

SMALL BUSINESS IN A SMALL COUNTRY AND THE ROLE OF GOVERNMENT (THE CASE OF GEORGIA)

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Abstract. Problem statement: The value of small and medium-sized enterprises (SMEs) for a national economy is recognized all over the world. Georgia is not an exception. Georgian government has declared the importance of the creation of a strong private sector in strategic documents - “Socio-Economic Development Strategy of Georgia – Georgia 2020” (2014) and “For a Strong, Democratic and United Georgia” (2015), first of all. In line with country’s general strategy - to achieve economic growth through private sector development - more proactive reforms to develop entrepreneurship, start-ups and build a competitive SME sector have been developed and special program -“*SME Development Strategy 2016-2020*”- was adopted. Nevertheless, some challenging tasks still remain.

The aims of the article are twofold. Firstly, to analyze Georgian SMEs contribution to the national economy in order to reveal the role of this sector, and following this reasoning, critically assess government policy towards SMEs after signing in 2014 the Association Agreement with the European Union.

Research methods applied in the paper are quantitative and qualitative based upon a bottom-up approach that combines desk research and statistical data analysis provided by the National Statistics Office of Georgia, national researches and international organizations. Desk research consists of analysis of academic literature related to the topic. Media reports and interviews are used as additional sources.

Main results/ Findings are as follows:

- nowadays Georgian SMEs contribution to the country’s economy is difficult to be assessed due to the new classification methodology applied by the National Statistics Office of Georgia,
- Georgian government policy toward SME is changing,
- Entrepreneurial education still remains a challenge,
- Neither educational programs are fully successful nor government provided effective training programs.

Practical implication of the work: Recommendations for the policy decision-makers were developed in order to provide guidance to policy makers for formulating and adjusting policies and programs.

Key words: *small and medium-sized enterprises (SMEs), government policy, Georgia*

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Introduction

Problem statement: The value of small and medium-sized enterprises (SMEs) for a national economy is recognized all over the world. It is often defined as “vital” (BSEC, 2014; Keskin, Sentürk, 2010) or even “crucial” (Haltiwanger, et al, 2010). Indeed, more than 95 percent of enterprises in the OECD area are SMEs. In other words, in all OCDE countries SMEs represent almost the totality of the business population. SMEs are recognized as the backbone of the European economy (European Commission, 2013).

In emerging and developing economies SMEs contribute more than one third of GDP, account for 60 percent of total employment and generate between 50 and 60 percent of value added (OECD, 2018).

The vital role of SMEs for national economies and societies has become even more evident since the 2008-2009 global financial crisis. Literature highlights the main reasons of this phenomenon, such as small business flexibility or readiness to respond to changing climates and new economic situation (Keskin, Sentürk, 2010), SME innovative nature (Sahut, Peris-Ortiz, 2015) and ability to work in high-risk sectors, such as telecommunications, scientific research and development and IT services (Longley, 2018). Besides traditional role of being job generator, small business creates job opportunities for those who facing a disadvantage in the workforce like minorities, veterans, and women (U.S. Census Bureau, 2016).

Customers also have appreciated SMEs interactivity and accountability to the local community wants and needs (Moffatt, 2018). Small businesses also represent an effective tool to address societal needs through the market, as in the case of social enterprises (EU/OECD, 2016).

Consequently, the role of SMEs in countries' economy and society has been repeatedly acknowledged at the highest political level. In 2008 European Council initiated new approach in SME policy, named the "Small Business Act" (SBA) for Europe, in order to further strengthen SMEs' sustainable growth and competitiveness (Small, 2008). The EU has thus firmly placed the needs of SMEs at the heart of the growth and jobs strategy changing policy priorities from regulation to public service.

In SBA 10 principles that guide the conception and implementation of policies were also formulated.

American government SME policy has even longer history. The special departments and federal agencies have been created to provide small businesses all kinds of support. The leading agency is the US Small Business Administration (SBA), that was created in 1953 and whose basic functions have been (a) to provide free business counseling helping business owners with management and technical assistance and business training; (b) to help small businesses to get loans by making direct business loans and guaranteeing bank loans; (c) to assist in case of disaster making loans to victims of natural disasters.

