


**A MODERN CHALLENGES AND SMALL AND MEDIUM ENTERPRISE DEVELOPMENT
TRENDS IN GEORGIA**

Rezo Manvelidze^A, Leila Tsetskhladze^B, Lasha Manvelidze^C



ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 31 March 2023</p> <p>Accepted 27 June 2023</p>	<p>Purpose:The purpose of the study is to study the modern trends of SMEs development in Georgia, sectoral structure, directions of diversification and transformation, the spread and implementation of approaches based on digital platforms, the identification of existing problems and the search for solutions.</p>
<p>Keywords:</p> <p>Small and Medium Businesses; Transformation; Digital Technologies; State Support; Entrepreneur.</p>	<p>Theoretical framework:Based on many international and local studies, it is revealed that SMEs make a great contribution to the formation of a sustainable economy. Accordingly, there is a need to adapt to the changes facing the world and national economies and to make appropriate transformations to deal with the challenges.</p> <p>Design/methodology/approach: This study was carried out based on SME-related scientific articles and studies published by international organizations. In addition, with the methods of econometric analysis and empirical research, the factors affecting the production of small and medium-sized businesses were analyzed and identified, and the sectoral features were evaluated and the needs were identified.</p>
	<p>Findings: The study found that SMEs are represented in large numbers in traditional sectors, which are not characterized by high added value and with a high level of "spillover effect" in other sectors. There is a need to develop innovation-based industries, invest in human capital, and increase the capacity to use digital platforms.</p> <p>Research, Practical & Social implications: The provisions given in the study will be a recommendation for the better development of the SMEs small and medium business sector and for making appropriate decisions on the part of the government.</p> <p>Originality/value: The work is a complex study, where the sectoral structure of the small and medium business sector, shortcomings, factors affecting the growth of productivity, aspects of the influence of innovations and digital platforms are studied.</p> <p>Doi: https://doi.org/10.26668/businessreview/2023.v8i7.2400</p>

**DESAFIOS MODERNOS E TENDÊNCIAS DE DESENVOLVIMENTO DE PEQUENAS E MÉDIAS
EMPRESAS NA GEÓRGIA**

RESUMO

Objetivo: O objetivo do estudo é estudar as tendências modernas de desenvolvimento de PMEs na Geórgia, a estrutura setorial, as direções de diversificação e transformação, a disseminação e a implementação de abordagens baseadas em plataformas digitais, a identificação dos problemas existentes e a busca de soluções.

Estrutura teórica: Com base em muitos estudos internacionais e locais, revela-se que as PMEs contribuem muito para a formação de uma economia sustentável. Dessa forma, é necessário adaptar-se às mudanças enfrentadas pelas economias mundiais e nacionais e fazer as transformações adequadas para lidar com os desafios.

^A Doctor of Economic Sciences. Professor. Batumi Shota Rustaveli State University, Georgia.

E-mail: manvelidze.revaz@bsu.edu.ge Orcid: <https://orcid.org/0000-0001-9937-2020>

^B PhD of Business Administration. Assistant Professor. Batumi Shota Rustaveli State University, Georgia.

E-mail: tsetskhladze.leila@bsu.edu.ge Orcid: <http://orcid.org/0000-0003-1414-872X>

^C PhD of Business Administration. Batumi Shota Rustaveli State University, Georgia.

E-mail: lashamanvelidze@gmail.com Orcid: <https://orcid.org/0000-0001-5631-3127>

Projeto/metodologia/abordagem: Este estudo foi realizado com base em artigos científicos e estudos relacionados a PMEs publicados por organizações internacionais. Além disso, com os métodos de análise econométrica e pesquisa empírica, os fatores que afetam a produção das pequenas e médias empresas foram analisados e identificados, e as características setoriais foram avaliadas e as necessidades foram identificadas.

Resultados: O estudo constatou que as PMEs estão representadas em grande número nos setores tradicionais, que não são caracterizados por alto valor agregado e com um alto nível de "efeito de transbordamento" em outros setores. É necessário desenvolver setores baseados em inovação, investir em capital humano e aumentar a capacidade de usar plataformas digitais.

Implicações sociais, práticas e de pesquisa: As disposições apresentadas no estudo serão uma recomendação para o melhor desenvolvimento do setor de pequenas e médias empresas e para a tomada de decisões apropriadas por parte do governo.

Originalidade/valor: O trabalho é um estudo complexo, no qual são estudados a estrutura setorial do setor de pequenas e médias empresas, as deficiências, os fatores que afetam o crescimento da produtividade, os aspectos da influência das inovações e das plataformas digitais.

Palavras-chave: Pequenas e Médias Empresas, Transformação, Tecnologias Digitais, Apoio Estatal, Empreendedor.

RETOS Y TENDENCIAS ACTUALES EN EL DESARROLLO DE LA PEQUEÑA Y MEDIANA EMPRESA EN GEORGIA

RESUMEN

Objetivo: El objetivo del estudio es estudiar las tendencias modernas del desarrollo de las PYME en Georgia, la estructura del sector, las direcciones de diversificación y transformación, la difusión y aplicación de enfoques basados en plataformas digitales, la identificación de los problemas existentes y la búsqueda de soluciones.

Marco teórico: Sobre la base de numerosos estudios internacionales y locales, se revela que las PYME contribuyen en gran medida a la formación de una economía sostenible. Por lo tanto, es necesario adaptarse a los cambios a los que se enfrentan las economías mundiales y nacionales y realizar las transformaciones adecuadas para hacer frente a los retos.

