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Faculty of Business, Law and Social Sciences

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**PROBLEMS OF SMALL AND MEDIUM
BUSINESSES AND WAYS TO SOLVE
THEM IN GEORGIA**

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of the Doctoral Thesis Nominated for
Ph Doctor Degree in Economics**

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TOPICALITY OF RESEARCH. It is impossible even imagine every society without production of material values. Material welfare for meeting the demands of people is created particularly during the production process that is the most fundamental component of the society. The business relationships represent an integral part of the modern society. In present-day conditions, there can be no economic development of the country without commerce, production, pecuniary institutions and other social and production infrastructure. All these things became an integral part of life of modern civilized man. The dealings, arisen in this sphere, are called business, in which small and medium sized businesses play crucial role.

Small and medium sized businesses in advanced countries are developed by leaps and bounds, that is explained by fact that the national governments attach great importance and furnish significant support to them. Small and medium sized businesses in the most developed countries represent the basis for the formation of a middle class among the population, which represents, in turn, the basis for sustainable economic development, as well as creates new jobs for considerable part of population. Small and medium sized companies accounted for about 50-70% of gross domestic product (GDP) in these countries.

Over the past half century, small business in West European countries and USA has acquired an enormous importance. The basic mass of small sized enterprises is represented by companies employing no more than 20 people. About two thirds of all new jobs are provided particularly by small sized enterprises.

Small sized enterprises prove to be highly efficient not only in the consumption sphere, but in processing industries as manufacturers of separate small mechanisms, details and semi-finished materials, the production of which is usually unprofitable for large enterprises. This is the foundation, on which there is built in Western countries the systematic approach to the formation of small enterprises and their role. Despite concentration and centralization of capital for the last few years in several countries, there have not been limited the scales of small and medium sized businesses, since they manifest an unprecedented vital power.

The development of small and medium businesses is very important

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for all post-socialist countries. As a rule, almost in all countries they play a special role in the formation of gross domestic product (GDP), creation of new jobs, meeting the demands of large industrial companies and in introduction of new technologies and innovations.

In present-day conditions, the growth of small and medium sized businesses and their forced development (according to official statistics there are generated in this sphere about 19-20% of value-added tax and 43-44% of total number of jobs) are very important for Georgian economy. This is also conditioned by fact that despite twenty-year experience in reforms, Georgia still remains a country with transient economy. Exactly the controversial and often non-harmonized economic reforms could not create the preconditions for structural changes and on the contrary, they have caused the poorly thought-out deindustrialization.

Georgia needs the creation of such an economy, which will be competitive, developable and equipped with growth potential. The way to a new type economy passes through the changes in private enterprises format and developing the small and medium businesses, which is a bearer of new structural changes potential in the economy. Of course, the small and medium businesses cannot regain the lost positions in many heavy and processing industries, but they are able to play crucial role in the development of municipal and regional concepts, in branch-wise clusters.

In an open economy, the small and medium businesses can become an instrument for diversification of large corporations and consumer market modernization. The development of small and medium businesses in Georgia should enable to effectively resolve those significant problems such as an increase in competition, widening of social basis, formation of a middle class, employment of population, plant development, budget receipts formation, bringing the powerful contribution in the formation of gross domestic product (GDP), and generally, in resolving the socio-economic problems that plagued the country.

If Georgian economy must become a new type economy, then the necessity of the development of small and medium businesses is inevitable. Therefore, the development of these types of economy must become a foreground political and economic task.

So, in consequence of above stated, under the conditions of market relations, particular importance is attached to the study of the development of small and medium sized businesses as well as to the development of their efficiency enhancement. Exactly that is what has conditioned the choice and topicality of our research.

Goal. Main Objectives, Scope and Object of Research. The main goal of the proposed research is fundamental analysis of small and medium-sized enterprises functioning in Georgia; based on the analysis of strengths and weaknesses of this sized business-sector to find related reserves and work out recommendations on their efficiency enhancement.

In order to achieve the set goal there are formulated the following main objectives in course of research works:

- assessment of small and medium sized economy as an economic category;
- detailed analysis of identification and support of small and medium sized businesses for different countries;
- study of small and medium sized businesses taxation models and defining their specifics for different countries;
- determining the stages of small and medium sized businesses development in Georgia, finding its regularities and specifics based on the calculation of appropriate indices;
- description of stages of small and medium sized businesses development in Georgia;
- detailed analysis of the state of small and medium sized businesses in Georgia;
- generalization of small and medium sized businesses state support current situation and calculation of forecasted indicators of the development;
- justification of the objective necessity support to small and medium sized businesses in Georgia and working out the practical-purpose recommendations.