It goes without dispute, learning best international practice is crucial for small post-Soviet countries like Georgia. Nevertheless, it should be also recognized that countries have different priorities for different populations of firms, depending on the specific national contexts and circumstances.

The aims of the article are twofold. Firstly, to analyze Georgian SMEs contribution to the national economy and society in order to reveal the role of this sector, and following this reasoning, critically assess government policy towards SMEs after signing in 2014 the Association Agreement with the European Union in order to provide guidance to policy makers for formulating and adjusting policies and programs.

Research methods applied in the paper are quantitative and qualitative based upon a bottom-up approach that combines desk research and statistical data analysis provided by the National Statistics Office of Georgia, national researches and international organizations. Desk research consists of analysis of academic literature related to the topic. Media reports and interviews are used as additional sources.

SMEs in Georgia by the numbers

Keeping in mind 2014 Association Agreement with the European Union that offered both new opportunities and challenges for Georgian SMEs, the prospect of further improvement of legislative framework, updating the definition of SME seems like an urgent issue (OCDE, GIZ, 2016).

Table 1 summarizes SMEs contribution to Georgian economy using the major macroeconomic indicators – turnover, value added, employment, and investment in fixed assets. As one can see, nowadays Georgian SMEs contribution to the country’s economy is difficult to evaluate. The problem has raised since the National Statistics Office of Georgia introduced new classification methodology. According to the new approach, part of previously “large” enterprises were mechanically transferred to the group “medium”. As a result, the share of the group “small and medium enterprises” in main economic indicators, applied in this analyses, more than double up! The only argument provided by the National Statistics Office is that new methodology is closer to the European standard. How valuable this argument is and how applicable the new classification is for policy-making, is a special question for special research (Papiashvili, Ciloglu, 2017), (Saksonova, et al, 2017). But the fact is that “.... a standard international definition of SME does not exist. SMEs are defined differently in the legislation across countries, because the dimension “small” and “medium” of a firm are related to the size of the domestic economy” (OCDE, 2017, p. 14).

Table 1

SMEs contribution to Georgian economy (% of total)

| Year | Turnover | | Value added | | Employment | | Investment in fixed assets | |
|------|------------|------------|-------------|------------|------------|------------|----------------------------|------------|
| | Old method | New method | Old method | New method | Old method | New method | Old method | New method |
| 2006 | 18.7 | 62.1 | 21.8 | 46.2 | 46.7 | 63.8 | 10.5 | 31.0 |
| 2007 | 14.5 | 57.7 | 16.3 | 49.1 | 44.1 | 67.8 | 11.6 | 29.9 |
| 2008 | 12.3 | 51.4 | 16.6 | 45.4 | 40.0 | 64.7 | 19.1 | 42.7 |
| 2009 | 15.6 | 56.3 | 22.6 | 52.3 | 42.4 | 66.5 | 8.0 | 35.3 |
| 2010 | 16.1 | 52.0 | 23.7 | 50.4 | 43.6 | 66.9 | 12.1 | 28.8 |
| 2011 | 19.9 | 57.1 | 20.3 | 55.5 | 45.6 | 69.5 | 15.2 | 41.5 |
| 2012 | 17.0 | 55.8 | 22.1 | 55.4 | 42.9 | 68.3 | 15.0 | 45.8 |
| 2013 | 18.2 | 58.0 | 21.6 | 56.0 | 42.7 | 67.6 | 19.7 | 50.9 |
| 2014 | 18.1 | 57.5 | 22.5 | 57.3 | 43.8 | 68.5 | 19.4 | 55.5 |
| 2015 | 17.5 | 56.7 | 10.4 | 58.1 | 43.1 | 68.3 | 15.1 | 41.3 |
| 2016 | 17.8 | 55.9 | 21.7 | 58.4 | 41.7 | 67.4 | 19.7 | 45.0 |
| 2017 | 15.7 | 67.0 | 21.4 | 61.6 | 36.7 | 64.3 | 16.1 | 39.2 |

Source: Compiled and calculated by the authors, source of data: Geostat.