Diseño/metodología/enfoque: Este estudio se ha realizado a partir de artículos científicos y estudios relacionados con las PYME publicados por organizaciones internacionales. Además, con los métodos del análisis econométrico y la investigación empírica, se analizaron e identificaron los factores que afectan a la producción de las pequeñas y medianas empresas, y se evaluaron las características sectoriales y se identificaron las necesidades.

Resultados: El estudio reveló que las PYME están representadas en gran número en sectores tradicionales, que no se caracterizan por un alto valor añadido y con un alto nivel de "efecto de desbordamiento" hacia otros sectores. Es necesario desarrollar sectores basados en la innovación, invertir en capital humano y aumentar la capacidad de utilizar plataformas digitales.

Implicaciones sociales, prácticas y de investigación: Las disposiciones presentadas en el estudio serán una recomendación para el mejor desarrollo del sector de la pequeña y mediana empresa y para la adecuada toma de decisiones por parte del gobierno.

Originalidad/valor: El trabajo es un estudio complejo en el que se estudian la estructura sectorial del sector de la pequeña y mediana empresa, las deficiencias, los factores que afectan al crecimiento de la productividad, los aspectos de la influencia de las innovaciones y las plataformas digitales.

Palabras clave: Pequeñas y Medianas Empresas, Transformación, Tecnologías Digitales, Apoyo Estatal, Empresario.

INTRODUCTION

Taking into consideration issues of poverty alleviation and economic recovery, Georgia's strategic directions, and the most important reform measures, the development of small and medium-sized enterprises is pertinent. It performs important social and economic functions, including the formation of the middle class by increasing the number of private

owners, the reduction of inequality in the incomes of different social groups of the population, the presentation and involvement of active entrepreneurs in business activities, the ability to create jobs at relatively low costs, ensuring the combination of professions, innovative development, and state participation in the formation of the middle class.

The experience of the world's most developed nations confirms the need for the growth of small and medium-sized businesses. It is a vital component of the economy, which is founded on the socioeconomic development of society. In many nations, this sector accounts for half of the gross domestic product, employs the majority of the population, and contributes significantly to the economy's value (EU policy...2019). They are presented in almost all spheres of business activity.

Small and medium enterprises can be divided in three groups. The first is so called "Schumpeter small and medium enterprises", which create innovations and new worthies the second category, comes "ordinary small and medium enterprises", which can adopt with the challenges of innovative forms. These businesses do not modify their operations and do not prioritize innovation. The third group consists of "poverty small and medium-sized enterprises," which are created as a result of low economic development, a lack of employment opportunities, and inadequate state support. Due to cheap labour, these businesses are unable to significantly contribute to the economic and social revitalization of the state. Our nation also has the experience mentioned.

Currently, small and medium-sized businesses are undergoing a profound transformation. In tandem with technological, social, and innovative developments, the business models of small and medium-sized enterprises are undergoing transformation. In addition to "evolutionary" factors, the covid-19 pandemic caused significant changes in the operation of small and medium-sized businesses, which altered the operation strategy of businesses, led to the forced closure of some businesses, and compelled businesses to change their ways and methods of operation. It should be noted that the pandemic had an uneven effect on economic activity. Some industries have completely ceased to exist, while others have grown. Numerous businesses adapted rapidly to the new circumstances, and the economic downturn stimulated innovation in business management. Specifically, the digitalization of economic and financial activities has flourished. (G20/OECD-INFE...2021). Innovative small businesses are facilitated by digital technologies and tools. These businesses can expand their markets at the expense of Internet-using consumers and participate actively in the digital

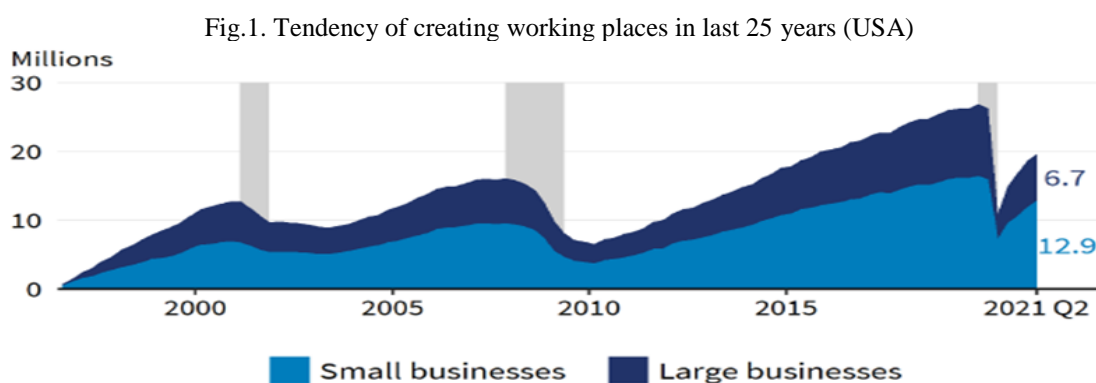
economy. Small and medium-sized businesses should also use digital communications in an organizational context.

BACKGROUND

Small business entrepreneurship is a socioeconomic institution of the market economy characterized by behaviour norm specificity, high risk, inventiveness, and initiative. It is characterized by a low degree of independence and is frequently dependent on state and non-state support on multiple levels (**Glonti at al, 2021**). Small businesses are also distinguished by the uniqueness of their marketing, innovation, and production processes.

