

## ლაგწყაბ მენარამეთა ხელშეწყობი ეკონომიკური პოლიტიკა საქართველოში

## ECONOMIC POLICY FOR BEGINNER ENTREPRENEURS IN GEORGIA

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ივანე ჯავახიშვილის სახელობის თბილისის სახელმწიფო უნივერსიტეტის ეკონომიკისა და ბიზნესის ფაკულტეტის ეკონომიკური პოლიტიკის კათედრის ასოცირებული პროფესორი, თბილისი, საქართველო

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## ABSTRACT

*Existing Policy for beginner entrepreneurs in Georgia, is described in the article. Also there are provided descriptions of current governmental programs. Conducted survey showed what reasons hinder the most, launching and development of entrepreneurship. Based on survey these are the reasons: high tax rates, insecurity of market from falsified and poor quality products, government is not protecting interest of businesses, difficult accessibility of credit resources. There are provide recommendations, conclusions and concrete measures to solve the problems.*

**Keywords:** *beginner entrepreneurship, startup, entrepreneurial policy, governmental programs.*

## ანოტაცია

სტარტაპებისა და ინოვაციური წამოწყებების არსებობა თანამედროვე ეპოქაში დღითიდღე სასიცოცხლო მნიშვნელობას იძენს, რადგან ინოვაცია არის ის, რაც პირდაპირ განსაზღვრავს ქვეყნის კონკურენტუნარიანობის დონეს.

ნაშრომში გადმოცემულია საქართველოში დამწყებ მენარამეთა არსებული სამენარამეო პოლიტიკა ბოლო წლების განმავლობაში. წარმოდგენილია დღეისათვის მოქმედი სხვადასხვა სამთავრობო პროგრამები, კერძოდ, პროგრამა „ანარამეო საქართველოში“, ლსოფლის მეურნეობის სამინისტროსთან თანამშრომლობით, ტექნოლოგიებისა და ინოვაციების განვითარების სააგენტო, სტარტაპ საქართველო. მოცემულია საქართველოში არსებული საზოგადოებრივი ღირებულებები სამენარამეო საქმიანობის მიმართ და შედარებულია სხვადასხვა ქვეყანას. აღნიშნულია, რომ სამენარამეო აქტიურობის კუთხით საქართველოს არც თუ ისე კარგი მდგომარეობა აქვს. ზუსტად ამ კომპონენტში სჭირდება ქართულ სამენარამეო ეკოსისტემას სახელმწიფოს დახმარება. მთავრობა და სხვადასხვა ინსტიტუტები უნდა შეეცადოს ფინანსური ხელმისაწვდომობის, საკანონმდებლო ბაზის, სავა-

დასახადო შეღავათების და მეორე მხნის პოლიტიკის გაუმჯობესებას.

გამოკითხვის შედეგების ანალიზის საფუძველზე გამოკვლეულია ყველაზე მეტად რა აფერხებს საქართველოში მენარამეობის დაწყებას და განვითარებას. კვლევამ გვიჩვენა, რომ ესაა: მაღალი სავადასახადო განაკვეთები, ფალსიფიცირებული ან უხარისხო პროდუქტისაგან ბაზრის დაუცველობა, ხელისუფლების მხრიდან ბიზნესის ინტერესების დაუცველობა, საკრედიტო რესურსების ძნელად მისაწვდომობა. საქართველოში არსებობს რესურსი მცირე მენარამეთა რიცხვის გასაზრდელად. თუმცა, ამისათვის საჭიროა შესაბამისი ეკოსისტემის შექმნა და მასზე ზრუნვა.

**საკვანძო სიტყვები:** *დამწყები მენარამეობა, სტარტაპი, სამენარამეო პოლიტიკა, სამთავრობო პროგრამები.*

The term startup is gaining more and more popularity in Georgia. Startups are associated to beginner entrepreneurs in modern society, which are dreaming about big future and are innovators. Startups, in Georgia, are considered as beginner entrepreneurs, which are not innovative and do not have ambition to become big corporation. But Georgian economy needs such startups that stimulate economic growth.

Beginner entrepreneurs are economic parties, which form economic, social and even political environment in the country. In many developed country, their contribution in creation of GDP, is too high.

In Georgia there are several governmental programs, which support beginner entrepreneurs: Enterprise in Georgia, ENPRD with cooperation to Ministry of Agriculture, Georgian Innovations and Technology Agency, Startup Georgia.

Governmental program Enterprise in Georgia was established in 2014. The aim of the program is support of

Georgian enterprises, increase of their incomes and competitiveness. The program consist of three element: accessibility on financial resources, accessibility on real estate, technical support.

