

# Problems and Impediments Associated with Entrepreneurial Development in Georgia

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## Abstract

This study examines the issues and challenges to the growth of entrepreneurship in Georgia. This investigation was informed by the fact that governments have strived to encourage the growth and development of entrepreneurship as an agent of economic transformation in recent times. This work therefore did a critical analysis of the challenges, with insight into their implications for the development of the Georgian economy. The importance of entrepreneurship is enormous, it expands the size of the economic pie for everyone, creates jobs, produces wealth, ensues dynamism of industries and long-run economic growth, engenders enormous personal financial gains, provides self-employment, develops more industries, processes local material to finished goods, generates income, more goods and services and develops new markets. These potentials could be fully exploited for the benefit of Georgian economy only if the challenges are specifically identified, tackled and addressed through effective policy formulation and implementation. But, in Georgia, the practice and development of entrepreneurship has generated divergent opinions from different experts.

The research focuses on the ease of doing business and its problems and this study attempts to provide answers to these questions regarding the entrepreneurial development, problems and impediments in the country. This study is considered a worthwhile undertaking with the principal aim of examining various issues and challenges that inhibit the growth of entrepreneurship in Georgia. The paper thus seeks to achieve the following specific objectives: to identify factors that most likely inhibits the growth of entrepreneurship in Georgia; to ascertain the relationship between legislative environment and the entering barriers to the market; To ascertain the relationship between management problems (e.g. lack of managerial/technical skills) and the growth of entrepreneurship in Georgia and to ascertain the relationship between finance (e.g. lack of access to finance) and the growth of entrepreneurship in Georgia.

**Keywords:** Economic Growth, Entrepreneurship, SME, Unemployment Rate

**JEL:** G01

## Introduction

The research focuses on the ease of doing business and its problems in Georgia. The ranking on the ease of doing business, and the underlying indicators, do not measure all aspects of the business environment that matter to firms and investors or that affect the competitiveness of the economy. Still, a high ranking means that the government has created a regulatory environment conducive to operating a business.

Georgia has made sweeping economic reforms since the "Rose Revolution," moving from a near-failed state in 2003 to a relatively well-functioning market economy in 2014. Through dramatic police and institutional reforms, the government has eradicated low-level corruption with, according to a 2013 poll, four percent of the population reporting having to pay a bribe in the previous year to get a government service or decision. The government eliminated 84 percent of licensing requirements in

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2005, and Georgia ranks 8th in the World Bank's 2013 Ease of Doing Business Index. Fiscal and monetary policy is focused on low fiscal deficits, low inflation, and a stable real exchange rate.

In the context of recent developments in the labor market, it is not surprising that the economic upsurge has had negligible effect on poverty and inequality. Both the absolute poverty level - per cent of the population living below the subsistence minimum - and inequality decreased only slightly during the period under review. Georgia still has one of the poorest performances among Central and Eastern European countries (CEE) and the former Soviet Union (FSU) republics on both counts. We believe that this is mainly due to the fact that recent economic growth failed to stimulate formal employment and to alleviate the unemployment problem (Belgian Development Cooperation, UNDP, 2008).

Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals (European Commission, 2011).

Most of the business entities virtually belong to SME sector in the context of production, contribution, to GDP or GNP, employment generation capabilities in Georgia. Country Legal form of doing business and registering a business treated every micro and macro business unit on same tax procedure to SMEs.

Georgian SMEs are facing lot of problems due to their condition with limited resources. There is following reason of problems, which constraints in development of SME sector in the country:

1. Absence of regulatory framework
2. Absence of adequate and timely banking finance
3. Limited capital and knowledge
4. Non-availability of suitable technology
5. Marketing knowledge, ability to identify customers, buyers in foreign markets
6. Human resource: non availability of highly skilled labor at affordable cost
7. Short product life cycle
8. Technical adaptation
9. Industry structure
10. Export market: procedural knowledge
11. Micro and macro environmental information

This article examines and discusses the key problems associated with the entrepreneurial development.