It can be said that developing and reviving of any country is impossible without the developing of this sector. The confirmation of this are the following data:

- In 2020, more than 21 million micro, small, and medium-sized businesses operated in the European Union, of which 99.8 percent were small businesses. This sector accounted for 65% of the employed and 53% of the total added value (**Annual Report...2021**).
- By 2020, 31,7 million small businesses were registered in the United States, representing 99.9% of all businesses in the country. 82% of small businesses survive the first year, 50% make it to five years, and 35% make it to ten years. From 1995 to 2019, the number of small business employees increased by 17.2%, reaching 61.7 million individuals (**Small ... 2022**).
- Large businesses in the United States have created 6,7 million new jobs over the past quarter-century. During the same time frame, small businesses created 12.9 million jobs, resulting in a contribution of 66% to employment growth over the past 25 years (Fig.1.).

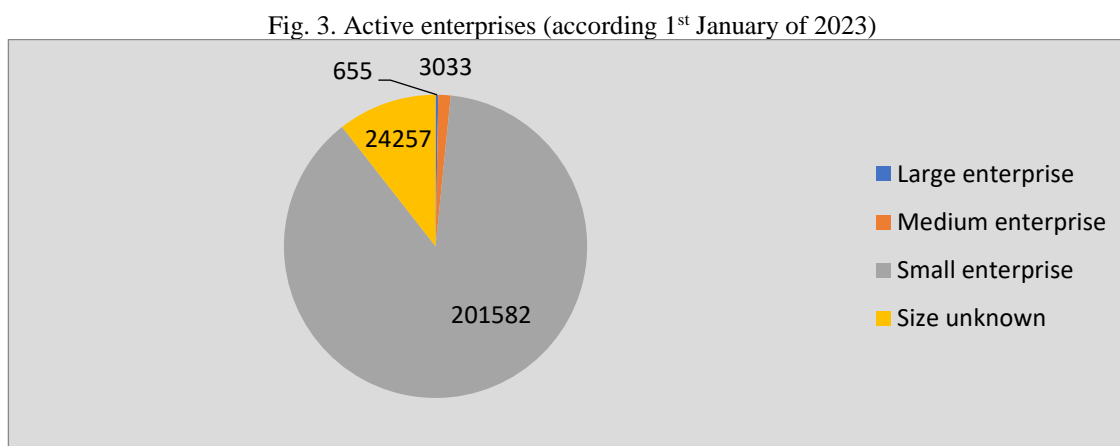


Source: Daniel Wilmoth, Small Business Facts. Small Business Job Creation. April 2022 · <https://cdn.advocacy.sba.gov>

In 2017, the National Statistic Centre of Georgia launched following defining criteria for large, medium and small enterprises (Georgian Statistic):

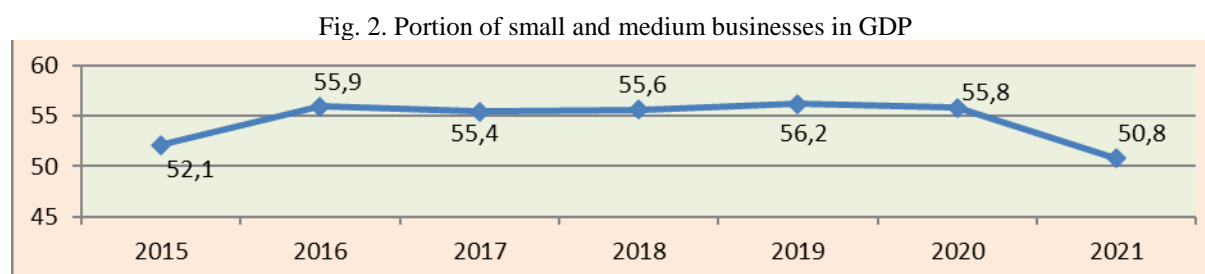
- Small enterprises - 50 employees and 12 million GEL in revenue;
- Medium enterprises - up to 249 employees or 60 million GEL in revenue;
- Large enterprise - over 250 employees or over 60 million GEL in gross profit.

The number of active enterprises registered in Georgia according to data of 1st January in 2023, among them 0,3% comes for large, 1,3% for medium and 87,8% for small enterprises, size of 10,6% subject is unknown (see Fig. 3).



Source: <https://www.geostat.ge/ka/modules/categories/65/sakmianobis-sakheebis-mikhedvit>

Georgia's business sector employed 744,256 people in 2021, with 42 percent working for small businesses and 61.8% for small and medium-sized businesses. (Georgian Statistics). The contribution of small and medium-sized businesses to the formation of the gross domestic product must be determined (see fig. 2). Similar to other nations, the contribution to GDP is between 50 and 56 percent. The decline in 2021 is attributable to the pandemic's effects.



Source: It is reported based on statistic data (2023)

Research metod: International program documents, scientific research and works of applied nature by various authors on market economy and entrepreneurship, concepts of

business development, legislative acts, scientific-economic conferences and scientific sessions serve as the theoretical foundation for the study of this topic. These are pragmatic suggestions. The work's information source consists of data from the Georgian Ministry of Economy and Sustainable Development, data from the Georgian National Statistics Service, publications, and methodological guidelines.

The research employed grouping, comparison, analysis, and synthesis techniques. The logical method of cognition played an important role in the empirical decisions, allowing us to explain the processes based on their interpretations. As a result, recommendations regarding measures that can increase the efficiency of small and medium-sized businesses and strengthen measures related to digitization have been developed.