The scope of research is represented by theoretical, methodological and practical issues related to small and medium sized businesses, mechanism of their development and problems with their support in Georgia.

The object of research comprises the small and medium sized entities; study of state of business-sector engaged in these activities as well as its main aspects, and making appropriate recommendation.

Main Results and Novelty of Research. The main research novelty of the qualified work activities comprises the finding of those approaches, which being relying on scientific-methodological bases, fosters the small and medium sized businesses efficiency enhancement. There is suggested a new taxation mechanism for small enterprises. Based on the comprehensive study, there is analyzed the current state of the small and medium sized businesses development and shown the objective necessity for the development of this sector in Georgia. The components of scientific contribution are described in the results of carried out research and brought to defense.

PRACTICAL BEARING AND IMPLEMENTATION OF RESEARCH. The results and recommendations of the proposed research can be applied in resolving of those political and economic problems, which actually implies the development of small and medium sized businesses. In particular, they can be used for:

a) legal support of small and medium sized businesses (in forming of legislative draft "On Small and Medium Sized Business Support");

b) the formation on the foundation of universities of the Center for Technological Transfer and Intellectual Maintenance, which can become an important line of support to innovative small business. many universities and branch-wise institutes of higher education possess solid professional maintenance base in order to arrange and assess there the innovative projects of small sized companies;

c) studies of such courses as Fundamentals of Economics and Business, Entrepreneurship and Microeconomics.

The study records and methodological approaches are applied at the Akaki Tsereteli State University as a study component of Doctoral degree program in Economics (special subject "Problems of Small and Medium Enterprise Economics and Management").

The results of research (summation of surveys, forecasted indicators of small and medium sized businesses development, taxation model on real cash flows for this business sector) are also useful for businessmen interested in their activities efficiency enhancement.

THE PROVISIONS BROUGHT TO DEFENSE. There are brought to defense the results of research, which comprise the elements of research novelty:

1. There are in detail presented the evolutionary stages of small and medium sized businesses, as well as it is shown as an economic category;

2. There is carried out comprehensive study of the identification problems of small and medium sized businesses in different type countries; the differences and specificities are presented in the context of Georgia's realities;

3. Based on the analysis of small and medium sized businesses taxation, there is defined its negative impact on the development of this sector, and proposed recommendations on its improvement;

4. There is conducted comprehensive survey, which revealed the factors hampering the development;

5. By using the method of extrapolation there are calculated the main performance indicators of small and medium sized enterprises for the mid-term forecast period, and made appropriate conclusions;

6. Based on the statistical analysis there are calculated the development indices of small and medium sized businesses and defined the stages of their development;

7. There is developed the system of measures the implementation of which should foster the stable functioning of small and medium sized enterprises.

AUTHOR'S CONTRIBUTION. The range of problems related to small and medium sized businesses is comprehensively analyzed by Georgian (R. Asatiani, N. Chitanava, I. Meskhia, G. Papava, E. Baratskhvili, E. Mkvabishvili, M. Tetrushvili, Z. Tetrushvili, N. Orjonikidze, T. Rostashvili, L. Tsetskhladze, E. Julakidze, N. Chikhladze and others) and foreign (R. Hizrich, F. Hayek, I. Schumpeter, M. Peters, A. Bunich, A. Lapusta, A. Hosking, E. Shkrebel, P. Shome, R. Coase, A. Mitski, L. Starostin and others) scientist economists and practitioner researchers. However, most works are devoted to problems of small and medium sized business development and efficiency enhancement at micro-level, or they are considered mostly in the general context. The main contribution of author mainly consists in appropriate recommen-

dations worked out on the basis of comprehensive study and in-depth analysis of problems related to small and medium sized businesses. The following methods have been used during the research works: systems analysis, synthesis, graphic and economic-mathematical modeling, abstract-logical, comparative and economic-statistical. Complex application of these methods made it possible to create complex picture of small and medium sized businesses developing and functioning that became the precondition for developing the complex of activities for support to this sector.

APPROBATION OF WORK AND PUBLICATIONS. Basic provisions, suggestions and recommendations of the proposed work are published in reviewable journals and proceedings of scientific-practical conferences. Considerable part of recommendations had been presented and discussed on scientific-practical conferences and workshops.