The aspiration of all economic policy measures are targeting on achieving sustainably functional economy and high and qualitative standard of life. The development of small and medium business is one of the effective instruments to achieve upon mentioned objectives. International experience has already shown that the development of small and medium busi-

ness in short time makes possible the structural adjustment of economy. The SMEs are characterized with variety of small and medium owners of businesses. Most of them are operating on local markets. Their size, technological and management flexibility, enables them to react timely on changed market conjuncture. Despite the fact, that the big companies are dominant paragons of all developed countries, nevertheless performing the small and medium companies an important economic and social role. They generate jobs, they increase their productivity through competition and mostly they are considered as drivers of innovation and progression. The ability of small and medium companies to base themselves in all industries ensures the stabile political and economic environment. Well-developed SME sector could also reduce the risk of social conflict, in part by creating a middle class interested in stability (Claessens & Laeven, 2002).

Economic policy of the Government of Georgia is based on three main principles. The first principle implies ensuring fast and efficient economic growth driven by development of real (production) sector of the economy, which will resolve economic problems that exist in the country, create jobs and reduce poverty. The second principle implies implementation of economic policies that facilitate inclusive economic growth – it envisages universal involvement of the population in the economic development process (including Diaspora, migrants, ethnic minorities and other groups), prosperity for each member of society through economic growth, their social equality and improvement of the living standards of population. The third main principle is based on rational use of natural resources, ensuring environmental safety and sustainability and avoiding natural disasters during the process of economic development. Government of Georgia recognizes principles of democratic development, rule of law, efficient administration, respect for human rights and basic freedoms; the Government's policy is based on those principles (Government of Georgia, n. d.).

In the network of industrial relationships the SME sector plays an important role in shaping a competitive environment, evening out social inequalities and increasing the rate of job creation. SMEs therefore have an effective role to play in reducing poverty. By their nature, they are able to react with speed and flexibility to market changes, they are more efficient in introducing new products, and they are primarily oriented to satisfying local market demand. A stable and collaborative relationship between SMEs and their interaction with large and global businesses are preconditions for the competitiveness, viability and increased efficiency of businesses – a process known as a 'value chain'. The development of a value chain involves all aspects of the production and the consumption of an end-product, thus involving suppliers, manufacturers and consumers. In this system, the generation of value at each stage depends on the next one; rational and effective links between stages must aim to decrease costs and risks, while increasing the quality and quantity of products and services through collaborative effort. It is a vertical and horizontal chain of tie-ups whereby, thanks to partnership relations, each unit is able to raise not only its efficiency but also the long-term stability of its activity. A stand-alone enterprise cannot be successful if it is not part of a whole, well-coordinated value-added chain, starting from the purchase of raw materials and ending with the sale of products and delivery of services and the provision of an after-sales maintenance service (Belgian Development Cooperation, UNDP, 2008).

## Problem Background

Despite obvious economic and political improvement since 2003, nowadays Georgia remains much behind developed countries and suffers from very high unemployment and low level of income for most of the population. For the purpose of improving the present business environment and in order to push the country towards the sustainable market economy it is crucial to stimulate the Small and Medium-sized Enterprises (SMEs), as the most effective drivers for development and employment. Unfortunately, current organizational, legal and tax condition for small and medium businesses are detrimental to their growth and limits economic growth to few niche sectors, in particular credit driven real estate and consumption goods heavily dependent on imports, with little benefit in terms of employment and increase of the general level of income, all under high inflation (Partskhaladze, 2012).

Last few years Georgian economy saw a declining trend in growth, the real GDP growth has been declining since 2011 when it reached the highest growth rate in years at 7.2 percent. In 2012 the growth declined to 6.2 percent, where the country experienced even smaller economic growth in 2013 at 3.2 percent. The displayed economic growth slowdown can be attributed to different things. Decreasing trend of GDP growth started, in 2012, the year of the parliament elections in the country which led to the democratic change in power for the first time in 8 years. This might have been the cause for decreased FDI given the uncertainty for investors associated with elections - especially a regime changing elections. The similar scenario when the growth diminished happened after 2007 when the year saw the largest GDP growth since the country's independence, after that due to the Russian trade embargo in 2007 and the war in 2008 growth started to slow down and in 2009 the economy even saw a negative growth at -3.8 percent (Ministry of Economic Development of Georgia, 2014).