During the writing of the paper, empirical research methods aimed at the identification, description, and analysis of factors affecting the subject of study were employed. For this purpose, a comprehensive review of empirical data was conducted in order to examine the sectoral structure of the research sector and the factors affecting productivity, including the use of digital technologies, in order to demonstrate the positive impact of their implementation.

As the unemployed and low-income population are compelled to try everything to save themselves, the number of small businesses increases in times of crisis. During periods of economic expansion, these types of businesses disappear (Harry H. Netekovin M.Z.,2019). The data in Table 1 confirm the preceding statement. Small businesses have a highly diversified sectoral structure; the level of diversification is high. However, the majority of small businesses are found in traditional industries: "wholesale and retail trade; automobile and motorcycle repair" - 39.48%, "transport and warehousing" - 7.36%, "manufacturing industry" - 7.94%, "construction" - 6.70%, etc. It is shown in timetable that there is less production in trade sphere, where there is a great deal of small enterprises, than in processor trade, building, activities connected with real estate and so on, where there are fewer small enterprises. As it is seen in timetable 1, there are less branches with high additional cost, with the high level of employment and “spill over effect “in other sectors.

Table 1: Small business enterprises according to activity and production – 2021

The type of economic activity	Number of small enterprises	%	Production release Million GEL	Production release per enterprise, Thousand GEL	Share in the whole release of production of small enterprises, %
Total	201582	100,0	16539,1	82,0	100
Agriculture, forestry and fishing	2769	1,37	375,9	135,8	2,3
Mining and Quarrying	735	0,36	306,1	416,5	1,9

Manufacturing	16000	7,94	2771,9	173,2	16,8
Construction	13569	6,74	3536	260,1	21,4
Wholesale and retail trade; repair of motor vehicles and motorcycles	79579	39,48	3275,1	41,2	19,8
Transportation and storage	14832	7,36	1599,4	107,8	9,7
Accommodation and food service activities	8459	4,20	689,2	81,5	4,2
Real estate activities	6064	3,01	985,3	162,5	6,0
Professional, scientific and technical activities	7913	3,93	963,4	121,7	5,8
Education	4185	2,08	95,8	22,9	0,6
Other service activities	5393	2,68	127,8	23,7	0,8
Other branches	42057	20,86	1813,2	43,1	11,0

Source: report of the authors (2023)

On the next stage of research, we were interested in the factors influencing the production in small and medium businesses.

We utilized statistical data grouping, graphical interpretation, econometric analysis, correlation-regression analysis, and the method of least squares in our research. Using the computer programs Ms Excel and Eviews, data was processed.

In order to identify the most important factors which effect on the total output of SME and in order to evaluate their impact, we built an analogy of the Cobb-Douglas production function, in which the factor variables are investments in fixed assets and personnel costs for SME, because these factors play the same role as the capital and labour factors in the total output of products in the whole economy.

$$Q = f(\text{Investment in fixed assets}, \text{Personnel Costs}) = A * IFA^\alpha * PC^\beta,$$

Where,

IFA denotes the Investments in fixed assets and PC-Personnel costs.

α - Output Elasticity of IFA factor;

β - Output Elasticity of PC factor;

A- Total Factor Productivity (TFP).

α and β tell us how productive are these factors, also about returns to scale.

Using logarithmic transformation, take natural logarithms of both sides of equation, we get the linear regression model with 2 factors.

$$\ln(Q) = \ln(A) + \alpha \ln(IFA) + \beta \ln(PC) + \varepsilon,$$

Where,

ε is error term.

The parameters were estimated using OLS. The time series data for Investment in fixed assets and Personnel Costs are collected from 2006 to 2021 for SME.

Table 2. The key indicators of SME

Year	Investments in Fixed Assets	Personnel Costs	Production Value
2006	636.7	757.2	1,393.9
2007	773.1	1044.3	1,817.4
2008	952.7	1059	2,011.7
2009	762.1	1332.4	2,094.5
2010	924.1	1497.8	2,421.9
2011	1081	2122.5	3,203.5
2012	1486.8	2585.9	4,072.7
2013	2003.5	2835	4,838.5
2014	1975.3	3211.2	5,186.5
2015	1791.7	3671.6	5,463.3
2016	2182.6	4041.1	6,223.7
2017	2189.4	4651.8	6,841.2
2018	2584.1	5425.6	8,009.7
2019	2528	5731.8	8,259.8
2020	2218.4	5570.4	7,788.8
2021	2511.5	6053.4	8,564.9

Source: report of the authors (2023)

The estimated regression model is:

$$Y = 0.66 + 0.38 * x_1 + 0.62 * x_2$$

Where,

x_1 and x_2 represents $\ln(IFA)$ and $\ln(PC)$ respectively. The parameters $\alpha=0.38$ is output elasticity of IFA factor and $\beta=0.62$ is output elasticity of PC factor, means that an 1% increase in IFA leads to a 0.38% increase and an 1% increase in PC leads to a 0.62% increase in Production Value respectively. So, the personnel factor contributes relatively more than the share of Investment in Fixed Assets in the production process. Which is explained by the diminishing marginal returns from investment without technical innovation and more marginal returns from personnel costs as human capital development. $\alpha+\beta=1$ tell us about constant returns to scale in the long run. The both elasticities reflecting the proportional contributions of each factor to any increase in total production.

