business environment, too.

Nascent startup sector

In recent years, Tbilisi has developed a nascent startup sector. Startups generally are understood as young companies that seek to develop innovative, scalable business models and thus are either high-growth or tech related companies. Often, they rely on the internet or at least IT technology.

The Georgian government has repeatedly emphasized that startups are a priority area. With assistance from the World Bank, the government set up the Georgian Innovation and Technology Agency (GITA) to promote the sector. GITA, located above the city close to Mtatsminda park, provides seed funding (up to GEL 5,000; approximately EUR 1,700), early stage grants (up to GEL 100,000) and matching funds (up to GEL 250,000) for more mature enterprises. Several dozen ventures have been supported, so far.

Early stage, small size

At the same time, the sector remains comparatively small, with an estimated 100+ startup companies, out of which experts consider less than a dozen investable at this stage. Georgia is still in an activation stage and its companies have some way to go towards having a

broader reach. No startup based in Georgia has had a breakout success yet.

Currently, Tbilisi has a broad spectrum of startups, ranging from financial technology (FinTech), marketing, sales, advertising, to gastronomy, tourism and agriculture. Some institutions in Georgia refer to their support to new micro-business, including handicrafts, as also belonging to the startup category, adding to the blurriness of boundaries.

A recent study by GET Georgia identified several recommendations for promoting the sector, by speaking to entrepreneurs, investors, experts, and government officials.

More programmers and entrepreneurs needed

For the sector to develop, it needs more programmers and entrepreneurs. These currently are in short supply. Several companies reported that they outsource programming work to Ukraine and Belarus.

Some programmers and entrepreneurs can be attracted internationally, as Georgia is an attractive destination for doing business. Estonia and Chile offer examples of how to advertise for talent, including with targeted advertising at the airport. While they have a strong local base of entrepreneurship, both countries still make an active effort to recruit more talent from abroad.

Facilitating residency for programmers and entrepreneurs would be another simple measure. The recent amendments to the residency law did not yet include provisions for startup entrepreneurs and programmers.

Within Georgia, increasing programming and IT literacy would help to provide more programmers. This is a medium-term measure, as sector specialists agree that it can take three to five years to develop the range of relevant skills. Here, the Code University, an institution in Berlin that describes itself as an “applied sciences university for the digital economy” may be a model worth studying, to see what could be transferred to the Georgian context.

Make the most of limited market size

When developing startups, Georgia's small market size is a constraint, but also offers the advantage that the country is a kind of sandbox in which models can be tested. Government and corporations could create opportunities by offering rewards for solving challenges, and by making more data available (open data), via application programming interfaces (APIs), for startups to innovate with.

Several entrepreneurs suggested that the government should learn from Estonia or Israel how to employ skilled programmers that undertake their national service in IT-related tasks. Currently, this talent remains mostly untapped.

For the sector to develop, some key pieces on payment, fulfillment and e-commerce need to be put into place. It is, for example, currently hard in Georgia to pay with PayPal. For e-commerce, the patchy addressing outside major urban centers also is a problem. What3words or similar georeferencing systems could help to address this challenge.

Funding, access and angel networks

Georgia is still missing a vibrant angel investor scene, i.e. investors who help ventures get off the ground with finance, advice and by giving access to their networks.

Most people in the sector agreed that current government funding is at the right level. More subsidies risk creating a short-term bubble of startup businesses that cannot be sustained. The next level of funding for startups will have to come from the private sector. Where public funding has proven useful is in encouraging networking events.

GITA is also active in this regard and there is a dynamic Tbilisi chapter of Startup Grind that helps to bring entrepreneurs and funders together for regular meetings. Startup Grind Tbilisi, part of a worldwide community of startup professionals, has had considerable success in working with diaspora entrepreneurs, too. An event with a Georgian entrepreneur who leads one of Germany's largest FinTech startups, Raisin, attracted more than 300 attendees. Startup Grind has also helped connect local entrepreneurs to international clients and funders. Through such contacts, one Georgian startup recently managed to raise considerable funding, illustrating how useful networking is in this sector.

Developing a Tbilisi startup cluster

The medium-term trajectory of the startup sector depends on whether a genuine cluster will develop. Currently, many entrepreneurs need to solve their problems by themselves. They face many small challenges, including those that relate to taxation across borders, that end up taking time and money to solve. Tallinn and other cities with successful startups often have a geographic center in which entrepreneurs mingle with service providers. This is not yet the case in Tbilisi. Several people have suggested that the large concert halls on Europe Square, unused for several years, would make an iconic incubator, right in the center of the city.

Good medium-term prospects

Longer term, the chances of success for the startup sector are good. Georgia's attractiveness in that regard is illustrated by its international draw. In the last year, entrepreneurs from Germany, Ireland, Philippines, and Sweden have moved to Georgia, citing its affordability, business conditions, the scenery and the safety.

Georgia will, however, have to train more programmers, ideally by mainstreaming some IT education into schools. Already now, there are a number of programmers who work in the international labor market while staying in Georgia, adding to the competition for scarce talent. Increasing the supply of programming talent in the country would certainly be a step in the right direction.

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A more comprehensive analysis is provided by the Policy Briefing ["Start-up sector in Tbilisi A bottom-up perspective on challenges and solutions"](#)

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