The aspiration of all economic policy measures are targeting on achieving sustainably functional economy and high and qualitative standard of life. The development of business environment is one of the effective instruments to achieve upon mentioned objectives. International experience has already shown that the development of small and medium business in short time makes possible the structural adjustment of economy. The SMEs are characterized with variety of small and medium owners of businesses. Most of them are operating on local markets. Their size, technological and management flexibility, enables them to react timely on changed market conjuncture. Despite the fact, that the big companies are dominant paragons of all developed countries, nevertheless the small and medium companies perform an important economic and social role. They generate jobs, they increase their productivity through competition and mostly they are considered as drivers of innovation and progression. The ability of small and medium companies to base themselves in all industries ensures the stable political and economic environment. Well-developed SME sector could also reduce the risk of social conflict by creating a middle class interested in stability.

In some development phase the majority of companies are dependent on support. This applies especially to those companies, which are on the early stage of their progression. Meantime there is a lot of evidence, that healthy environment and relevant informational and consulting support in early phase of progression will bring the companies to a successful start and will ensure their expansion. Despite obvious economic and

political improvement since 2003, nowadays Georgia remains much behind developed countries and suffers from very high unemployment and low level of income for most of the population. For the purpose of improving the present business environment and in order to push the country towards a sustainable market economy it is crucial to stimulate the SMEs, as the most effective drivers for development and employment. The majority of operating companies in Georgia are SMEs. The variety of surveys conducted past years in the field of Entrepreneurship makes also clear, that nowadays the Georgian small and medium entrepreneurs have absence of informational, financial and innovation support from the government. Deficiency of a national strategy for development of small and medium businesses remains also an essential hurdle for their progress. Recently adopted tax law has at least some positive signs for small and medium entrepreneurs (The regulatory bodies and taxes has been reduced dramatically), but organizational and legal issues necessary for their expansion, are still under reform (Partskhaladze, 2012).

## Methods and Data Collection

We have identified Core Research Questions: What problems do businesses meet while entering the market and Legislative drawbacks in a business performance. The study approach was both qualitative in some parts and quantitative in others. The qualitative research was based on literature review and its analysis. The quantitative approach was used to collect data from related statistics provided by National Statistics Office of Georgia, internationally conducted surveys and interviews, study reports, and authors' survey. Data collection was initiated with the secondary data sources, on the basis of which the theoretical framework is constructed. We have started with readings of previous and current literature, which stood out to be of relevance to our research question, and provided us with beneficial understanding and knowledge of key objective terms on which further study should be approached. This study focuses on the approach of small and medium-sized companies in Georgia towards their operating problems in legislative framework and social/poetical environment. Our sample will be the respondents from SMEs. All the samples will be selected from Tbilisi/Georgia (Approximately 50 SME). We conducted the research in the following way: We approached the small and medium-sized companies operating in Tbilisi and we tried to interview their Chief Financial Officers (CFOs), accountants or managers. Generally, all the questions were oriented on managers/owners who work for small or medium enterprise and have practical experience. Face-to-face contacts were used to fill in the questionnaires.

## Brief Statistical Observation of Economic Growth in Georgia

The private sector, which provides some 90 percent of jobs in developing countries, must be at the core of any response to this double challenge. Therefore, it is crucial to understand the constraints that private companies face in creating jobs, and the public sector and development finance institutions must help build an environment where these obstacles are removed or minimized. According the report main aim is to help by providing an understanding of how the private sector generates jobs, what constraints limit job creation, and how these prob-