Empirical Results

Results of regression analysis show the strong positive relationship between the input and output variables and confirms the validity of the model ($\text{Prob}(F) < 0,01$). The explanatory

variables explain variation of dependent variable almost completely ($R^2=0,99$) and they are statistically significant. (Table 3)

Table 3. The interpretations of results

Variable	Coefficient	Std. Error	t-statistic	p-value	Significance
constant	0.66	0.04	18.40	0.0000	***
x1	0.38	0.02	24.47	0.0000	***
x2	0.62	0.01	56.38	0.0000	***
R^2	0.99	Akaike info criterion	-6.84		
Adjusted R^2	0.99	Schwarz criterion	-6.70		
S.E. of regression	0.01	Hannan-Quinn criterion	-6.84		
F-statistic	53118	Prob (F)	0.0000		

*** denotes significance of coefficients at 1%.

Source: Calculated by authors in Eviews (2023)

RESULTS AND DISCUSSION

Under modern conditions, diversification of the economy and economic growth are impossible without the formation of businesses focused on innovation and development (Chong et. al, 2022), as the structure of developing countries is changing as a result of technological advances and the creation of alternative energy resources, which entails a decrease in the demand for the supply of raw materials, which is a significant component of Georgia's export goods. Thus, the support of entrepreneurship is viewed as innovative development and improvement of the agricultural structure of the economy on the one hand, and social development and economic stability on the other. Ensuring regular employment. Numerous small and medium-sized businesses are attempting to invest in sustainable technologies (Glonti et.al, 2021) and acquire the necessary skills and knowledge in order to evolve into sustainable and competitive businesses. e.g., two-thirds of small and medium-sized businesses in the European Union are already engaged in resource efficiency activities, such as waste management and energy conservation. (Annual Report... 2022).

State support in economically developed nations has taken on new directions in recent years, as evidenced by the financing of companies producing innovative products and the development of their ties to universities and scientific research organizations (Tsetsckhladze, 2017). Techno parks, innovative territorial clusters, and their funding are gaining increasing interest. This strategy is frequently employed in developing nations to promote the inclusion of small and medium-sized businesses in the value chain (Tsetsckhladze, 2016).

Patents are frequently used by experts to gauge the level of innovation. According to the US Patent and Copyright Office, approximately 328 thousand patents were registered in the country in 2021, a 7% decrease from the previous year (Arania, 2021).

It is interesting that in 2016, in USA innovative small enterprises received 2,7 patents for each employee. Large enterprises received 3 patents for 100 employees' small enterprises, they got 8165 in all. The smallest enterprises (5-9 employees) got more patents for one employee by 50% than in any large enterprise (Tyler, 2022).

A small number of registered patents shows the non-attractive tendencies in innovative development of Georgia (40-55 patents in a year). In 2016, 58 local and 7 foreign patents connected with inventions, in 2020-81 local and 4 foreign 2021 -42 local 4 foreign patents. As for the number of patents connected with models, in 2021 30 local and 10 foreign patents were enlisted (Georgian.).

Small businesses in less developed nations that want to increase their value and competitiveness at the expense of access to regional and international markets can benefit greatly from digital transformation. e.g. According to research conducted by the World Bank, companies that implemented minimal information technology and streamlined their organizational hierarchy had significantly higher productivity than companies that did not implement or implement structural changes. E-commerce, for instance, continues to eliminate barriers to SME participation in international trade. According to eBay reports, 97% of companies with Internet access export, compared to 2-28 % for traditional SMEs in the majority of countries (DDG Wolff: Trade, 2018).

The government collaborates with various stakeholders to accelerate digital transformation, and small and medium-sized enterprises (SMEs) prefer common government approaches based on common digital platforms that any institution can use to provide services in an efficient and cost-effective manner. Despite the fact that nearly all Georgian businesses have Internet access (93-100%), their use of information and communication technologies remains low. The situation is particularly unfavourable for small businesses, as only 16.9% had a website in 2021, a negligible number of small organizations conducted online sales of goods/services, the use of social media is also low, as is the use of various types of (ERP, CRM) software, etc (**see table 4**).

Table 4. Usage of information and communicative technologies in enterprise

As of January 1, of the applicable year, %	2020			2021		
	Small	Medium	Large	Small	Medium	Large
Share of enterprises that had access to the Internet	93,0%	99,6%	100%	94,8%	99,8%	100%
Proportion of enterprises with mobile internet connection (for enterprise purposes only) via enterprise-owned portable devices	45,6%	53,1%	70,9%	31,8%	52,4%	64,6%
Proportion of enterprises that had a website/website	16,1%	53,6%	79,8%	16,9%	57,5%	84,7%
Use of social media by enterprises. Social Media Categories:						
Social networks (e.g. Facebook, LinkedIn, Xing, Viadeo, Yammer, etc.)	25,4%	46,7%	50,8%	27,5%	47,2%	53,2%
Enterprise blog or microblogs (e.g. Twitter, Present. Ly etc.)	2,2%	5,8%	11,2%	2,2%	6,5%	9,0%
Websites with multimedia content sharing (e.g. YouTube, Flickr, Picassa, SlideShare, etc.)	4,6%	10,0%	22,0%	4,5%	11,0%	18,4%
Wiki-based knowledge sharing tools	1,7%	3,7%	6,0%	1,4%	3,8%	6,5%
The enterprise does not use any of the above social media tools or uses them only to place paid advertising	66,0%	33,8%	10,0%	64,4%	31,6%	12,8%
Share of enterprises engaged in online sales of goods/services, % between them:						
with enterprise web site or applications (including extranet)	2,7%	8,8%	14,6%	2,4%	7,8%	18,0%
With websites or applications for e-commerce marketplaces that are utilized by multiple businesses to sell goods or services (e.g. MyMarket.ge, Wishlist.ge, Vendoo.ge, My.ge, Procurement.gov.ge, Booking.com, hotels.com, eBay, Amazon, Amazon Business, Alibaba, etc.)	0,9%	3,1%	6,6%	1,8%	3,9%	8,4%
did not have	97,0%	90,6%	84,0%	96,3%	90,5%	80,6%
Share of enterprises that used ERP ¹ type software	7,6%	24,7%	51,5%	7,3%	20,7%	42,8%
Use of CRM ² (Customer Relationship Management) * software in enterprises. between them:						
To collect, store, and access customer information for various business purposes	–	–	–	53,5%	48,2%	50,3%
To analyze customer information for marketing purposes (e.g. to determine prices, choose distribution channels, etc.)	–	–	–	46,5%	51,8%	49,7%