For the purpose of periodic evaluation and monitoring of works carried out by doctoral candidate, there have been conducted twice (on 20th of February and 21st of June, 2012) the colloquium. Basic approbation of work (preliminary defense) was held at the Economics and Tourism Department of the faculty of Law and Social Sciences of the Akaki Tsereteli State University (Minutes of Meeting¹⁵, dated December 7th, 2012), where it was approved and recommended for public defense.

VOLUME AND STRUCTURE OF DISSERTATION. Dissertation comprises 214 computer printing pages. It includes Introduction part, three chapters, 7 paragraphs, conclusions and list of References. The structure of work has the following form:

INTRODUCTION

CHAPTER 1. Small and Medium Sized Businesses in Market Relations System

- 1.1. Small and Medium Sized Enterprise as an Economic category
- 1.2. Pressing Problems of Small and Medium Sized Businesses Identification and Support
- 1.3. Small and Medium Sized Businesses Development in Foreign Countries

CHAPTER 2. Basic Trends in the Development of Small and Medium Sized Businesses in Georgia

2.1. Stages of the Formation and Development of Small and Medium Sized Businesses in Georgia

2.2. Analysis of Current State of Small and Medium Sized Businesses in Georgia

CHAPTER 3. Today's Small Business Problems and Prospects of Development

3.1. Current State of Government Support to Small and Medium Sized Businesses:

3.2. Objective Necessity of Support to Small and Medium Sized Businesses in Georgia

CONCLUSIONS

REFERENCES

BRIEF CONTENT OF DISSERTATION. The first Chapter "Small and Medium Sized Businesses in Market Relations System" refers to small and medium sized enterprise as an economic category. There are studied the opinions of different scientists and economic schools as on business generally, so on the role and importance of its small and medium sized sectors. There is noted that the business is an independent and initiative activities (such as manufacturing works, provision of services, and execution of works) of citizens, natural and legal persons, which are oriented to systematic profit (revenues) gaining.

Business is a fundamental component of the society. Since early periods of social development, the conducting of business activities had been always considered as a responsible matter. After coming out of wildlife, a primitive man had undertaken economic activities. The initial forms of these activities were the animal husbandry, arable farming, and manufacturing of simple tools. According to development of social and economic structures, the productive relations were gradually improving and taking new forms.

The records of Holy Writ about economic activities of the society and some occupations are priceless. In the Birth initial chapters, wherein is described the settlement of exiled Cain in the land of Nod, east of Eden. We see among descendants of Cain such occupations as herdsman, lyre player, piper, and ironsmith. There are mentioned in the Bible the most primary producer's cooperation occupations, such as smith and musician, musical instrument maker. So it is possible to say

that the activities of Lamech's children set the foundation for the formation of different fields and branches of economic activities: primary production (Jabal), processing industry (Tubal-Cain) and service sector (Jubal). The division of labor becomes even deeper in Anno Domini period as well. Appearance of some activities (occupations) was conditioned by new stringent conditions and by necessity to overcome new difficulties. In practice, the same kinds of occupations and activities are described in the New Testament as well. Almost all the Mediators in social life are engaged in some kind of activities.

The self-regulated business in Europe has thousand-year-old history. In XVIII century, the independent development traditions of European business were maintained by constitutions of democratic states, and they represented one of the most important factors of sustainable development of European countries. There are given in first paragraph of Chapter I of the proposed dissertation the views and concepts on an inevitable necessity of business and its support, of such scientists as A. Smith, D. Ricardo, R. Cantillon, F. Quasnay, J.B. Say, F. Knight, J. Schumpeter, R. Coase, F. Hayek, K. McConnell, S. Brue, R. Hirsch, M. Peters, J. Madura and others.

Small and medium sized businesses represent the foundation-stone for the economy in the developed countries, and it accounts for almost half part of whole private sector. The role of small business in the economy is conditioned by following factors:

1. It creates new jobs. Small business in the developed countries is an employer of almost half of total workforce of country's private sector and it accounts for about 2/3 – 3/4 of new jobs.

2. It produces new products. Possibility of freely introduction of innovations that is typical of majority of companies, provides numerous advantages as for technological development, so with a view to increasing the species diversity of products and services.

3. It satisfies the demands of much larger organizations. Many small enterprises play the role of distributors, serving link or supplier for large sized companies.