lems can be mitigated. The World Bank's World Development Report 2013 identifies three ways that jobs contribute to development: Jobs boost living standards, raise productivity, and foster social cohesion.<sup>1</sup> Indeed, development and job creation are intrinsically linked and interdependent in the economic and social spheres. Within the economic domain, jobs provide the main source of income, thus determining living standards and consumption possibilities at the individual level. Future income is also partly dependent on current labor activity, since human capital is accumulated and skills are maintained and improved through daily work. Jobs are also the principal way out of poverty for people in developing countries. The associated increase in income allows consumption of basic goods and services above poverty thresholds: as average household incomes rise by 2 percent per year, poverty rates are reduced between 1.2 and 7 percent, depending on country circumstances. <sup>2</sup> In fact, the top two reasons why 60,000 poor people cited jobs as their best pathway out of poverty were (i) through self-employment, i.e., running their own business, (ii) through income from wages or salaries. Worldwide, small and medium size enterprises (SMEs) account for approximately 90% of enterprises and over 50% of employment (International Finance Corporation, 2013). In developing economies such as Georgia, SMEs are the backbone of the economy and play a central role in job creation and economic growth. The importance of SMEs cannot be overstated even for advanced economies. In the European Union (EU), 99% of all enterprises are SMEs, providing for two out of three jobs in the private sector.

Georgia has experienced a rapid transition of its political, economic and social institutions since the 2003 Rose Revolution, which led to the ouster of Eduard Shevardnadze, the President since 1995. The reforms implemented in the following years by the United National Movement (UNM), with President Mikheil Saakashvili at the head, introduced free trade principles, deregulation of the economy and creation of a simplified and effective administration (OECD, 2014).

Real GDP growth picked up on average 6.5% from 2010-2012. In 2013, it was 3.6%. The Economist Intelligence Unit estimates the drop was due to a sharp fall in public spending on goods and services and delayed private investment due to the political uncertainty. The projection for GDP growth in 2014-2015 was estimated to be 6.1 (Fig. 1).

Georgia has been fairly successful in creating an open business environment for MNEs. Specific measures adopted by the government for the purpose of attracting foreign investment include reducing regulations, lowering taxes (a new Tax Code entered into force in 2011), fighting corruption, reforming customs practices, making property registration easier, introducing insolvency legislation and investing in infrastructure development (Fig. 2, 3).

Furthermore, the banking sector is one of the fastest growing sectors in Georgia, despite a slowdown in lending at the beginning of 2013. The World Bank has provided support to Georgia to strengthen its banking sector and increasing access to finance for SMEs, with a commitment of more than USD 357 million in lending and equity financing from IFC between 2009 and 2013. Georgia has regularly stated an intention to integrate with European Union (EU) structures and markets.

Responsible business conduct is a relatively new concept in Georgia. Many businesses might not fully understand the extent of their responsibilities while their stakeholders might not

fully know what their basic rights are and the available resources to ensure those rights are respected. As Georgia integrates into the global market, all relevant actors will benefit from a better understanding of the rules that govern business activity, universal human rights and international labor standards. The following sections will identify opportunities for enterprises to contribute to sustainable development and inclusive growth of Georgia and will list some of the main challenges that enterprises face in Georgia in the field of RBC (OECD, 2014).

## Georgian SMEs Contribution to Economic Growth

Small and Medium Enterprises (SMEs) play a major role in economic development, particularly in emerging countries. Studies indicate that formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector. The informal sector presents one of the greatest challenges in the SME space, with issues that go well beyond finance. In the context of the international development agenda, and given the critical importance of job creation in the recovery cycle following the recent financial crisis, promoting SME development appears to be an important priority (International Finance Corporation, 2010).

Georgian SMEs are facing lots of problems due to their condition with limited resources. There are following reasons of problems, which constraints in development of SME sector in the country: 1) Absence of regulatory framework; 2) Absence of adequate and timely banking finance; 3) Limited capital and knowledge; 4) Non-availability of suitable technology; 5) Marketing knowledge, ability to identify customers, buyers in foreign markets; 6) Human resource: non availability of highly skilled labor at affordable cost; 7) Short product life cycle; 8) Technical adaptation; 9) Industry structure; 10) Export market: procedural knowledge and micro and macro environmental information.