Source: It is compiled based on our statistic information (2023)

Above mentioned is confirmed by the results of the 2021 research about the financial education of micro, small and medium businessmen held by the organization for economic cooperation and development “International Network of Financial Education” (OECD/INFE). Georgia was one of fourteen nations included in a study conducted using OECD/INFE methodology. According to the results of the study, the financial education score in Georgia

¹ ERP (Planning enterprise resources) Software is programme packet, which provides management of enterprises resources among different functional spheres (finances, planning, production and so on) on the basis of information exchange.

² CRM (management about the relationships with customers) software is programme packet, which provides to manage information about customers.

was 10.3 out of 17 (60 percent), which is below the medium index of other countries. According to the research, the level of financial education for micro, small, and medium businesses was assessed based on three factors: knowledge, behaviour, and attitude. During their research, they also examined business bank account ownership, the degree of digitalization of money transfers, and the impact of covid-19.

This study also describes the degree of digitalization of business-related transfers before and after the pandemic. Before pandemic, it appeared that by the end of 2019, only 25 percent of Georgian businesses had websites that described their products or services. Following the pandemic, this index increased by only 5 percent. After the pandemic, there were generally no significant changes to online activities. This may suggest that small businesses rarely used the Internet to sell their products (G20/OECD-INF...2021).

Currently, technological markets are undergoing formation. As a result of their aspiration to grow rapidly, start-ups generate a group of enterprises that attract special attention. They made significant contributions to achieving sustainable health from the covid-19 crisis and accelerating the double green and digital transitions, thereby creating more employment opportunities. There are approximately 200 ex-start-ups whose capitalization surpassed \$1 billion USD. This was accomplished in 2–7 years, whereas traditional industries require 20–30 years. These processes will continue into the foreseeable future (Harry H. Netkoven M.Z. 2019).

It should be noted that limited access to funds, unqualified personnel, and administrative barriers are among the severe issues facing the research sector. Inadequate notoriety, international certificates confirming quality, modern machines, lack of laboratories, logistics, and marketing are the most significant obstacles for small and medium businesses on international markets.

In developed nations, national governments recognize the economic significance of small and medium-sized businesses and implement various forms of support. They create state programs of governmental and local significance, establish preferential regimes, support the study of export markets and facilitate their connection, etc. Financial programs from the previous year that provide consulting and education services are utilized extensively. To give government guarantees to companies which produce these specific products, such as developers producing energy-effective productions, companies processing reproducible energy, and green economy, are innovative developments. Innovative businesses are increasingly utilizing direct crediting programs and government guarantees (Surmanidze, (2020).

In our opinion it is important to differentiate small and medium enterprises, ERPs that government can implement different courses for each of them. For instance, innovative businesses require a policy aimed at enhancing the environment and accelerating the development process. Firms founded on a foundation of poverty must have poverty-related programs and regulations aimed at eradicating undesirable work and living conditions.

- In most countries, in Georgia as well, there are following events which support small and Among the programs that financially support new businesses is one that stimulates venture capital.
- Existing and active enterprise financing (credit guarantees, grants, preferential credits);
- Training, mentoring, and consulting programs designed to facilitate the modernization or effectiveness of management in existing or new businesses.
- Programmes designed to stimulate innovation in small and medium-sized businesses (grants for the implementation of innovative projects, support for university entrepreneurs, etc.);
- Clustering policy and other events aimed at large businesses, the development of cooperation with universities and scientific-research buildings (centres of clustering development, European clustering observatory, support the participation of small and medium-sized businesses in government contracts, etc.);
- In recent years, there has been considerable focus on reducing bureaucratic barriers between the government and businesses. This may be a result of the Washington consensus, which was recommended in the 1990s by the international monetary fund and the world bank to increase the role of government in the liberalization of markets and private sectors.

Consequently, the importance of business development is substantial for increasing business prosperity and resolving social issues. The most important task for small and medium-sized businesses is sectoral structure optimization. Priority is given to searching and processing those branches where we will have a distinct advantage. Current circumstances confirm the necessity of the aforementioned. The world is confronted with the problem of safety, and a key objective for all nations is to find their own means of development, which must be accompanied by fundamental measures (Jabnidze et al, 2021).

The country's role in economic development is always debatable. Georgia has implemented significant economic reforms in recent years. Their objective is to create an

environment conducive to business and to attract foreign direct investments. Reforms are associated with the liberalization of the economy, the reduction of tax congestion and administrative barriers, the enhancement of the provision of state services, etc (Georgian micro, small...2022).

