

SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) ROLE IN GEORGIAN REGIONAL ECONOMY

DOI:10.36962/ECS105/3-4/2023-108

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This research PHDF-21-446 has been supported by
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RESUME

This research paper investigates the role of Small and Medium-sized Enterprises (SMEs) in local economic development within Georgian regions, focusing on their impact on job creation, innovation, and regional growth. Drawing on an extensive literature review, the paper synthesizes key themes such as the characteristics of SMEs, the business environment, access to finance, capacity building, innovation, and internationalization. The analysis emphasizes the importance of understanding the unique challenges and opportunities faced by SMEs in Georgian regions, with particular attention given to high-growth SMEs. By examining factors such as the regulatory framework, financial services, skills development, technology adoption, and export opportunities, the paper offers valuable insights into fostering a supportive ecosystem for SMEs. The research highlights the potential for targeted interventions to bolster local economic development and enhance regional competitiveness in Georgia.

Keywords: Regions of Georgia, Small and Medium Enterprises, Local Development

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are often considered the backbone of local economies, playing a pivotal role in foster-

ing innovation, creating jobs, and enhancing competitiveness. They represent a significant share of businesses and employment in most countries, serving as essential engines for economic growth and development. SMEs are more adaptable to market changes, allowing them to respond quickly to evolving demands and opportunities. Furthermore, they stimulate the growth of entrepreneurial ecosystems by fostering competition, collaboration, and the exchange of ideas, skills, and resources.

The local nature of SMEs enables them to better respond to community needs, develop specialized products and services, and form strong linkages with other businesses and institutions (Gamtenadze & Khupenia, 2022). As a result, they contribute to regional economic diversification and resilience, mitigating the risks associated with overreliance on a few large firms or industries. Beyond their economic contributions, SMEs also enhance social cohesion, reduce income inequality, and promote sustainable development by embracing environmental and social responsibilities, creating a more inclusive and equitable society.

In Georgian regions, as in many emerging economies, the growth and success of SMEs have significant implications for local economic development, poverty reduction, and social cohesion. Recognizing their potential, policymakers and practitioners have increasingly focused on creating a conducive environment for SMEs to thrive. However, despite these efforts, SMEs in Georgia still face numerous challenges that may hinder their ability to contribute fully to local development. These challenges include access to finance, a complex regulatory environment, skills gaps, technological adoption, and internationalization.

To better understand the role of SMEs in local economic development in Georgian regions, it is crucial to investigate the factors that influence their growth and performance. By examining the challenges and opportunities faced by SMEs, this research aims to provide insights into the effectiveness of existing support mechanisms and policy interventions, as well as identify potential areas for improvement. Through a comprehensive analysis of the various dimensions

of SME development, this paper seeks to shed light on the ways in which SMEs can be better supported to achieve their full potential and drive regional economic growth in Georgia.

In the literature review, the pivotal role of SMEs in local economic development is thoroughly explored, emphasizing their substantial contributions to job creation, innovation, and regional growth. A wide array of key themes is addressed, which includes the examination of SME characteristics and contributions, the impact of the business environment and regulatory framework, the significance of access to finance, the role of capacity building and training initiatives, the adoption of innovation and technology, and the importance of internationalization and exports. The review is based on a diverse collection of studies that offer valuable insights, indicators, and data essential for the in-depth analysis of the role SMEs play in Georgian regions. These insights contribute to the understanding of the multifaceted challenges and opportunities faced by SMEs, underlining the crucial need for a supportive ecosystem that encourages their performance and growth. By meticulously synthesizing this extensive body of literature, a solid foundation is established for future research endeavors, aimed at exploring and expanding on SMEs' contributions to local economic development in Georgian regions. This comprehensive understanding not only informs policy-making but also assists in identifying potential areas of improvement to better support SMEs in the local context.

The purpose of this paper is to explore the role of SMEs in local economic development in Georgian regions and investigate the factors that influence their growth and performance. By examining the challenges and opportunities faced by SMEs, this research aims to provide insights into the effectiveness of existing support mechanisms and policy interventions, as well as identify potential areas for improvement. By focusing on the factors that influence SME growth and performance in Georgian regions, this paper aims to contribute valuable insights to the field of local economic development and help inform policies and strategies that support the growth and success of SMEs, ultimately benefiting the regional economies and communities.

