



IMPACT ASSESSMENT

THE NEW SAKPATENTI E-FILING SYSTEM

FINAL

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IMPACT ASSESSMENT

SAKPATENTI E-FILING APPLICATION

FINAL

USAID ECONOMIC PROSPERITY INITIATIVE (EPI)

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DELOITTE CONSULTING LLP

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ABSTRACT

Currently, Sakpatenti functions as a centralized organization but has a long history of operational redundancies and inefficiencies, which are exemplified by ongoing institutional challenges. In order to improve Sakpatenti's operational efficiency, reduce its indirect costs, better allocate its scarce funding, and maintain the support of stakeholders, Sakpatenti and EPI initiated a reform supporting a new Electronic-filing (EFS) system. This reform's goal is to reengineer, standardize and automate 300 plus business processes while consolidating departmental functions to provide 100 plus future processes that will implement the EFS system.

Sakpatenti wishes to modernize the EFS in keeping with the emerging e-Government initiative. The EPI report entitled the *Business Process Reengineering Analysis* provides information on a set of optimized processes to achieve efficiency, implement cost cutting measures and implement EFS.

The reform envisions a number of long-term improvements to Sakpatenti's organizational efficiency and customer service as well as economic benefits for Georgia. These benefits include: reducing costs related to time and money for the applicants, decreasing costs related to the IPR application processing and filing in Sakpatenti, increasing the number of applications, and further developing Sakpatenti's revenue generation capacity as well as various qualitative economic impacts for Georgia.

ABBREVIATIONS

IPR – Intellectual Property Rights

EFS– Electronic-filing System; E-filing system

BPR – Business Process Reengineering

GoG- Georgian Government

SMEs- Small and Medium Enterprises

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I. EXECUTIVE SUMMARY

MONETIZED BENEFITS FOR SAKPATENTI

The aim of this impact assessment is to analyze and present the anticipated quantitative benefits and possible costs of the EFS reform for all relevant stakeholders such as Sakpatenti and potential applicants. This report will also elaborate on the qualitative impacts of the EFS for Georgia's economic development.

The EPI consultant applied an analytical method to evaluate the following: a. the economic impact of the streamlined administrative procedures and potential cost reductions for Sakpatenti; and b. the economic impact related to administrative burdens and cost reductions for applicants. The consultant also paid special attention to identifying the qualitative impacts on the national level in general.

Once the EFS is incorporated, all the corresponding departments' business functions will be optimized. In turn, this will translate into savings as operational costs will be reduced and productivity will increase.

The EFS system will decrease Sakpatenti's business processes by about 40%, which will also reduce the agency's operational expenses by the same amount. After implementing this EFS reform, Sakpatenti will save an estimated 1,623,000 GEL.

In addition, the easier and more cost effective application process will increase the demand for Sakpatenti's services and further develop its revenue generation capacity. Both Sakpatenti and the consultant assess that the reform will increase the demand for Sakpatenti's services and the potential number of applications by 25%¹. This will increase Sakpatenti's revenue by 290,625 GEL.

Thus, the consultant estimates that the approximate total monetized annual benefit for Sakpatenti will be about 1,914,000 GEL.

MONETIZED BENEFITS FOR THE APPLICANTS

Because of the EFS reform, the applicants for services will have the following benefits:

- Saved money because of the reduced service fees (the fee difference is estimated to be about 15%²);
- Saved money and time on the distance for local applicants as currently the application process requires several visits. Applicants outside of Tbilisi will save significant time and money as the present process requires between three to four visits;
- Saved money on expensive international postal service fees for non-resident applicants.

¹ USAID EPI report on 'Business Process Reengineering in Sakpatenti'

² USAID EPI report on 'Business Process Reengineering in Sakpatenti'

- In the majority of cases, applicants will no longer need to retain the services of patent attorneys for trademark registrations;
- It will no longer be necessary to complete the trademark registration process separately at the Customs' Department.

Thus, the consultant estimates that the approximate total monetized annual benefit for applicants will be about 2,075,000 GEL.

QUALITATIVE BENEFITS AT THE NATIONAL LEVEL

The reform will bring several significant benefits for Georgia's economic development in the areas of investment climate, fair competition and small and medium enterprises (SMEs). The reform will also positively impact the cultural sector such as protection of intellectual property rights (IPRs) of audiovisual records.