The program is very popular, by the end of 2015 was implemented 133 project, expected total investment reached 355.6 million GEL and created 6,759 new jobs. For 20 companies was implemented business administration mini project, export manager courses, agency supported Georgian companies to involve in “Fir for Partnership with Germany” and etc. [1]. Investment amount, compared to previous year, was increased in 2016 and reached 385 million GEL, number of employees exceeded 15,000 [2]. By the results of 2017 - was implemented 323 projects, total amount of investment was 786 million GEL and was created 13,000 new jobs [3].

Efficiency of the mentioned governmental program can be assessed as positive, because during last three years was created 30,000 new jobs. But the program has some deficiencies too, for example high level of bureaucracy, which is related to obtaining loan and several permits, it's unclear how monitoring is conducted and efficiency evaluated.

Deficiencies of the program are not the only hindering factors for entrepreneurs. In 2016, Association of Young Georgian Economist conducted monitoring and evaluation of the Enterprise in Georgia program. According to evaluation, entrepreneurs revealed several actual problems:

- Instable economic environment, unpredictable exchange rate;
- Legislative changes – especially towards the tax reduction;
- Deficit of qualified work force.

Mentioned problems emphasize poor development of the country's economy and one governmental program is not able to resolve them [4].

During discussion startup entrepreneurs we should emphasize role of agriculture sector. Georgian Government developed document – Georgian Agriculture Development Strategy 2015 – 2020. The aim of the strategy is development of agriculture sector, by empowering small farmers and support to production. In development of agriculture sector vital role plays support from EU, which has implemented ENPARD program in the sector.

ENPARD program started in 2013 and aim of it is reduction of poverty in rural areas. Program helps Georgian Government, local communities and non-governmental sector. EU support, within the ENPARD project, covers following main topics:

- Improve efficiency of agriculture institutions and helping them to reform agriculture sector;

- By development of small farm cooperatives and provision accessibility to resources, increase rural employment and standards of living; In addition, skeptical attitude towards cooperatives is felt in the decision making processes in the banks. Raising the lower limit of the loans in case of cooperation will serve as a motivation for enlargement. Improving the availability of financing will, in turn, reveal the importance of cooperation and encourage banks to make affirmative decisions with respect to cooperatives. In addition, it is essential to identify financial and non-financial needs of development of cooperatives based on the research [5].
- Diversification of social and economic opportunities, especially involvement of women and youth, protection environment and cultural heritage.

ENPARD budget for 2013 – 2022 is 179.5 million euros [6].

The aim of the program is development efficiency of agricultural institutions, cooperation of small farmers, performance improvement of small farmers, rise of employment and standards of living in villages.

It's worth to mention following results achieved within the program: Long term agriculture development strategy was developed; personal involved in agriculture were trained; 59 consulting centers were opened across Georgia; more than 1600 cooperatives were created; modern laboratories were built; the law about cooperatives was adopted.

Georgian Innovations and Technology Agency supports commercialization of innovations and stimulates use of innovations. Increase in innovations' potential directly relates to the development of startup entrepreneurs. The agency established Technology Park, which consist of small incubators for businesses, study centers and laboratories, shared working spaces, recreational zone.

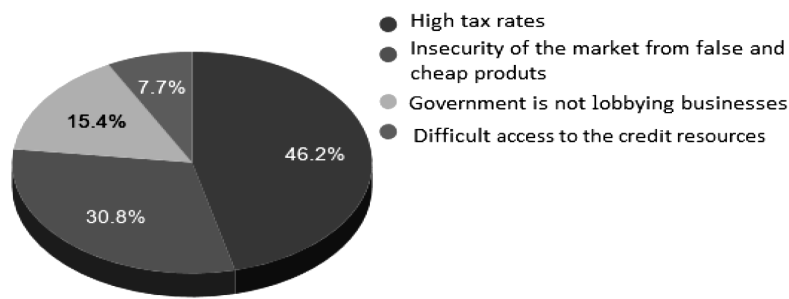
By the decree of Georgian Government, from June 2016 venture investment program – Startup Georgia - was established, which is part of government plan. State project provided financial support to startup business ideas, which covered several components: financing, simplifying law and tax procedures and also support to relevant education.

Project coordinators are Partnership Fund and Georgian Innovations and Technology Agency. Agency provides financing for unique high-tech innovative ideas, Partnership Fund – for innovative ideas. For the first phase of the project 11 million GEL was provided, which was increased to 35 million GEL.

In case of high-tech projects, Georgian Innovations and Technology Agency stays as a partner in enterprise for 7 years and does not interfere in management. Innovative and high-tech startups got financing without property pledge and collateral. Collateral was set only for assets created within the project.

Venture investment projects are intended for high-tech filed startups, like are: aerospace production, automotive, artificial intelligence, biotechnology, bioinformatics, computer engineering, computer science, information technology, nanotechnology, nuclear physics, electromagnetic radiation, robotics, semiconductors and telecommunications.