The described above statistical “trick” is not trivial or technical as it seems at first glance. According to the “old” methodology, SMEs contribution to economic growth is insignificant. Under these circumstances, Georgian society, business and academic communities have to demand more active government support to the sector development (Papiashvili & Ciloglu, 2015). The “new” methodology changes the picture to opposite – SMEs are very competitive and their contribution to the national economy is quite significant. Despite the fact that a lot proactive reforms have been implemented in order to develop entrepreneurship, start-ups and to build a competitive SME sector (Enterprise Georgia, 2016), this conclusion is misleading. “Results of economic growth did not reach a significant part of the Georgian population and failed to have an impact on reducing unemployment and poverty levels” (Social-economic, 2014, p. 11).

Thus, playing tricks with the SME statistics creates real challenges. Statistical “bread butter on both sides” creates an illusion that causes misleading conclusion concerning the further SME policy. New statistical method provides considerable room for politicians to manipulate with the data, selecting suitable statistics to demonstrate to voters how successful current policy is. New methodology disorients Georgian academic and business communities and sends a wrong signal to the government that main goals have been achieved. The main economic and social function of small business – being one of the important drivers of economic growth and engine of employment and income – might be neglected due to the achieved “successes”.

Under these circumstances, the question arises - If SME sector is quite successful in Georgia from economic (at least, based on the reviewed indicators) and social perspectives (its contribution to employment), what kind of government policy does the country need? To find out the answer, from the beginning the common fundamental principles of such policy should be defined.

Fundamentals of government SME policy

The philosophy of government SME supporting policy should be rooted on the recognizing SMEs weaknesses which, on one hand, hamper their development and, on another, small business cannot tackle the remaining problems by itself.

Complicating the picture further, compulsory policy principle should be systems approach. The conceptual framework, which consider the environment for business creation, investment, and growth was developed by OCDE (OECD 2017, p.12). It offers insights for characterizing the SME business environment and shows the links between the business eco-system and SME performance. The system consists of four blocks:

1. *Institutional and regulatory framework* (regulation, taxation, competition, public governance, court and legal framework)
2. *Access to markets* (infrastructure, trade and investment policy, domestic demand conditions, public procurement)
3. *Access to resources* (human capital and skills, finance, energy, knowledge and technology/innovation)
4. *Entrepreneurial culture* (abilities, attitudes, opportunities)

Therefore, the proposed framework reflects that

- SME policy space is complex that comprises two levels - broad policies and specific targeted policies;
- SME policy objectives are multi-dimensional and diverse.

A better understanding is needed of the combined effects of structural reforms on the SME business environment, as well as on the role and impact of policies targeted to SMEs. Insufficient understanding of the interdependency of policies leads to not well thought-out of the synergies, trade-offs and complementarities within and across policy areas, as well as the

implications for different types of SMEs (OECD, 2016).

Assessing SME policy in Georgia

Despite the variety of SME policy in different both advanced and post-socialist countries, critique of the results is in common (Wapshott, Mallett, 2018), (Chepurenko, 2017), (Mamman et al, 2019). As researchers report, SME support policy is not effective as it could be and small business is still facing limited access to resources (financial, human, technology, others) and markets (Tsuruta, 2017), (Rupeika-Apoga, Saksonova, 2018). Georgia is not an exception (Papiashvili, Ciloglu, 2017).

The guiding principle of Georgia’s strategy for economic development has been defined since 1996, when Partnership and Cooperation Agreement between the EU-Georgia was signed. The Association Agreement of 2014, which integral part is Deep and Comprehensive Free Trade Area, deepens this cooperation.