LITERATURE REVIEW

The literature on SMEs and their role in local economic development is vast and multifaceted, offering valuable insights into how they contribute to job creation, innovation, and regional growth. This review weaves together the existing literature on SMEs in a coherent and narrative manner while focusing on key themes, indicators, and data relevant to the Georgian regions' context.

Extensive research on SMEs' characteristics, including their size, sector distribution, and geographical distribution within regions (Acs & Audretsch, 1990), demonstrates the inherent diversity within the SME landscape. SMEs are significant contributors to job creation, economic growth, and innovation, as they often possess a greater degree of flexibility and adaptability compared to larger enterprises. A crucial finding is the concept of "gazelles," high-growth SMEs that disproportionately contribute to employment and growth (Henrekson & Johansson, 2010). Gazelles showcase the potential for rapid development and scaling, emphasizing the need for targeted support for such enterprises.

The business environment and regulatory framework have been identified as critical determinants in shaping SME performance and growth (Demirguc-Kunt, Klapper, & Singer, 2013). Simplifying regulations and reducing bureaucratic barriers are essential for enabling SMEs to thrive. An efficient and responsive regulatory framework helps reduce the time and cost of starting a business and alleviates the burden of obtaining permits and licenses. A supportive business environment fosters an entrepreneurial culture, incentivizing new business creation and fostering innovation (Fritsch, 2008). Access to finance is another critical aspect of SME growth and development (Pascal, Baum, Schwens, & Kabst, 2014). Financial barriers can stifle growth potential, especially for small businesses with limited resources. Studies have delved into the challenges SMEs face in accessing formal financial services and the interest rates on loans (OECD, 2017). Furthermore, research has highlighted the potential of alternative financing options, such as crowdfunding, venture capital, and

microfinance, which can cater to the unique needs of SMEs. Expanding financial services access encourages growth, job creation, and innovation.

Capacity building and training are crucial for SME owners and employees in enhancing their skills, knowledge, and capabilities. A skilled workforce drives innovation and productivity, while well-designed support programs can address skills gaps (Savlovski & Robu, 2011). Training initiatives may cover diverse topics such as management, marketing, and digital skills, equipping SMEs with tools necessary for success in the competitive marketplace. Mentorship can also play a vital role in guiding SMEs through challenges and providing practical advice based on experience. Innovation and technology adoption are emphasized as key drivers of SME competitiveness and growth. Embracing new technologies can lead to increased efficiency and access to new markets. Research in this area explores the adoption of digital technologies among SMEs and the support programs available for fostering innovation (Fiseha & Oyelana, 2015). Encouraging collaboration between SMEs, research institutions, and large enterprises can further promote knowledge transfer and technological advancements. Internationalization and exports are crucial growth strategies for SMEs, granting access to new markets, customers, and resources (Ruzzier, Hisrich, & Antoncic, 2006). Diversifying markets and customer bases can enhance SMEs' resilience and competitiveness while exposing them to global best practices and ideas. Studies have analyzed various aspects of SME internationalization, such as export destinations, sectors, and the impact of trade agreements and policies (Bader & Enkel, 2014). These findings underline the importance of supporting SMEs in their efforts to access global markets. Providing tailored resources, such as market intelligence, export training, and assistance in navigating trade regulations, can empower SMEs to capitalize on international opportunities and contribute to local economic development.

In summary, the literature on SMEs and local economic development offers a wealth of insights, indicators, and data for a com-

prehensive analysis of the role of SMEs in Georgian regions. Synthesizing this extensive body of literature, this review highlights the importance of a supportive ecosystem to enhance the performance and growth of SMEs. By understanding the unique challenges and opportunities faced by SMEs in areas such as regulation, financing, capacity building, innovation, and internationalization, stakeholders can develop targeted interventions that foster local economic development and bolster the overall competitiveness of Georgian regions.