4. It brings considerable money supply into the economy. For example, if we imagine the USA small business sector as a single aggregate, then its economy should occupy III place in the world.

5. Readiness to risks. It runs those risks, which often are unacceptable for larger companies. Actually, the businessmen as people running risks and inclined to introduction of new, not tested yet ideas, play a considerable role in the economy.

6. It offers specific types of products and services. In most cases, exactly the small business fills that niche, which, as a rule, is ignored by larger companies.

7. Small and medium sized enterprises are flexible and easily adapted to new market conditions as well as to changes in the production.

8. Small and medium sized enterprises are capable to promptly create and introduce new technologies, and this is impossible for larger companies, since the production of principally new technologies is a significant factor, which breaks stability of large-scale serial production.

9. Aspiration for initiative and dynamism is typical of small companies.

Small enterprise can foster the resolving of problem of transition to a market economy by such a considerable aspect as the formation of market infrastructure. It assumes those necessary for social and economic organism of national economy functions, which cannot be carried out by large sized enterprises.

We believe that in present-day conditions, the synthesis of confidence and business is a key factor for businessman-orthodox believer. Less religiousness of people engaged in economic activities can become a main reason for breaking of market efficiency. This may cause declining of economic cycles and activation of depression stages and crisis situations that, in turn, decreases gross domestic product (GDP), increase in unemployment, sharp differentiation personal incomes.

In the same Chapter of the proposed dissertation we fix our opinion, which is based on comprehensive analysis, on fact that the world had still not come to mutual consent on common standards in "small" and "medium" businesses definitions. These definitions in different countries and international organizations are considerably differing from each other. Despite wide use of "small enterprise" definition in socio-economic studies, it still does not find a solid basis there. The only thing, which is agreed by all researchers, is brittleness of small companies, imperfect-

on of quantitative and qualitative indicators, especially in the developing countries. It is rightly considered that majority of researchers often use improperly this definition.

Table 1.
Classification of Micro, Small and Medium Enterprises
According to European Commission

Criterion	Micro	Small	Medium
Maximal Number of Employed People	9	49	249
Maximal Annual Turnover	2 mln. Euro	10 mln. Euro	50 mln. Euro
Balance Maximal Amount	43 mln. Euro		
Independence	25% of capital or rights-on share belongs to several companies, which are not small or medium enterprises		

International Organization for Economic Cooperation and Development, which unites the developed countries, defines the enterprise with less 19 employees as "sufficiently small", with less than 99 employees – as "small", and if number of them hesitates between 100 and 499, the enterprise is defined as "large" one.

As it turned out, on a world scale in order to fall the enterprise into the "small (medium) enterprise" category, there are most commonly used the following criteria:

1. Quantity of personnel;
2. Total turnover;
3. Total assets;
4. The amount of the authorized capital;
5. Ownership structure (small enterprise independence)

In order to define the small and medium sized units, there are used in scientific literature the quantitative, qualitative and combined approaches. We believe that it is better to use quantitative indicators due to the nature of their measuring, and in practice exactly they are used more

frequently than the others.

In this part of dissertation there is comprehensively analyzed the small and medium sized businesses criteria with a view to different taxation regimes. We believe that as the objectives of different regimes, there must be considered the following criteria:

1. Reducing the expenditures required for execution of taxation legislation;
2. Encouraging the registering the very small business;
3. Reducing the tax revenues from already registered persons or, more accurately, decreasing the losses of budget receipts in order to avoid them.

Here are also given the analytical Tables with special regimes of small business taxation as for the advanced so for the developing countries.

It is necessary to note that the development level of small and medium sized enterprises in Georgia is considerably lower than in the developed countries. The government support to them is unequal to the occasion as well. In this connection, we believe that it should be useful to give attention to small and medium businesses state in foreign countries, and then to analyze this situation. Study and analysis of international experience in small and medium sized enterprises functioning and supporting will help the state and municipal bodies to develop efficient supporting programs for business activities. Therefore, the assessment of small and medium sized businesses criteria and analysis of different regimes of taxation will logically result in comprehensive study of small and medium sized businesses development in foreign countries that is considered in third paragraph.

Small and medium sized businesses are developed at a serious pace in the advanced countries, since the national governments attach great importance and furnish significant support to them: design and implement the small and medium sized businesses assistance programs and establish considerable benefits for them. In the advanced countries, small and medium sized businesses represent the basis for the formation of a middle class, which in turn, is the foundation for sustainable economic development, and it provides considerable part of population with new jobs. Small and medium sized companies in these countries account for 50-70% of GDP.