Once the IPR registration process is simplified, more applicants will utilize these services. This increased usage will further develop both domestic and foreign investment potential in Georgia. This will be the result of the guarantee that the intellectual property, which is a by-product of investment, will be registered, defended and may not be stolen.

The effective registration and protection of IPR helps to establish businesses and inventors confidence while serving as a powerful incentive for investment and economic progress. The incentives to invest in the good will of companies as well as research and development (R&D) are important factors of any fair competition. IPR also affects the cultural sector, especially in the audiovisual sphere.

SOME EXPECTED COSTS OF THE REFORM

The initial investment cost of EFS reform is composed of following items:

- Business Process Reengineering (BPR) assessment and design - 62,239 USD
- EFS Business Requirements Design - 17,576 USD
- EFS Business Requirements Training and Quality Assurance - 64,838 USD
- Design and Build Quality Assurance - 31,956 USD
- Software Design & Building -146,840 USD

The consultant estimates that the total approximate cost of the reform will be – 323,000 USD or 524,000 GEL.

II. APPENDICES

- A. BACKGROUND**
- B. METHODOLOGY**
- C. FINDINGS**

A. BACKGROUND

Since the start of its project, EPI has facilitated several policy reform initiatives, many of which are nearing completion. Currently, EPI is conducting impact assessments of several of its policy reform initiatives, such as the EFS at Sakpatenti, in order to evaluate EPI's contributions to general legislative reform. These assessments will also increase the analytical capacity of the Georgian Government (GoG) and business stakeholders in understanding the burdens or benefits of specific policy reforms. This assessment utilizes qualitative and quantitative methods to provide evidence-based analyses of the important impacts of its key reform efforts. This assessment also includes a costs and benefits analysis of the reform for applicants, including citizens, businesses, Sakpatenti and Georgia in general.

SAKPATENTI

According to the current legislation, the Georgian National Intellectual Property Center at Sakpatenti is the public legal entity that defines the general Georgian IPR policy. The main challenge for the Sakpatenti team is organizational capacity building, including streamlining of its business processes.

BACKGROUND AND BUSINESS ISSUES

Currently, under Sakpatenti's operating environment, the act of issuing a patent, trademark or copyright is a cumbersome and lengthy process. To issue the necessary certificates and serve customers, Sakpatenti's employees must navigate a complex process that relies almost entirely on manual steps. While employees may access a database tool to process in-coming applications, this tool has become obsolete due to recent technological innovations. More importantly, the complex processes and inadequate infrastructure negatively impact customers. In order to improve its customer service and make better use of available technology, Sakpatenti wanted to investigate ways to efficiently implement improved processes and new tools.

The analysis of the recent EFS has shown the following aspects to be evident:

- The infrastructure and its activities are not eco-friendly due to the excess use of paper in different capacities;
- The current supply of information via paper inhibits the transfer of data to electronic database for future usage;
- The margin for errors and miscalculations increase as human interactions and subjective calculations increase;
- The overall time allocated to filing an application rises due to the manual filing system;
- The departments have to repeatedly expand the filing system's capacity to maintain historical data;
- Duplicate files are maintained at different departments;

- Departments are using their filing system or equipment for non-records storage such as letters, daily correspondence and other administrative documents;
- Currently, the department's file folders are at or over capacity due to paper documentation;
- The departmental staff are not able to readily find information, which hampers easy access to the requested files;
- The business functions are seen as being very complex and laborious due to being manual and paper-based;
- Issues relating to data security rise for patents, trademarks and copyrights are filed by hand and via paper.

B. METHODOLOGY

The impact assessment was designed to analyze the qualitative and quantitative effects of the EFS policy reform at Sakpatenti. The consultant used qualitative research methods such as interviews, survey results and secondary reports. The consultant also relied on two previous EPI reports entitled *The Business Process Reengineering Analysis* and the *Georgia's Intellectual Property Rights Environment*.

The EPI consultant utilized an analytical method that evaluated the following: A. the economic impact of the streamlined administrative procedures and potential cost reductions for Sakpatenti; and B. the economic impact related to administrative burdens and cost reductions for applicants. The consultant also paid special attention to identifying the general qualitative impacts at the national level.

While performing the assessment, the consultant's priority was to determine, where possible, the impact of the EFS reform on EPI's strategic indicators such as foreign or domestic investments, exports, and employment, productivity and or efficiency improvements.