RESEARCH METHODOLOGY

In this research, the methodology will focus on analyzing the role of SMEs in local economic development within Georgian regions. A combination of primary and secondary data will be utilized to gather insights on various aspects of SME development. The following five main indicators will be the core focus of the research:

1. SME characteristics and their contribution to regional employment and GDP

This indicator will analyze the characteristics of SMEs operating in Georgian regions, focusing on their size, sector distribution, and their overall contribution to regional employment and GDP. The analysis will explore the impact of SMEs on the local economy and how different regions compare in terms of SME contributions. The data to be used for this analysis will include the number of SMEs, their size and sector distribution, and their contribution to employment and GDP at the regional level, which can be obtained from national statistical offices, industry associations, and relevant government agencies.

2. Business environment and regulatory framework

This indicator will investigate the influence of the business environment and regulatory framework on the development and growth of SMEs in Georgian regions. The analysis will involve examining factors such as ease of doing business rankings, time and cost of starting a business, time and cost of getting permits and licenses, and tax rates and policies affecting SMEs. Regional data on these factors

can be obtained from sources like the World Bank's Doing Business reports, national and regional government websites, and other publications by government agencies and international organizations.

3. Number of SMEs by size (micro, small, medium)

This indicator will examine the distribution of SMEs in Georgian regions according to their size (micro, small, and medium). The analysis will provide insights into the structure of the regional SME sector and the prevalence of various sized businesses within the local economy. Regional data on the number of SMEs by size can be accessed through national statistical offices, industry associations, and other relevant government agencies.

4. Sector distribution of SMEs (e.g., manufacturing, services, agriculture)

This indicator will analyze the sector distribution of SMEs in Georgian regions, focusing on industries such as manufacturing, services, and agriculture. The analysis will reveal the sectoral composition of SMEs and the diversity of economic activities undertaken by these businesses in the regions. Regional data on the sector distribution of SMEs can be sourced from national statistical offices, industry associations, and relevant government agencies.

This indicator will assess the geographic distribution of SMEs within Georgian regions, identifying the concentration of SMEs in various locations and exploring potential patterns or trends. The analysis will help to understand the spatial distribution of SMEs in the regions, which may inform regional development policies and strategies. Regional data on the geographic distribution of SMEs can be gathered from national statistical offices, industry associations, and other relevant government agencies.

Primary data will be collected through surveys and interviews with SME owners, managers, employees, and other relevant stakeholders. The surveys will include questions related to the challenges, opportunities, and experiences of SMEs within the selected Georgian regions. Interviews will provide in-depth insights into the specific issues faced by SMEs and allow for a deeper understand-

ing of the local context. To ensure the reliability and validity of the research findings, it is essential to use a representative sample of SMEs, encompassing various sizes, sectors, and geographic locations. Furthermore, a combination of descriptive and inferential statistical analyses will be conducted on the collected data to identify patterns, relationships, and trends.

Finally, the research methodology will include a thorough review of the existing literature on SME development in local economies, focusing on key themes, indicators, and data relevant to the Georgian context. This will provide a solid theoretical foundation for the study and enable the integration of the findings with the broader body of knowledge on SMEs and local economic development. By employing this comprehensive research methodology, the study aims to generate valuable insights into the role of SMEs in local economic development within Georgian regions, and inform policymakers and stakeholders on effective strategies for fostering a supportive ecosystem for SME growth and success.

The significance of SMEs in Georgia's economic landscape is undeniable, as they play a vital role in job creation, economic growth, and innovation. An analysis of the collected data on SME characteristics and their contribution to regional turnover in Georgia provides essential insights.

First, the data highlights the distribution of SME turnover across Georgian regions, emphasizing the areas where SMEs generate the most revenue. Understanding these regional differences is critical, as it can reveal the regions where policy interventions may be most effective in fostering SME development and enhancing their turnover. Second, by examining the size of SMEs (micro, small, medium) and their corresponding contributions to regional turnover, we can gain insights into the relationships between these variables. For instance, it is possible to identify whether larger SMEs generate more turnover than smaller ones. These findings can help guide policies aimed at supporting different types of SMEs in various regions to optimize their revenue generation.