Table 2.

Number of Enterprises in Foreign Countries

Country	Year	Micro	Small	Medium	SME	Large	Total
European Union	2007	18,788 mln.	1,402 mln.	220 000	20,409 mln.	43 000	20,452 Mln.
Iceland	2004	21700	900	100	22700	100	22800
Switzerland	2004	260 000	30 000	5 000	294 000	1 000	295 000
Norway	2004	214 000	17 000	2 000	233 000	1 000	234 000
Liechtenstein	2001	5 500	4 500	3 500	13 500	2 500	16 000
USA	2005	14,049 mln.	468 000	191 000	14,709 mln.	36 000	14,745 mln.
Japan	2001	No data	No data	No data	4,690 mln.	13 000	4,703 mln.

Continue of table 2.

Number of Enterprises in Foreign Countries

	2004	Share, %					
		95	4	0	100	0	100
Iceland	2004	95	4	0	100	0	100
Switzerland	2004	88	10	2	100	0	100
Norway	2004	9	7	1	100	0	100
Liechtenstein	2001	34	28	22	84	16	100
USA	2005	95	3	1	100	0	100
Japan	2001	-	-	-	100	0	100
European Union	2007	92	7	1	100	0	100

There are considered in the proposed dissertation main aspects of small and medium sized businesses development in USA, Spain, France, Great Britain, Germany, and European Union in general, as well as in Belarus, Armenia and Azerbaijan.

An important part of the "healthy market economy" in the advanced countries is represented by support from commercial non-governmental organizations to small and medium sized businesses, which are represented by companies engaged in microfinance investments. At present, there are existed more than 5000 of these organizations in European Union member countries. Growth in the number of organizations supporting small business from 2004 to 2008 made up 30%. The leaders in this respect are the following countries: Germany (17%), France (15%), and Netherlands (12%). The number of these organizations in Canada and USA is approaching to 24000.

Second chapter of the proposed dissertation "Basic Trends in the Development of Small and Medium Sized Businesses in Georgia" is devoted to range of these problems in Georgia. In particular, first paragraph refers to stages of the formation and development of small and medium sized businesses in Georgia. There is emphasized that since the 1990s the social relations transformation process in post-socialist countries began to develop at a faster rate. There were appeared new types of ownership, changed the social structure. The social changes touched economic, social, political, psychological and morality aspects of life. As a result of denationalization of ownership, its new types were developed, such as private, state and collective types of ownership. At first, there were observed the fall in production, increase in unemployment, worsening of social conditions of life. In these conditions small business began to develop, as a special sphere of social production. Progress in small business allowed the creation of preconditions for the efficient economic development, and led us to the creation of new types of ownership. Exactly the creation of small business as a special form of social production represents precondition for the formation of a new economic and social environment, which influences beneficially upon healthy competition between the units of different types of ownership.

On May 18th 1993, Head of State of Georgia issued the decree on "Urgent Measures Aimed at Development of Private Enterprise in Georgia", according to which this business sector has been considered as one of the most priority tasks of state significance. The Resolution of

Cabinet Ministers of the Republic of Georgia approved the Governmental Program for Support to Private Enterprise in Georgia. During 1991-1994, the attitude of State towards development of businesses had been radically changed. There had been passed new laws, which promoted the widespread development of businesses.

The period 1993-1998 is characterized by large-scale privatization and by the development of all types of businesses, appearance of many owners and services, and by active penetration of small businesses into the spheres of trade, public catering, light industry and consumer goods production. Almost all enterprises privatized in 1993 were the small sized (98.2%). In the following year this number was reduced to 71.2%. Very special in this respect was the year 1995, when 4977 enterprises have been privatized, and 95% of them were the small sized.

The privatization of small enterprises during 1993-1995, in quantitative terms was carried out mostly by using the passive methods. The period 1996-1999 was characterized by interchange of their domination. The active methods were prevailed during 1996-1998, but in the years 1997 and 1999 – the passive ones, and only since 2000 we have the active methods mainly.

Analysis carried out has shown that when assessing the small business, we can identify three periods since the end of 1980s in Georgia:

1. The business formation period (1990-1996);
2. The development and structural registration period (1997-1999);
3. Civilized modernization period (since 2000 to present time).