C. FINDINGS

BENEFITS FOR ‘SAKPATENTI’

Benefits for ‘Sakpatenti’ due to increased productivity and reduced operational costs

Once the EFS is implemented, all the corresponding departments’ business functions will be optimized. This will result in reductions to operational expenses and in increased productivity. Specifically, the benefits will be observed due to following improvements:

- Department of Design: The Department’s analysis recorded 54 procedures for processing national applications and 21 processes for reviewing international applications. After optimizing the relevant business functions, the consultant recorded 27 future processes for the review of national applications and 14 future processes for international applications. The automation of processing via BPR equates to a decrease of approximately 41% of its core business functions.
- Department of Trademarks: The Department’s analysis provided 46 business functions for the processing of national applications and 19 business functions for reviewing international applications. After optimizing the relevant business functions, the Trademark Department showed a decrease of 16 functions for the processing of national applications and 4 functions for the review of international applications. In addition, by optimizing the relevant business functions, the Department witnessed a potential decrease of 30% in business processes.
- Department of Copyrights: The Department’s analysis provided 23 business processes for the processing national applications. After optimization, this was decreased to 10 future business functions, which showed an optimization of 56% for the processing of national copyright applications.
- Legal Department: The Department’s analysis focuses on amendments, renewals and the appeal process (1st and 3rd party appeals) of all applications.

Amendments and Renewals: In the current state, the consultant recorded 10 business functions within the legal department. The future state recorded eight business functions, which is a significant decrease in the number of business processes and equates to a decrease of 20% of its current state.

Appeal Process (1st and 3rd Party Applications): In the current state, the consultant recorded 23 business functions within the legal department. The future state recorded 15 business functions, which was again a significant decrease in the number of business processes. This translates to an optimization of 35%.



In total, the EFS reform in Sakpatenti will decrease the number of business processes by about 40%. This means that almost by the same percentage will be decreased its operational expenses, the total operational expenses of Sakpatenti was 4,059,200 GEL in 2011. Thus the total economic saving for Sakpatenti on operational expenses after this reform, because of streamlined business processes and implementation of EFS will be approximately 40% of 4,059,200 GEL that is about 1,623,000 GEL annually.

Saving for Sakpatenti in operational expenses will be 1,623,000 GEL annually.

Benefits for ‘Sakpatenti’ due to a potential increase in demand for its services and the generation of extra revenues

Based upon his assessment, the consultant expects an increase in the demand for Sakpatenti’s services, and consequently an increase in the agency’s revenues due to the following factors (associated with the increase of the access to services):

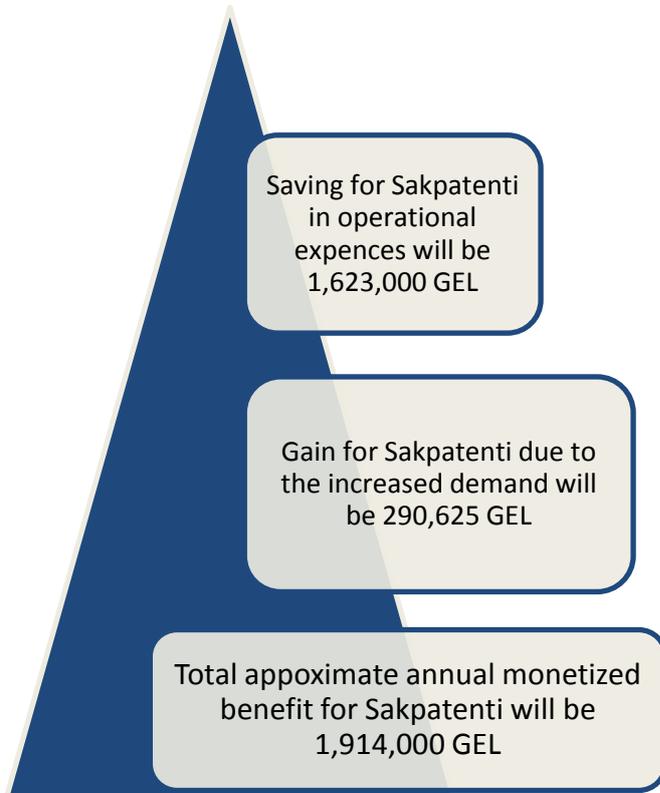
- *Increased access to services following a reduction in the services’ cost:* Following the EFS reform, the fees used to maintain the processing of both national and international applications will decrease (by 15%)³. As the processing fees decrease for all applications, the demand will grow as the filing fees of filing become more affordable to the general public.
- *Increased access to services in term of the place of application:* Increase in the demand will also be stimulated due to the eased access to the application office. Currently, only potential applicants based in Tbilisi may file an application. However, after the EFS system is developed, the applicants will be able to file their documents from any location in Georgia or around the world. The constraints related to the application venue and associated costs are the main reason that 95% of the applicants are from Tbilisi. The situation, without the adoption of the EFS, will be even more aggravated after the Sakpatenti office moves to Mtskheta.
- *Increased access to services in terms of the time:* Applicants will have the possibility to complete their applications at anytime during the day or night.