These reforms were effective in achieving a high economic growth index, and the flow of direct foreign investments increased significantly. Different ranking agencies and international financial institutions have a favorable view of Georgia's economic policy. In the 2020 "Business Making" ranking, Georgia ranked seventh out of 190 countries. According to the "Heritage Foundation," it ranks 26th out of 177 countries and primarily belongs to the group of free nations. In the research titled "Global index of innovations" in 2021, the point value of 32,4 ranks 64th. Nonetheless, according to the 2022 index, Georgia's ranking declined by 11 places, and it now occupies the 74th position (Georgia innovations...2022).

In 2022, the results of Georgia's economic and innovative development in specific spheres will exhibit several delays (Global); Therefore, it is necessary to take a comprehensive approach and eliminate biases regarding the challenges in this sector; education and infrastructure are of greater significance. It is also essential to establish a financing structure for innovative start-ups that includes both government funding and so-called venture capital and attraction.

As we already mentioned, institutional and legal frame, connected with the policy of small and medium enterprises in Georgia, were changed. Particularly, developing strategy of small enterprises of 2021-2025³, was taken, in which prior activities which should be carried out while developing entrepreneurship, among them refining of legislative basis, institutional and legal frame and entrepreneurship environment, enlargement of internalization and innovative activities (strategy, 2021). Several interested parties participate in the implementation of small business policy, with the agency of enterprise development (Enterprise Georgia) and the agency of Georgian innovations and technologies playing the most prominent roles (GITA).

In addition, beginning in 2011, a regime of preferable taxation was implemented, and the terms "micro business" and "small business" were applied to businesses that were recommended a preferable tax rate. Micro enterprises with an annual revenue of less than 30,000 GEL are exempt from taxation. According to the changes of 1st July, 2018, the enterprises are given the "status of small business", which has annual turnover about 500 000

3 Developing strategy of Georgian small and medium enterprises for 2021-2025 years <http://www.economy.ge/>

and therefore their income in budget is determined by 1 percent of turnover. It should be noted that this designation is given to businesses that contribute to the Gross Domestic Product (Georgia,2022).

After signing the "Association Agreement" with the European Union in 2014, which includes a "Deep and Comprehensive Free Trade Area" (DCFTA) component, Georgia approached European integration gradually. This success represents great possibility for existing small and medium enterprises in Georgia. DCFTA is a type of catalyst, which entails pressuring the government to enact institutional and regulatory reforms. Establishment on the European market necessitates compliance with existing market requirements and standards. This is related to changes in the working methods of local entrepreneurs, modernization, the achievement of high-quality production, etc. Export expansion and investment attraction cannot be accomplished in any other way. Within international agreements, agreements of free trade Georgia has quite good benefits to grow exporting potential, which are used mostly by large business rather than small and medium businesses.

CONCLUSION

According to the research:

- Rate and tendency of developing small and medium business, the motivation of entrepreneur involved in them, is importantly due to the specificity, place and role of the sector in country's economy, business. For example, the production of market- and family-necessary products is a significant factor in the formation of business subjects that contribute to the formation of the grocery industry. Ten percent of these business subjects produce raw materials for the recycling trade. For innovative sectors, one of the goals of business activity in the servicing sector is to supply large businesses with the necessary components and equipment. We believe that the government's greatest challenge must be to encourage the continued integration of small and large business subjects on a large scale. Important because this strategy allows small businesses to participate in global processes, large-scale investment projects, and effective utilization of scientific-technological advancements.
- Among the investments that have an effect on the production growth of a small business are fixed assets and labour expenditures.

- After covid-19, there was an intensive development of innovative means, which was an attempt to make up for the business sector's strike and to fight for survival in unusual conditions.
- Developing the system of science, education, and personnel; ensuring a highly competitive business climate and an alluring climate for foreign and local investors. Ensuring infrastructure innovation.
- For expanding access to international markets, it is crucial to digitalize businesses, while for access to European markets, it is necessary to activate programs geared toward the transfer of education, skills, and technologies.

Therefore, the economic policy paradigm in Georgia should be development. Technologies and data are the foundation of the supply chain of the future. Digital skills will be premise for comprehensive social and economic involvement in providing chain in global economy damaged after pandemic.

REFERENCES

Annual Report on European SMEs 2020/2021. (2021). Digitalisation of SMEs. Luxembourg: Publications Office of the European Union. <https://op.europa.eu/en/publication-detail/-/publication/849659ce-dadf-11eb-895a-01aa75ed71a1>

Annual Report on European SMEs 2021/22. (2022). SMEs and environmental sustainability, Background document. EUROPEAN COMMISSION. https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en

Aronia, G. (2021). Companies which registered the most patents in USA, in 2021. <https://forbes.ge/kompaniebi-romelthats-2021-tsels-ashsh-shi-qhvelaze-meti-patenti-daaregistrires/> seen 24.02.2023)

Bahari, N., Saufi, R. A., Zainol, N. R., Syafiqah, N., A. Samad., Abu Yaziz, M. F. Entrepreneur's Personality Traits and Firm Performance of Malaysian Smes: Mediated by Market Orientation. Intern. Journal of Professional business Review. <https://doi.org/10.26668/businessreview/2023.v8i1.1260>