The positive dynamics in registered enterprises point to an increase in entrepreneurial activity in this period. In all 70199 units have been registered during 1995-200, 33% of which were the limited liability corporations, and 45% - the sole traders.

An importance of small enterprises was identified in regional respect as well, where despite deficiency of territory, we face many peculiarities. As a rule, the small enterprises play especially significant role in industrial output in the regions, which do not have small sized business units (Kakheti, Racha-Lechkhumi and Kvemo Kartli, Svaneti, Samegrelo-Zemo Svaneti, Guria).

We identify the following 5 basic factors preventing the business development in the economy of post-socialist Georgia (by the year 2004):

1. Disorganization of taxation system, corruption in governmental

agencies;

2. lack of governmental support to local businessmen interests, unemployment of economically-active considerable part of population;

3. Energy crisis, unreasonable interference of management and control bodies in business, weakness of the banking system;

4. State racketeering, destruction of local production and encouraging the import of foreign manufacturers products by the Government, large scales of smuggling;

5. Low management level, absence of the accounting system compliant with international standards, low legal protection degree of investments, underdeveloped infrastructure, low level of tax paying and civil responsibility.

Despite reforms carried out in many economic spheres, which enabled Georgia to occupy the leading places in international ratings, the issue of real support to business sector still remains on the agenda. In this respect, we have to emphasize the problems with property rights protection in post-revolutionary Georgia, as well as lack of the antimonopoly legislation. It is possible to definitely say that the property protection rights during the years 2006-2007 to a certain extent have been failed, when the cases of private properties destruction and dispossession increased.

In the second part of the same Chapter of dissertation there is given an analysis of state of small and medium sized businesses in Georgia. It includes:

- detailed analysis of the years 2007-2008;
- demonstration of surveys we have conducted in 2012;
- analysis and assessment of present condition of business sector functioning.

Among contradictions existing in the analysis phase, the emphasis should be placed on data base imperfection (last survey was conducted by National Statistics Office only in 2009). So, in order to define the real picture, we have conducted the surveys, which covered almost all the regions in Georgia. Over 80 interviews took place with heads (representatives) of small and medium sized enterprises. 25 from them are the sole traders and micro-business representatives, 41 – small undertakers and 14 – medium business representatives.

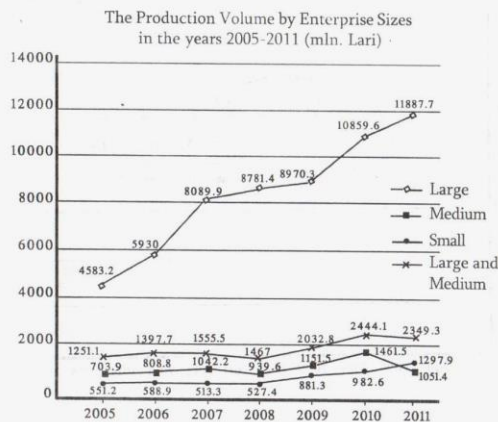
The survey was conducted on two tracks. The first one has envisaged revealing those basic issues, such as: governmental and non-gover-

mental support to small and medium enterprises (SME); demand for credit resources as well as accessibility of them; business-education and its forms; problematical character of retaining the skilled personnel; short-term plans of enterprise and so on.

The second track was compatible with survey "Small and Medium Businesses in Georgia" carried out by National Statistics Office in 2008. It was interesting to us to know how and on which tracks the situation was changed, especially with a view to Russia-Georgia war and global economic crisis results.

Analysis of above mentioned both periods in Georgia over the last twenty years has shown that this sector is forming permanently, gradually improving the small and medium enterprise's sector and branch-wise structures both (see Pic. 1).

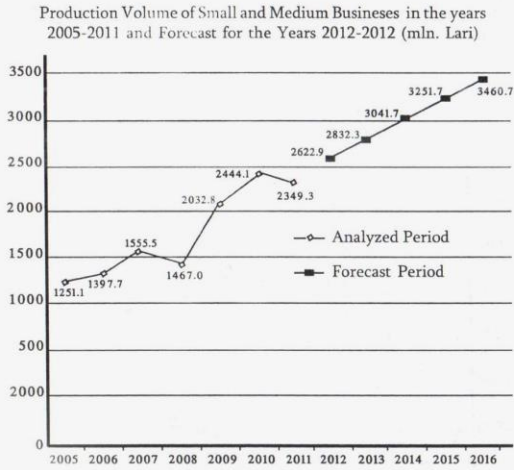
Pic 1.