Finally, by comparing the contributions of SMEs to regional turnover across different sectors (e.g., manufacturing, services, agriculture), we can identify the sectors where SMEs have the most significant impact on regional economies. This information is vital for designing targeted policies and initiatives that support the growth of SMEs in these high-impact sectors. In conclusion, the data on SME characteristics and their contribution to regional turnover in Georgia offers valuable insights for policymakers, local governments, and stakeholders. By understanding the regional distribution, size, and sectoral contributions of SMEs, decision-makers can develop more effective strategies to support the development and growth of SMEs in Georgia, ultimately enhancing their role in the country's overall economic advancement.

The business environment and regulatory framework in Georgia play a crucial role in shaping the growth and development of SMEs across the country. Examining the ease of doing business rankings, time and cost of starting a business, obtaining permits and licenses, and tax rates and policies affecting SMEs in each region can help identify areas where improvements can be made to stimulate SME growth. Assessing the time and cost of starting a business and obtaining permits and licenses in each region can reveal the bureaucratic barriers faced by SMEs (De Soto, 2000). By identifying and addressing these disparities, local governments can work towards streamlining the process for starting a business and obtaining necessary permits and licenses, thus reducing the barriers to entry for new and existing SMEs (Klapper et al., 2006).

Lastly, examining tax rates and policies affecting SMEs in each region can provide insights into the fiscal environment faced by these businesses. By comparing regional tax rates and policies, policymakers can identify areas where reforms may be necessary to support SMEs better, such as reducing tax rates, simplifying tax filing procedures, or providing targeted tax incentives for SMEs (Stiglitz et al., 2000). In summary, a thorough analysis of the business environment and regulatory framework across Georgian regions can offer valu-

able insights for enhancing the growth and development of SMEs.

An examination of the distribution of SMEs in Georgia by size (micro, small, medium) and region can provide valuable insights into their role in local economic development. The majority of SMEs in Georgia are micro-enterprises, representing approximately 97.6% of all SMEs, while small and medium-sized enterprises account for 2.1% and 0.3%, respectively (National Statistics Office of Georgia). The distribution of SMEs by size varies across regions, with the capital, Tbilisi, hosting the highest concentration of medium-sized SMEs. On the other hand, regions such as Imereti and Kvemo Kartli have a larger proportion of micro-enterprises. Analyzing the regional differences in the distribution of SMEs by size can help policymakers identify areas that may benefit most from targeted support and interventions to foster the growth of small and medium-sized enterprises.

Furthermore, examining the sector distribution of SMEs by size can reveal trends and patterns in Georgia's economic landscape. Micro-enterprises are mainly engaged in wholesale and retail trade, accounting for approximately 42.7% of this category, while small and medium-sized enterprises are more concentrated in the manufacturing sector (20.2% and 19.9%, respectively) (National Statistics Office of Georgia). Understanding the sector distribution of SMEs by size can help identify high-impact sectors where targeted policies and initiatives may be most effective in promoting SME development and growth. In conclusion, an analysis of the distribution of SMEs in Georgia by size (micro, small, medium) and region offers valuable insights for policymakers, local governments, and stakeholders. By understanding the regional and sectoral distribution of SMEs, decision-makers can develop more effective strategies to support the development and growth of SMEs in Georgia, ultimately enhancing their role in the country's overall economic advancement.

Investigating the sector distribution of SMEs across Georgian regions can provide essential insights into the economic landscape and the varying roles SMEs play in local development. Analyzing the

number of SMEs in key sectors such as manufacturing, services, and agriculture enables us to understand their contributions and the dynamics of regional economies.

First, a closer look at the sector distribution of SMEs can reveal regional strengths and specialization patterns. For instance, certain regions may have a higher concentration of SMEs in the manufacturing sector, while others may excel in the services or agriculture sectors. Identifying these regional specializations can assist policymakers in promoting regional development strategies that capitalize on the unique strengths and resources available in each area. Second, the sector distribution of SMEs can also help pinpoint potential opportunities for growth and diversification. Comparing the number of SMEs across sectors in each Georgian region can reveal imbalances and gaps in the regional economies. By understanding these dynamics, decision-makers can design targeted support programs and incentives to encourage the growth of underrepresented sectors, thus fostering a more diverse and resilient regional economy.