³ USAID EPI report on ‘Business Process Reengineering in Sakpatenti’

Based on the assessment of Sakpatenti and the consultant, all these factors will increase the demand for Sakpatenti’s services and the number of the applications by 25%⁴. In addition, after the EFS is implemented, the services fees are expected to decrease by 15%, which will increase Sakpatenti’s overall revenues based on the following formula:

$(Fees \times 85/100) \times (Applications \times 125/100) = (Fees \times Applications) \times 1.0625$, thus this means that the revenue will be increased by 4,650,000 GEL (current revenues) $\times 0.0625 = 290,625$ GEL

Sakpatenti’s revenues based on the increase in demand (even taking into consideration the decrease in fees by 15%) will increase by 290,625 GEL.



BENEFITS FOR THE APPLICANTS

The 2011 statistics for the IPR registrations are presented in the table below. The statistics on copyrights are not included, as at this stage the EFS will not be used for the depositing of copyrights⁵.

Trademarks	Inventions	Designs	Utility Models	Overall total IPR applications (excluding copyrights)
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⁴ USAID EPI report on ‘Business Process Reengineering in Sakpatenti’

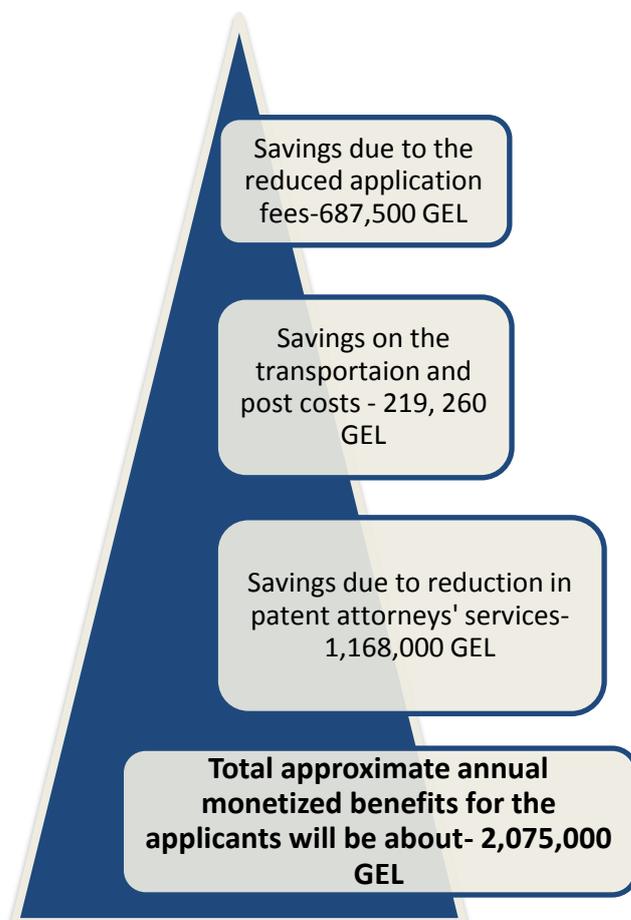
⁵ Sakpatenti Annual Report, 2011.