SMEs contribute to job creation and growth, two key elements of poverty reduction. An increasing number of SMEs are being integrated in global value chains, either through their own activities or through value chains of MNEs. In developing economies like Georgia, growth in overall employment (and in particular self-employment) is generally connected with the development of SMEs. On the basis of the definition of SMEs found in the Law on Georgian National Investment Agency, 96% of registered enterprises in Georgia were associated to SMEs in 2010. This number needs to be carefully considered, however, since a large number of registered businesses are inactive. Overall, the SME sector shows weak performance in terms of value added, accounting for 19.3% of value added in 2010, with a 16.1% of total turnover. Many SMEs in Georgia are not equipped to face the increased competition and conditions required for entering global markets. Many foreign enterprises operating in Georgia depend on imported goods as an alternative to local production, where weaknesses are observed in terms of quality and security standards. Available technology, production facilities and environmental requirements often do not entirely meet international standards (OECD, 2014).

In addition, the World Bank has reported that local Georgian businesses lack business and financial management

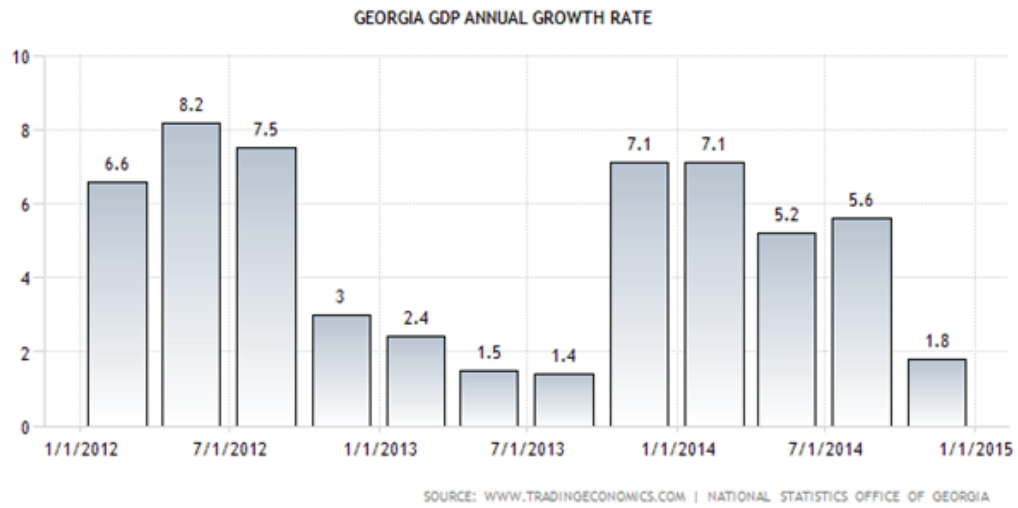


Figure 1. GDP Annual Growth Rate

Source: www.tradingeconomics.com



Figure 2. Import in Recent Years

Source: www.tradingeconomics.com

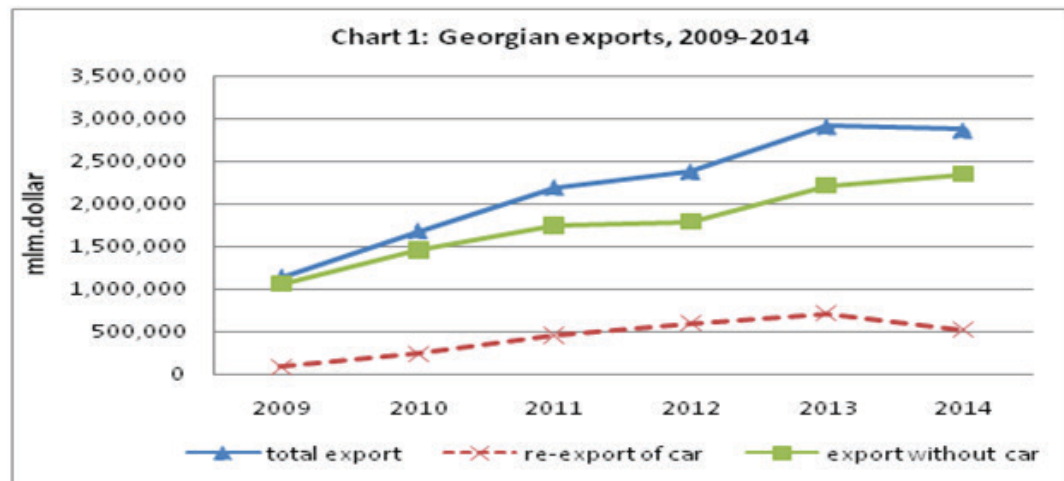


Figure 3. Georgian Export

Source: www.tradingeconomics.com

skills, have scarce knowledge of markets and products, and generally do not benefit from technology and innovation investments. Access to finance has also been identified as a significant challenge in Georgia. These constraints are particularly acute for SMEs in rural areas and agribusinesses. Better connecting Georgian SMEs with MNEs and global value chains is a crucial factor for Georgia's economic development. MNEs are a source of employment, transfer of know-how, skills and innovative capacity. SMEs participation in global value chains can bring expanded operations and scope of activities; a more secure place in the world market; greater specialization in the supply of products or services; access to new financial resources; increased competitiveness; efficiencies from cooperating with upstream and downstream partners; and increased opportunities for innovation and access to new technologies. Integrating RBC into SME operations is an important element for the success of Georgian SMEs in global value chains. A growing number of MNEs are looking at responsible business behavior in the selection of their suppliers for reasons of their own due diligence process and risk management systems. The businesses that do not implement RBC principles and standards might, therefore, be rejected as suppliers. They may also find access to finance more problematic since a growing number of lending institutions apply due diligence criteria for the granting of financing. Furthermore, more investment funds are also taking RBC into consideration when making investment decisions (OECD, 2014) (Fig. 4).