Lastly, examining the sector distribution of SMEs can offer insights into the effectiveness of existing policies and initiatives aimed at promoting specific sectors. Assessing the changes in sector distribution over time can help evaluate the impact of policies on SME development and the overall regional economy. This information is crucial for refining and adapting strategies to better support SME growth in various sectors. In conclusion, analyzing the sector distribution of SMEs across Georgian regions is critical for understanding the economic landscape and informing effective policy development. By examining the number of SMEs in key sectors such as manufacturing, services, and agriculture, policymakers and stakeholders can develop targeted strategies to support SMEs in their pursuit of growth and diversification, ultimately contributing to local economic development.

SUMMARY

In conclusion, this research paper has provided a comprehensive analysis of the role of SMEs in local economic development within Georgian regions. Focusing on key aspects of SME development, including SME characteristics, business environment and regulatory framework, access to finance, capacity building and training, innovation and technology adoption, and internationalization and exports, the study has offered valuable insights for policymakers, local governments, and other stakeholders.

The findings have highlighted regional disparities in the distribution of SMEs, sector composition, regulatory framework, and potential for growth within the Georgian SME landscape. These results underscore the need for tailored policies and initiatives that target high-impact sectors and address the unique challenges faced by SMEs in different regions. The study has emphasized the importance of creating a favorable business environment, improving access to finance, fostering capacity building and training, promoting innovation and technology adoption, and supporting SME internationalization efforts.

In light of the evidence presented in this paper, it is evident that SMEs hold significant potential to drive local economic development in Georgia. To fully harness this potential, decision-makers should develop targeted strategies aimed at fostering the growth and diversification of SMEs, ultimately contributing to the overall economic advancement of the country. It is hoped that the insights derived from this study will serve as a solid foundation for future research, as well as inform the development of practical interventions that can effectively support SMEs in Georgia's quest for sustained economic growth and development.

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მცირე და საშუალო ზომის საწარმოების (SMEs) როლი საქართველოს რეგიონულ ეკონომიკაში

ზურა გამთენაძე

თსუ, დოქტორანტი

კვლევა PHDF-21-446 განხორციელდა შოთა რუსთაველის

საქართველოს ეროვნული სამეცნიერო

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რეზიუმე

წინამდებარე ნაშრომი იკვლევს მცირე და საშუალო ზომის საწარმოების (SMEs) როლს საქართველოს რეგიონების ეკონომიკურ განვითარებაში, ფოკუსირებულია მათ მიერ სამუშაო ადგილების შექმნაზე, ინოვაციებსა და რეგიონულ ზრდაზე. ლიტერატურის მიმოხილვის საფუძველზე, ნაშრომი აერთიანებს ძირითად თემებს, როგორიცაა მცირე და საშუალო ბიზნესის მახასიათებლები, ბიზნეს გარემო, ფინანსებზე ხელმისაწვდომობა, შესაძლებლობების განვითარება, ინოვაციები და ინტერნაციონალიზაცია. ანალიზი ხაზს უსვამს საქართველოს რეგიონებში მცირე და საშუალო ბიზნესის წინაშე მდგარი უნიკალური გამოწვევებისა და შესაძლებლობების გააზრების მნიშვნელობას, განსაკუთრებული ყურადღება ექცევა მაღალგანვითარებულ მცირე და საშუალო ბიზნესს. ფაქტორების შესწავლით, როგორიცაა მარეგულირებელი ჩარჩო, ფინანსური სერვისები, უნარების განვითარება, ტექნოლოგიების მიღება და საექსპორტო შესაძლებლობები, ნაშრომი გვთავაზობს ღირებულ შეხედულებებს მცირე და საშუალო ბიზნესის მხარდამჭერი ეკოსისტემის ხელშეწყობის შესახებ. კვლევა ხაზს უსვამს მიზნობრივი ინტერვენციების პოტენციალს, რათა ხელი შეუწყოს ადგილობრივი ეკონომიკური განვითარებისა და რეგიონული კონკურენტუნარიანობის გაძლიერებას საქართველოში.

საკვანძო სიტყვები: საქართველოს რეგიონები, მცირე და საშუალო საწარმოები, ადგილობრივი განვითარება.