**Diagram 1: Survey results**



Next comes insecurity of the market from false and cheap products – 30.8%, government is not lobbying the businesses – 15.4%, difficult access to the credit resources 7.6%. Majority of entrepreneurs think that, reformed tax system did not change the situation. Entrepreneurs consider system instability and lack of regulation, as the main deficiency for tax system. Often there are law changes during the financial year.

World Bank index – Doing Business is published every year and based on 10 indicators the index assesses regulations that supports or hampers business activities. According to this index Georgia is on 9<sup>th</sup> position out of 190 countries (2018 data) [8].

There are some rating about Georgia according to several other indexes:

Global Competitiveness Index (GCI), which is defined by World Economic Forum, measures quality of macroeconomics environment, condition of public sector and level of technology development of the countries [9]. According to 2017-2018 data of the index, Georgia holds 67<sup>th</sup> place out of 137 country, compared to previous year, the position has decreased by 8.

Global Entrepreneurial Monitoring (GEM), first time the research program was initiated in 1997 to study the

For entrepreneurial system development one of the main factors is tax environment. From 2005, January 1, new tax code was enforced. By old tax code there were 13 state taxes, 6 local and 1 customs tax, which was regulated by customs code, total of 20 taxes. From 2011, again, new tax code was adopted, according to code 6 taxes were defined – 5 of them are state taxes: Revenue Tax, Income Tax, VAT, Excise and Import Tax [7].

Although number of taxes were reduced, interviewed entrepreneurs give the first place to the high tax rates 46.2%, from factors that are hampering entrepreneurial development, see diagram 1.

role of entrepreneurial activity in the economic growth. This index gives us opportunity to compare entrepreneurial activity level of different countries, which entrepreneurial activity defines economic growth of the country, identifies the factors which support or interrupts entrepreneurial development. In 2014 the research about Georgia was published for the first time [10]. The data was obtained from different sources from population, from experts and other international institutions.

GEM studies activity level of Entrepreneurship according to three characteristics: society values, individual characteristics and level of entrepreneurial activity.

Mentioned study covers existing society values related to entrepreneurial activity in Georgia and is compared to other countries (see table 1)

The data from Georgia by all three parameters are higher than averages of EU. We can conclude that social culture supports start of Entrepreneurship.

As for individual parameters Georgia has more than average in case of three ones, out of four. Georgian population compared to EU citizens are not self-confident in their own possibilities.

The situation in Georgia is not so good when we study entrepreneurial activity. Georgian entrepreneurship sys-

Table 1:

COMPARISON OF ENTREPRENEURIAL ACTIVITY [10]

Region and Economy		Entrepreneurship as Good Choice for Career	Successful Entrepreneurs Have High Social Status	Attention of Media to Entrepreneurs
EU	Croatia	63.3	46.6	40.4
	Hungary	47.4	72.4	33.5
	Lithuania	68.8	58.3	55.1
	Poland	63.3	56.5	54.5
	Romania	73.6	75.2	71.3
All EU Members	Average	56.9	66.6	53.3
Non EU Members	Bosnia and Herzegovina	78.1	69.9	39.8
	Georgia	<b>66</b>	<b>75.9</b>	<b>58.5</b>
	Kosovo	68.3	76.2	57.2
	Russia	67.1	65.9	50.4
All Non EU Members	Average	63.3	72.9	51.3
Ranking of Georgia from Presented 9 Countries		6 <sup>th</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>

tem needs support exactly in this component. Government and other institutions should try improve financial accessibility, legislative base, tax benefits and second chance policies.

High tax rates and insecurity of business interests are directly responsibility of the state policy, which need lot of work for improvement. Insecurity of the market from false products – under the DCFTA agreement Georgia has an obligation of solving this problem. Difficult access to the credit resources was mentioned as the lowest problem, but this survey was done before Credit-Guarantee reform.

Credit-Guarantee reform means, that commercial banks don't have right to issue a credit without guarantee. This step can be considered as hampering/disturbing factor for small and startup businesses. But government plans to create credit-guarantee fund that will be guarantors for entrepreneurs. Creation of relevant entity is also planned. Mentioned practice is appropriated in many countries, 1/3 of the fund will be financed by government, 1/3 by banks and 1/3 by international financial institutions. At this mo-

ment it's hard to say what kind of results will have the reform.

In modern era existence of startups and innovative initiatives have crucial role, because innovation is what directly defines competitiveness of the country.

In order to start such kind of activities in the country, firstly, government should support popularization of education in technology sphere. No less importance has also private initiatives. Financial institution should be more actively involved in financing startups, they should provide relevant credit packages for startups. This will decrease burden on the government.

As for situation in Georgia, there are several popular programs and support policies. But we think that this is not enough. Problem starts from educational system and continues in tax policy, non-existence of standards creates feelings of insecurity, from false/falsified products. There are resources to increase number sustainable small entrepreneurs, but it need creation and proper management of relevant system.

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