Enterprises can support skills and SMEs development in Georgia. In particular, enterprises should: Encourage local capacity building through close cooperation with the local community, including business interests, and develop enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice (Guidelines II.A.3). In their operations and to the greatest extent possible, employ local workers and provide training with a view to improving skill level, in cooperation with worker representatives and, where appropriate, relevant government authorities (Guidelines V.5). Promote awareness and compliance by workers with respect to company policies through appropriate dissemination of these policies, including through training programs (Guidelines II.A.8). Contribute to the development of local and national in-

novative capacity (Guidelines IX.1); Adopt, where practicable, practices that permit the transfer and rapid diffusion of technologies and know-how (Guidelines IX.2). Support SMEs in their efforts to access global value chains and better adjust to the global market.

## Research Methodology

We have described the methods selected for analysis from a selected perspective and data collection, and the reasons for why these methods were chosen in comparison to the other alternative methods. The choice of subject for this article has been based on the reforms in Georgian legislation and adoption new rules in Georgian legislation for SMEs in Georgia. There has been much debates and discussions about formulation of a set legislative amendments and standards suitable for small and medium-sized entities. All the countries have a national set of guidelines to be followed by the companies operating within the national boundaries. These legislative standards had been developed over time, and with the purpose of their development was to keep a check and balance on the transactions and events of a company by bringing in quality and control into it. The research question is: why would small and medium-sized companies which are based in Georgia and outside of the country (but operating in Georgia) meet the same barriers and do they operate in the same legislative environment or not? Thus, in order to find the answers to these questions based on empirical observations we have selected this specific subject as our choice of study.

## Preconceptions

In order to be objectively involved in the work we needed to have certain pre-involvement or interest in the field of study. This helped us choosing the appropriate methods and tools for data collection and analysis. Setting objectives was not an easy task, and for our study we had to go through a lot of discussion in order to specify our objectives for this study.



Figure 4. Unemployment Rate in Georgia

Source: www.tradingeconomics.com (National statistics office of Georgia)

The purpose of the paper was to investigate the economic role of SMEs in Georgian economy as we discuss above to define the perspective of their development. This issue has a special meaning for transitional countries, which are developing their growth policy. Study includes the perception of small and medium enterprise owners and the representatives of a business society about the business climate in the country. The research also includes statistical review of small and medium size enterprises in Georgia. Regional and sectorial distribution of SMEs, output, employment, production and value added.