Georgian government has declared the importance of the creation of a strong private sector in strategic documents - “*Socio-Economic Development Strategy of Georgia – Georgia 2020*” (GoG, 2014b) and “*For a Strong, Democratic and United Georgia*” (GoG, 2014 a). In line with country’s general strategy to achieve economic growth through private sector development, more proactive reforms to develop entrepreneurship, start-ups and build a competitive SME sector have been developed. Special program - “*SME Development Strategy 2016-2020*” (GoG, 2015) - was adopted which represents the new page in relationships between small business and the government. Indeed, in 2004 when widespread economic reforms started in the country, the main announced goal was to create business-friendly environment for all firms, no matter their size (Georgia, 2011). Therefore, Georgian government rhetoric toward SME special programs and policies has been changing drastically. The new approach focuses on targeted support through providing financial and technical assistance for entrepreneurship, innovation and export promotion. To achieve these goals, tax reform has been implemented, two new institutions, Enterprise Georgia and Georgia’s Innovation and Technology Agency (GITA), have been created, significant progress has been made on the indicators for business support infrastructure, access to finance, technical barriers to trade and SME internationalization, etc. (OCDE, GIZ, 2016). Besides, the first “Annual Progress Report of SME Development Strategy Action Plan 2016-2017” that was published recently, provides detail analysis of actions which Georgian government is going to undertake (Annual Progress, 2017).

Nevertheless, despite much has been done, several problems still remain.

The objective of this research is education, because, firstly, in the knowledge-based economy, skills and knowledge are considered among critical prerequisites for the development of dynamic and productive SMEs (OECD, 2017, p.5). Secondly, entrepreneurial education in Georgia is recognized as the first among the most problematic factors for doing business in the country (World Economic, 2017, p.124).

Keeping in mind the complexity of the investigated problem, some assumptions of the research might be defined. They are as follows:

- Entrepreneurial education is analyzed in broad term as education and training together.
- The country-level studies show that in efficiency-driven country like Georgia, increased investment in entrepreneurship education and training would give fully positive return only if basic requirements such as adequate infrastructure, economic stability, market and technological readiness, others components included in aforementioned fundamentals, have been created (Global, 2018). Due to the fact that Georgia has been internationally recognized as a successful reformer (World Bank, 2017) and reforms in education system has been accompanying all the others, it is worth to assume that entrepreneurial education and training have some effects on entrepreneurial attitudes, activity and aspirations. Conducted surveys provide empirical evidence of validity of this assumption (Papiashvili et al, 2015).
- To define the role of government in education market, demand-supply analysis might be applied.
- Due to the lack or even absent of reliable statistics on Georgian SME, results of surveys might be generalized.

On the demand side: The new industrial revolution changes nature of work increasing the demand for high-skilled and non-routine jobs, generates new opportunities for innovative entrepreneurs (OECD, 2018.p.16). Skillset is diversified and includes commercial (e.g. marketing and serving of new offers), project management (e.g. logistics, organization of events), financial (e.g. capital and cash flow management) and strategic thinking skills (e.g. building internal leadership, coordinating sets of actions to fulfil new strategic objectives) (OECD, 2013).

On the supply side the picture is much more comprehensive.

People may receive entrepreneurship education and training at various times in their lives, whether their formal education (at school, college or university) or beyond it as informal one. Formal education is very important because it

enhances the skills required to start and grow business. Researchers founded that university graduates who have taken entrepreneurship courses were more likely to select careers in entrepreneurship, worked in small businesses and developed patented inventions or innovative processes, services or products (Wiśniewska et al, 2015).

Education system in Georgia has been significantly reforming (Doghonadze , Papiashvili, 2009). Part of these reforms is related to the introduction of strong requirements for accreditation and authorization procedures. General results of implemented reforms are positive in terms of decreasing the number of accredited higher institutions as well as higher competition in the market and higher quality of education. Nevertheless, paradoxical situation appeared. On one side, Georgia traditionally has a high level of adult education and some researches even classify the situation as overeducation. On another side, skills mismatch in the labour market and lack entrepreneur education are observed (OCDE, GIZ, 2016, p.25, 44).

The next proposed step in modifying educational system that the Georgian government could undertake is a change in school curriculum by introducing some elementary business related courses to develop inspiration, attitudes and intentions to start a business in the beginning. It is important because attitudes and perceptions towards entrepreneurial activity started to be formed at primary and secondary schools.