Third chapter of the proposed dissertation "TODAY'S SMALL BUSINESS PROBLEMS AND PROSPECTS OF DEVELOPMENT" refers to the present state of the support to small and medium businesses and justifies the objective necessity of this support.

For the purpose of defining the separate instruments of small and medium businesses prospects and policy, we have forecasted the production volume values in this sector, based on the analysis of its components, and for that we have used the extrapolation method (Pic. 2).

Pic. 2

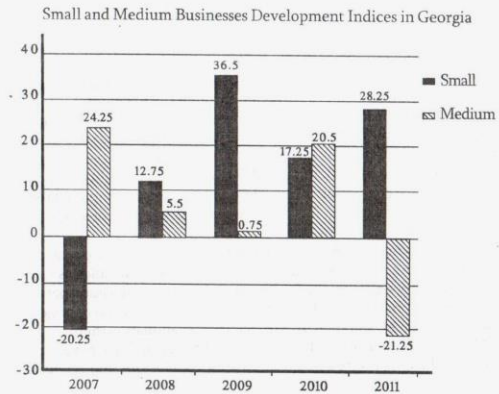


Forecast results show that small and medium sized business sector in Georgia in a mid-term perspective remains the growing and priority sector, wherein the production volume is steadily growing.

On the other hand, for developing the policy related to small and medium business, great significance is attached to identification of development opportunities. For this purpose, we have made complex assessment of the development of these category enterprises by selecting the special indices. Such information is necessary as for business sector so for defining the basic trends of governmental support to small and medium enterprises as well.

Within research carried out, we have calculated the development indices for small (I_{sb}) and medium (I_{mb}) businesses, and we received the following picture (see Pic. 3):

Pic. 3.



According to calculation results there are identified several stages in the development of small business:

1. Instability – the years 2007-2008;
2. Peak – 2009;
3. Period of stability– 2010-2011.

These results show us that in the development of medium business there are identified several stages as well:

1. Stability - the years 2007-2008;
2. Fall – 2009;
3. Growth – 2010.

We believe that for supporting the small and medium businesses, one of the most pressing problems is to develop special taxation regimes for this sector. In the same chapter, there are considered different versions of resolving this problem.

We think that there are required at least one or at most two regimes. We believe that using of any type alternative tax is important only for low tax payers. Such kind of tax payers can be the extremely special group of small undertakers, for whom it is difficult to keep any type of accounting (except calculation of the amount of incomes received).

We hold the view that the basis for the taxation of small business may be the cash-flow tax, which possesses much less negative sides, than the taxation of incomes corrected through the expenses.

Taking into consideration all above mentioned, for the smallest business, which provides population with services, it is possible to impose a voluntary tax (patent). For businesses, whose sells and expenses volumes are difficult to control, it is possible to consider possibility of imposing the minimal compulsory tax in addition to general or simplified regimes. For small enterprises, it is possible the voluntary use of simplified regime in kind of cash-flow tax.

In these conditions, we think that it should be reasonable to create the centers for technological transfer and intellectual maintenance as well. Many universities and branch-wise institutes of higher education possess strong professional technical basis for arranging the innovative projects of small companies, and then to carry out their examination there.

Main Results and General Conclusions. The research we have carried out enabled us to present the following conclusions and scientific achievements:

1. Small and medium business (SMB) sector in Georgia is perma-

nently forming over the last 20 years, there is gradually improving as sectoral, so the branch-wise structure of small and medium businesses. The fact that 99,2 % (318957 units) of registered enterprises are in private ownership, points to the development of market systems and business sector in Georgia as well. Exactly the private sector generates 88,4% of value-added tax, 90,3% of total production volume, 94,5% of turnover, and about 80% of employed people are engaged in this sector.

2. Governmental and non-governmental support to SMB became the economic policy priority in many countries. We believe that Georgia should apply great world experience in this sphere, ensure the introduction of successful models of the development and support. In this process, it is necessary to take into consideration the national, territorial, climate, industrial and infrastructural specifics, as well as all their accumulated knowledge and experience. In this respect, to some extent the experience of European countries in this sphere should be useful as well.

3. Based on the carried analysis, when assessing the small business, we can identify three periods since the end of 1980s in Georgia:

- a) The business formation period (1990-1996);
- b) The development and structural registration period (1997-1999);
- c) Civilized modernization period (since 2000 to present time).