Chong W. Y, Hong P. H. K., Teck T. S. (2022). Small and Medium-sized Business in Malaysia Can Look Forward to the Future of Co-Creation, a Literature Review. Intern. Journal of Professional business Review. Vol. 7 No 6. <https://doi.org/10.26668/businessreview/2022.v7i6.e583>

DDG Wolff: Trade is a vitally important driver of opportunities for small businesses. (2018) https://www.wto.org/english/news_e/news18_e/ddgra_31may18_e.htm

Developing strategy of Georgian small and medium enterprises for 2021-2025 years <http://www.economy.ge/>

EU policy framework on SMEs: state of play and challenges. (2019). Commission for Economic Policy. European Union. Commission for Economic Policy. <https://cor.europa.eu/en/engage/studies/Documents/EU-SMEs/EU-policy-SMEs.pdf>

Frequently Asked Questions. (2020). U.S. SMALL BUSINESS ADMINISTRATION. Office of Advocacy. October. <https://advocacy.sba.gov/wp-content/uploads/2020/11/Small-Business-FAQ-2020.pdf>

G20/OECD-INFE Report Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 times OECD (2021). https://finedu.gov.ge/storage/files/doc/ACTAnalytical-%20Report_NBG_MSME%20survey_04.10.21.pdf

Georgia in Index of Global Innovations – Results of 2022. December, 2022. https://idfi.ge/ge/georgia_in_the_global_innovation_index_2022

Georgian tax code. (2022). <https://matsne.gov.ge/ka/document/download/1043717/196/ge/pdf>

Glonti, V. Manvelidze, R. Surmanidze, I., (2021). The Contribution of SME to Regional Economic Development: On example of Adjara Autonomous Republic. European Journal of Sustainable Development. 10, 1, 513-526 ISSN: 2239-5938 <https://doi.org/10.14207/ejsd.2021.v10n1p513>

Glonti, V., Zhiyenbayev, M., & Manvelidze, R. (2018). The method of estimating the regional budgetary process. In MATEC Web of Conferences (Vol. 212, p. 08029). EDP. Sciences. <https://doi.org/10.1051/mateconf/201821208029>

Harry, H. Netekoven, M.Z. (2019). The role of small and medium enterprises in the process of development. Fund of Fredrich Ebert. <https://southcaucasus.fes.de/news-list/e/the-role-of-small-and-medium-sized-enterprises-in-development>

Index of Global Competitiveness. (2022). https://www.wipo.int/edocs/pubdocs/en/wipo_pub_2000_2022/ge.pdf

Jabnidze, N., Tsetskhladze, L., Meskhidze, I. (2021). "Food Security Problems for Developing Countries in the Conditions of COVID-19: Case of Georgia". The journal «Economics. Ecology. Socium», Vol.5, No.2, 2021; ISSN 2616-7107. <https://doi.org/10.31520/2616-7107/2021.5.2-2>

MSEe needs in accessing accounting services and Business advice in Georgia. CRRC-Georgia, 2022. https://saras.gov.ge/Content/files/WB%20Business%20Report%2026152022_-_FINAL%20ENG_for%20send.pdf

National Centre of Georgian Statistics. <https://www.geostat.ge/ka>

Official Bulletin of the Industrial Property. "Saqpatent", NATIONAL INTELLECTUAL PROPERTY CENTER OF GEORGIA. <https://www.sakpatenti.gov.ge/ka/>).

Roman, A., Rusu V.D.(2022). Digital Technologies and the Performance of Small and Medium Enterprises. Journal "Studies in Business and Economics". <https://doi.org/10.2478/sbe-2022-0055>

Small Business Profile. (2022). U.S. SMALL BUSINESS ADMINISTRATION. <https://advocacy.sba.gov/https://cdn.advocacy.sba.gov/wp-content/uploads/2022/08/301213-38/Small-Business-Economic-Profile-US.pdf>

Small goes digital. (2021). How digitalization can bring about productive growth for micro and small enterprises. International Labour Organization. https://www.ilo.org/wcmsp5/groups-public/---ed_emp/---emp_ent/--ifp_seed/documents/publication/wcms_808632.pdf

Strategy of development of small and medium for 2021–2025 years (2021). <https://www.economy.ge/?page=ecopolitic&s=45>

Surmanidze, I. (2020). Statistical analysis of the key indicators of small business (on the example of Adjara). Globalization & Business, Issue 9, p42-49. 8p. <https://doi.org/10.35945/gb.2020.09.005>

Tsetskhladze, L., (2016). Innovation-factor of defining business competitiveness. journal “Innovating economy and management”, #1, ISSN 2449-2418, 2016. https://nier.ge/images/statia_09_82-86.pdf

Tsetskhladze, L., (2017). Developed infrastructure, factor for promoting small and medium businesses. journal „Innovative economy and management chapter IV, ISSN 2449-2418, E-ISSN:2449-2604. Publication. kalmosani. <https://nier.ge/images/4/L.%20Tsetskhladze.pdf>

Tsetskhladze, L., Makharadze N., Chkhaidze I., Jabnidze N., Baratashvili N. (2021) Actual problems for logistics management and strategies of supply chain in Georgia. MATEC Web Conf. Volume 339, International Conference on Sustainable Transport System and Maritime Logistics (ISTSML 2021). <https://doi.org/10.1051/mateconf/202133901004>

Tyler, R. (2022). Small Business Innovation Measured By Patenting Activity. September. <https://cdn.advocacy.sba.gov>

Wilmoth, D., (2022). Small Business Facts. Small Business Job Creation. April. <https://cdn.advocacy.sba.gov>