Informal education has its advantages. While formal education provides a foundation, informal education helps people who need specific knowledge and skills, perhaps when they become interested in starting a business or have taken steps to do so. Therefore, informal education as essential component of entrepreneurial education, should be full introduced in the country.

In Georgia there is a lack of training programs provided by NGOs and the government. Another side of this coin is lack of finance (Livny et al, n/d). Taking into account the serious misbalance in the labour market that is

(a) high unemployment rate (around 14 percent in 2018 (www.geostat.ge);

(b) large group of people out of the labour force (approximately one third);

(c) high unemployment among young generation (around one-third of young people (15–24) are not in education, training or employment (OCDE, 2016, p.9),

urgent need of government training programs is obvious.

Moreover, researches has found that in Georgia women have significantly lower rates of entrepreneurial intentions than men, specifically, 38 percent compare to 62 percent, respectively (Global, 2015). This suggests that the Georgian government should also develop special business trainings available for females to motivate them to start businesses.

Training may be voluntarily or compulsory as well formal or informal. Policy makers have to consider how to broaden access and increase the scale and scope of entrepreneurship training for different groups of population, for instance, by using new technology. Internet-based learning will extend a program's geography by including participates from Georgian regions and nascent entrepreneurs. Interesting experience is accumulated in Chile, where online training is linked with business registration and is compulsory (OCDE, 2016, p.24).

Informal training that compliments formal might include non-credit evening courses at a university, local business organization or a government agency. It helps people at a time when they are more directly engaged in starting businesses, rather than focused on their education generally.

As one can see, government directly or indirectly is involved in all forms of entrepreneurial education and training. Consequently, progress in the system significantly depends on further government policies and actions.

Conclusion and recommendations

High value of small and medium-sized enterprises (SMEs) for a national economy and society is recognized across the globe.

Brief analysis shows that in Georgia recent stage of SME related policies is significantly differs from the previous ones. Nowadays Georgian government declared SME sector development as one of the most important priorities on policy agenda. To achieve this goal comprehensive and complex policies have been developed. However, absence of one common SME definition and lack of reliable statistics impede analysis of the policy results.

Education policy is chosen as an objective of this research, keeping in mind, that entrepreneurial education and training has wider economic and social context entailing more than the development of particular business skills. It influences an individual's motivation and desire to start businesses.

Undertaken demand–supply analysis of educational market reveals paradoxical situation in the country. On one side, Georgia traditionally has a high level of adult education and some researches even classify the situation as overeducation, while skills mismatch in the labour market and lack entrepreneur education are observed. Thus, in categories of public finance, there is market failure which creates the ground for more active government direct and indirect intervention. From this perspective, further reforming of higher educational institutions and primary/secondary schools curriculum and course syllabus would make them more close to market demand. Direct administrative regulation of this market should also be continued, for example, strong requirements of accreditation and authorization procedures which have proved their efficiency as a tool of improvement quality of education in Georgia and moved it closer to Bologna standards.

Unfortunately, training as a component of entrepreneurship education is about totally missed in the country. The country needs special targeted formal and/or informal training programs for unemployed young generation and women. To be effective, entrepreneurship training should be a lifelong learning. Also policy makers have to consider how to broaden access and increase the scale and scope of entrepreneurship training for different groups of population, for instance, by using new technology. Internet-based learning will extend a program's geography by including participates from Georgian regions and nascent entrepreneurs.

Due to scarcity of available SME statistics in Georgia, application of cost-benefit analysis is limited. But when SMEs are realizing their full potential, SME policy would ensure that society reaps all the benefits of SMEs development. In other words, monetary and nonmonetary social benefits will exceed direct public expenditure on SME and entrepreneurship programs.

A lot of questions of SME policy and entrepreneurial education still remain for further research. Among them are strategic as well as more specific questions, for example, related to the particular types of entrepreneurship education (formal or informal) to find out which type has the most effect on students' entrepreneurial behavior. Promising and wide direction of the further research is investigation of the Entrepreneurial University Model that requires detail evaluation of its strengths and weaknesses, analysis of the best practice, so forth.

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