4. When determining the criteria of small, medium and large enterprises, we should take into account the scales of country, specifics of national economy, sectoral structure and the development level of the economy. These criteria must be standardized and periodically checked (once in 4-5 years) for correction purposes;

5. It is necessary to develop in the country the mid-term development strategy for small and medium businesses, which along with the existing experience will be based on in-depth theoretical and practical investigations.

6. It is necessary to pass the law on "Small and Medium Businesses Support", which will envisage new realities, efficient support to this sector and make not only fixation of definitions. As a primary objective in it should be considered the creation of complex system of organizational, industrial, financial, material, socio-economic and legal regulatory measures of companies functioning, and then its successful implementation.

7. We believe that it is necessary to adopt the start-up benefits for small enterprises. In particular, the newly-created small enterprises du-

ring the first two years since starting their functioning must pay only half rate of profit tax;

8. Based on research carried out, the development indices calculation has shown us that there are identified several stages in the development of small business: instability – 2007-2008; peak – 2009; period of stability – 2010-2011; in the development of medium business there are identified the following stages: stability – 2007-2008; fall – 2009; growth – 2010.

9. It is necessary to encourage the introduction of leasing operations. Leasing may play crucial role in the formation of initial capital and subsequently in the development of this sector, since the businessmen are enabled to receive the fixed assets without simultaneous expenses;

10. The obligatory involvement of this sector in the State purchases process must become a component of support to small and medium enterprises (preferences when participating). We hold the view that it should be reasonable at this stage that the quota of small and medium enterprises must account for about one third of total volume of contracts. Also it should be reasonable to establish at least 40%-quota of credit resources for small enterprises in the "cheap credit" or similar government programs.

11. Along with the formation of institutional basis, very important task is the improving and developing the credit and financial mechanisms for support to private enterprise. There are many reasons in contemporary Georgia for less accessibility of financial capabilities to real sector of the economy, especially to small enterprises.

12. It is necessary to resolve the problems related to special taxation regimes for income tax in administration terms. The control mechanisms for overall income's limits established for micro and small businesses are vaguely formulated, while small and micro business representatives will be freed from the obligation to submit complete book-keeping accounts, and many micro business status holders will be freed from obligation to use the cash registers.

13. The most important trend of governmental support to SMB is rewarding them the tax preferences. We believe that for the smallest business, which provides population with services, it is possible to impose a voluntary tax (patent). For businesses, whose sells and expenses volumes are difficult to control, it is possible to consider possibility of imposing the minimal compulsory tax in addition to general or simplified

regimes. For small enterprises, it is possible the voluntary use of simplified regime in kind of cash-flow tax.

14. Independence of private sector is compromised by inexistence of independent court that in some cases, conditions lack of protection from governmental interference in business activities and dispossession of ownership rights. Also, the ties of business-sector with society are weak.

15. We think that it should be reasonable to create the centers for technological transfer and intellectual maintenance, which may become a considerable trend in support to innovative small business. For this purpose, many universities and branch-wise institutes of higher education possess strong professional technical basis.

16. A significant social function of small enterprise consists in fact that it is capable "to adsorb" the workforce in a large scale, which is freed from large enterprises; reduce or defuse social tension caused by economic crisis or fall conditions. So, exactly ensuring business activity must become a component part of any reform or economic policy, the "lion's share" of which falls on the development of small and medium businesses.

Thus and so, we believe that the development of small and medium economies should ensure the country's exit from the crisis as well as resolving the acute social problems.

List of main publications related to dissertation and presentations made on different scientific forums:

Basic provisions of the proposed works are published in following editions:

- PROSPECTS OF THE DEVELOPMENT OF SMALL BUSINESS IN GEORGIA: REGIONAL ASPECTS". International Scientific-Practical Conference "Regionalization, Contemporary Economic and Social Processes, Proceedings, Kutaisi, 2010. Tb., "Innovation", 2010, pp. 435-441.

- „THE MAIN REGULATORY ASPECTS OF SMALL AND MEDIUM BUSINESSES IN GEORGIA" Journal "Urgent Problems of Economics, sociology and Law", N2, 2012, pp. 9-13.

- THE OBJECTIVE NECESSITY OF SUPPORTING SMALL AND MEDIUM BUSINESSES IN GEORGIA – The 1st Virtual International Conference on Advanced Research in Scientific Areas (ARSA-2012) Slovakia, December 3 - 7, 2012.

<http://www.arsa-conf.com>