In the presented research we shall use the adductive approach because we think it is the best approach that has a link with research methods to answer our research questions. We start with the theory about the legislative environment in Georgia, SMEs and IFRS for SME. On the basis of these theories, we will develop the theoretical framework which will help us in creating the interview guide. Analysis of empirical findings will be tested against the theoretical framework, and on the basis of this conclusion regarding this study would be derived. The tests conducted on the observations/findings would lead me to the conclusions in terms of either the empirical findings validate the theoretical framework or not. If the empirical findings are in line with the theoretical framework then we would not generate any new theory. Contribution to the knowledge would be made when the findings are not in accordance to the theoretical framework and reasons are provided by the respondents to support their views or opinions of rejecting particular observations/findings.

### Data Collection

Our data collection was initiated with the secondary data sources, on the basis of which our theoretical framework was constructed. Finding exactly specific and relevant secondary sources in accordance to the chosen research question is a complex activity, as it is a tough job to find objectively same previous or current work. But reasonably relevant secondary sources have been identified and included throughout the thesis work.

For primary data collection we have opted for face-to-face interviews. We carried out semi-structured interviews from the respondents based in Tbilisi, Georgia. Semi-structured interviews provide the researcher with the ease of producing a list of questions on specific topics, which are formulated into the interview. We used open-ended questions in the semi-structured interview, as it provides much more room to the respondents to express their views and reasons. In semi-structured interviews, the order in which the questions were asked might vary, but it is preferred to keep track of the questions in the same order as in the interview.

### Sample Selection

This study focuses on the approach of small and medium-sized companies in Georgia towards their operating problems in legislative framework and social/poetical environment. Our sample is the respondents from SMEs. All the samples are selected from Tbilisi, Georgia (Approximately 50 SME).

Firstly we are going to conduct the research in the following way: we will approach the small and medium-sized companies operating in Tbilisi and we would try to interview their Chief

Financial Officers (CFOs), accountants or managers. Grouping all the different nature companies into one set would complicate the data analysis and drawing appropriate unbiased conclusions would be difficult.

Our research purpose was to discuss an economic indicator and legislative environment in Georgia and we collected data through semi-structured interview and identify the result which replied to our research question.

## Research Results and Recommendations

Millions of GEL has been spent by local or international funds in order to support SMEs in Georgia, though the business sector reduces instead of development. The SMEs' share in the total amount of Georgian business is not more than 15% like in previous years. The number of medium enterprises, the number of employees and average salary are reduced. In Georgian economy as turnover, as employees more than 60% of quantity indicators belongs to big enterprises, despite that the share of big enterprises in registered subjects is only 7%.

The government on the basis of supporting the SMEs, has defined the concepts of small and medium enterprises. The status of microbusiness could be physically granted only to the physical person whose annual turnover is till 30 000 (thirty thousand) GEL. Such kind of entrepreneur is released from the income tax. The category of small business belong to the businessmen, whose annual turnover is from 30 000 (thirty thousand) to 100 000 (one hundred thousand) GEL. According to the legislation in force, small, medium and large enterprises had the following definition before the mentioned amendments: small enterprise – the average number of employees is not more than 20 people and annual turnover is not more than 500 000 (five hundred thousand) GEL; Medium enterprise – average number of employees is not more than 100 people and annual turnover is not more than 1500000 (one million and five hundred thousand) GEL. Large enterprise – average number of employees is more than 100 people, and annual turnover is more than 1500000 (one million and five hundred thousand) GEL. Though, as the experts mention, there is not anything revolutionary in establishing the status of microbusiness, because such category of businessmen did not pay according to the old legislation (Aamir & Farooq, 2010).

International organizations, among them International Financial Corporation (IFC) and United States Agency for International Development (USAD), in the framework of the projects implemented, have researched the SMEs' business environment. In minds of majority (73%) of interviewed, the business environment in Georgia has been deteriorated significantly.