National		1595	153	46	53	1847
Among them	Local residents	843	138	39	51	1071
	Foreign residents	752	15	7	1	775
International procedure		3273	245	190	1	3709
Total		4868	398	236	53	5555

The applicants for these services will benefit because of the following factors:

- Saved money because of the reduced service fees (the fee difference is estimated to be an estimated 15%). Based on current fees, Sakpatenti's revenue from the IPR registration services was 4,650,000 GEL. Therefore, due to the reduction in fees, applications will save an estimated 697,500 GEL.
- Saved money and time spent on travel for the local applicants as processing an application requires several visits. For applicants living outside of Tbilisi, the EFS will save significant time and money as an applicant normally needs to visit the processing center between three to four times when filing an application. Based on the conservative assumption that an applicant spends about 20 GEL on transportation and time per visit, the minimal total cost per applicant for three visits will be 60 GEL. Therefore, the total costs for 1071 local applicants for IPR is 64,260 GEL, which will be saved by applicants once the EFS is adopted.
- Foreign residents usually send their packages through DHL post and must send several packages at different times. For instance, if the average foreign applicant only sends two items to Sakpatenti, the approximate average shipping cost is 200 GEL and the total for 775 foreign applicants is about 155,000 GEL.
- Based on both Sakpatenti's and the consultant's assessments, in 80% of cases, patent attorneys will not be required for trademark registrations. Currently, the service of patent attorneys is widely used in most trademark registration cases. The minimum service fee for a patent attorney's services is about 300 GEL. As of 80% of the 4868 trademark registrations took place in 2011, the approximate annual saving for applicants will be 1,168,000 GEL.
- It will no longer be necessary for trademark registrations to take place at the Customs' Department. The streamlining of Sakpatenti's business processes has already abolished the requirement for the separate registration of trademarks at the Customs' Department. During the registration process at Sakpatenti, the applicant needs if he wants register trademarks also at the Customs' Department. Based on the data, about 50-60 applications for trademarks were registered annually also at Customs' Department and each application paid additional 50 GEL in service fees. After trademark registration became centralized and was incorporated into the general registration process, the reform boosted the registration process of those

trademark applications, which indicated as well registration at Customs. During the first half of 2012, there were 70 filed applications that could also be registered at the Customs' Department. However, in previous years this number never exceeded 60 registrations annually. As this procedural change had no significant impact on savings for the total number of applicants, the consultant did not calculate the monetized impact for this item.



- The reform has qualitative benefits for the applicants/businesses as it eliminates improper registration and abuse during the trademarks' registration. The EFS will make the registration process much more transparent and enable the companies' shareholders to track the process on-line as well as its results. A trademark is an asset, often the most important one, and of substantial economic importance to an enterprise as it enables an enterprise to establish a market position and goodwill in the marketplace. Thus, the effective protection of trademarks is a very important aspect of commercial activity for any given country.

GENERAL QUALITATIVE BENEFITS TO GEORGIA

The reform will bring several significant benefits to Georgia's economic development. Particularly, it will positively affect the investment climate, fair competition and SMEs. The EFS will also have a positive impact on Georgia's cultural sector, such as the protection of IPRs on audiovisual records.

INVESTMENT EFFECTS

The simplification of the IPR registration process will result in an increase in the IPR registrations and should generate both domestic and foreign investments in Georgia. This will be the result of the increased guarantee that the intellectual property, which is produced as the result of a relevant investment, will be registered, defended and not be stolen by others.

More specifically, the establishment of key industries in developing countries, such as those in the IT, biotechnology and pharmaceutical areas, where intellectual property rights play a key role, will be difficult to establish in the absence of an effective IPR system and its enforcement.

The streamlining of the IPR's registration systems will positively affect the IPR Index. Studies demonstrate that a one-point increase in the IPR Index increases the likelihood of international investment in production, instead of sales and distribution operations by 57%. However, this assumes that these investors decide to invest in a country⁶.

In addition, studies confirm that there is a very close correlation between R&D investments and an effective and transparent IPR regime including the IPRs registration and enforcement.

IMPACTS ON COMPETITION

The EFS of Trademarks increases the transparency and effectiveness of the intellectual property registration process, while also minimizing the risks that Trademark property will be stolen during the registration or utilization phase. This in turn, as was mentioned above, will promote investments in good will (image of company), innovations and R&D.

Innovations are one of the most important sectors of sustainable growth for businesses, and are a critical element of a country's economic prosperity. Businesses must constantly improve or renew their products if they wish to keep or capture market shares. Sustained inventive and innovative activity leads to the development of new products or services, gives businesses a technological advantage and competitive edge. Businesses often invest large amounts of money in R&D as well as in the advertising and marketing of their products. A business will not undertake this investment unless it's in a position to recover its expenditures. The appropriate and effective protection of IPR helps to establish the confidence of businesses, inventors and is a powerful incentive for investment while supporting economic progress.

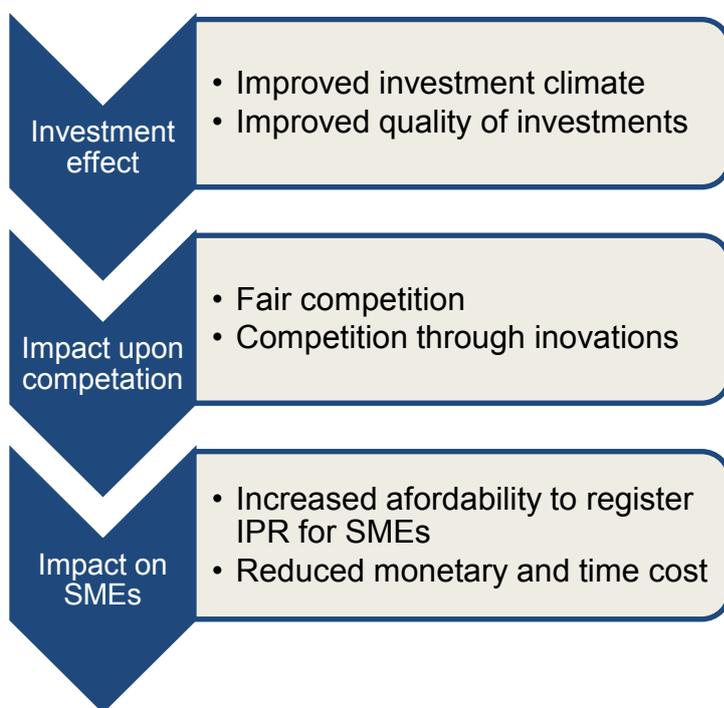
IMPACT ON SMES

Georgian SMEs mostly have not patented their own intellectual property, such as trademarks, as they do not realize the value of intellectual property. In addition, the associated costs and time constraints for IPR registrations are quite high for Georgian SMEs.

One indirect benefit of intellectual property for SMEs can be the positive image of the brand or trademark, which ensures the customer, the joint venture, and the stakeholder's loyalty. The utilization of trademark and product design is an important key to the market success of

⁶ Intellectual Property and Development, Research Paper, World Bank

SMEs, and it builds up their own ability to compete in the market. Although the entrepreneurs will gain the benefit from the registration of IPR, it will come at a cost for the entrepreneurs. That cost can be categorized into: monetary cost (associated with registration service fees) and non-monetary cost (associated with the time to spend on registration during the needed several visits). If compared with bigger businesses, these costs are high for SMEs because of their small scale. The adoption of the EFS and the simplification of the IPR registration process will benefit SMEs as the IPR registration will be affordable for small-scale businesses.



SOME EXPECTED COSTS OF THE REFORM

While mostly advantageous, some of the shortcomings for implementing the EFS include excessive startup costs such as software development costs. However, in the long-term, the EFS can not only reduce costs but also improve the quality of application processing as well as resource and time management. This can be conducted via better-informed applicants, the elimination of duplicate processing of data within the organization, and having quick access to the required information as necessary.

Another disadvantage for implementing the EFS is that the system has a substantial learning curve. It is helpful if the users of an organization have some type of technical knowledge before the implementation of a brand new system. During the analysis phase, it was seen that 95% of Sakpatenti’s work force was currently using some sort of computer technology to process their individual tasks. Sakpatenti also needs to recognize that the ‘usability’ of the system can be a major obstacle affecting the implementation of the EFS. The EFS must act as a tool to enable the examiners to retrieve and understand data relevant to their decision-making tasks. In other words, the system must be user friendly otherwise the system will not be easily accepted, nor will it be used to its fullest capacity. As Sakpatenti moves toward an on-line decision support system, the core staff (i.e. from a Department’s head to the examiner) must be the users of the system, performing data entry (e.g., application

processing, progress notes) as well as information retrieval, if they are to realize the benefits of EFS.

The initial investment cost of EFS reform is composed of the following items:

- BPR assessment and design - 62,239 USD
- EFS Business Requirements Design - 17,576 USD
- EFS Business Requirements Training and Quality Assurance - 64,838 USD
- Design and Build Quality Assurance - 31,956 USD
- Software Design & Build -146,840 USD

Total approximate cost of the reform will be 323,000 USD or 524,000 GEL

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