Approximately 70% of Georgian SMEs said that main problem in conducting the business was attracting the investments. Those who have done capital investments, 77% mentioned that they have reached it from the retained earnings and their own resources. High mortgage demand and interest rate were named as the main problems, for enterprises don't benefit by the banking loans. The macroeconomic instability of the country is significant problem too, that complicates creating the valuable business plans and prediction of the events. This is added to the high level of monopolization of almost all market segments, what is one more supporting factor of expelling the small players from the market.

The deplorable circumstance of the small business is a serious shortcoming of the Georgian economy and main peril of social stability. To correct the situation the political will of the government, existence of the distinct economic politics and activation of the civil sector in this direction, arrangement of the business incubators, encouragement of the NGO sector by the international funds are needed.

## Conclusion

The competitive potential of human resources of the country implies not only the number and cost of personnel but rather the sophisticated skills acquired through higher education, and advanced research and training, the creativity and commitment of managers in deploying resources, the ability of managers to convert human capital into superior consumer goods and to achieve desired customer satisfaction. Various factors determine the competitiveness of a nation's human capital. These are: general socioeconomic factors such as the macroeconomic situation, economic development policy, poverty and equality, the reliability of health and educational systems and the efficiency of human resource strategies employed by individual companies in gaining a sustainable competitive advantage. Various actors or stakeholders are responsible for providing these factors. Thus, human resource competitiveness requires close cooperation between the main stakeholders, i.e. government, private sector and the labor force.

Analysis of current situation allows us to identify the following two broad factors that preclude the creation of competitive human resources in Georgia: "demand" and "supply" factors. The main gaps on the demand side are related to the inability of the government to provide a sustainable economic development environment, one in which businesses flourish, investment based on innovations and advanced technology transfer are attracted, jobs are created and demand for skilled and competitive human resources exists.

As worldwide experience suggests, in order to successfully nurture competitive human resources of a nation, cooperation between main stakeholders, i.e. private business, government and the labor force is required. Analysis of the business environment in Georgia suggests that relationships between main stakeholders are governed by distrust rather than by cooperative values. Each actor tries to maximize its own benefit (the government – tax revenues, the labor salaries, and private business - short-term profits) at the expense of maximizing value for the whole network. Thus, promotion of cooperation between main stakeholders in agreeing upon joint values, activities and policies focused on achieving long-term competitiveness is one more opportunity for human resource development. Government must play an important role in promoting a collaborative network for fostering competitive human resources, one that affects both the "demand" and "supply"-sides. Both private business and the labor force can play an important role by investing their resources in advancing the skills and capabilities of human capital.

The recommendations that we have put forward cover four groups of proposals: measures to be taken by the authorities, tangible actions to be taken by local governments, directions for the development of partnership relations in the sphere of business, and potential funding schemes for SMEs.

We think that, in developing economies such as Georgia, it will be equally important for a) foreign investors to adopt behaviors that lead to sustainable development from the start and for b) SMEs to adopt good practices that will not exclude them from the global value chains. These two are not mutually exclusive. The following sections explore some of the areas where the two intersect, while also addressing challenges that MNEs may face.

Standards are very important tools for economic development. Today's global markets require each and every supplier to comply with established standards. In order to achieve sustainable development, the Georgian private sector has to learn both the value and features of the international standards sector by sector, product by product and try to meet the global requirements. This is not going to be an easy job. Since the end-results will be beneficial not only to the private sector, but also to the general public as and, accordingly, to the government, the whole economy should concentrate and join its efforts to advance the standardization process in a more stable and wise way. Preliminary projections show that the financial sector can also benefit from the standardization of the Georgian private sector in two different concepts: a) loans issued for standardization of various sectors of the national economy are expected to be repaid at acceptable levels, thus providing sufficient profit opportunities to the banks in the short- and medium-run and b) standardization of even a single sector up to the level of 40 to 60 per cent is expected to significantly increase demand for loans and credit lines for financing working capital and capital expenditures of private companies (which were to be recently standardized) thus enabling the banks to enlarge their more secure portfolios.

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