

DEVELOPMENT OF ENTREPRENEURSHIP IN MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES USING ACCOUNTING SERVICES

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Abstract

In the process of economic development, the government of Georgia attaches special importance to the development of micro, small and medium entrepreneurship and aims to improve the entrepreneurial environment. Support for the development of entrepreneurship is one of the priorities of the economic policy of the Government of Georgia. State programs promoting the development of small businesses in Georgia are discussed in the paper. The following are highlighted: the goals and functions of the Agency for Entrepreneurship Development, Innovations and Technologies, organizations supporting small and medium entrepreneurship, mechanisms for facilitating access to finance. A study was conducted -- Possibilities of entrepreneurship development using accounting services. As a result of the research, conclusions and recommendations were formed: we believe that small enterprises should be opened as a result of supporting programs, creation of new jobs encouraging innovative activities in small businesses, stimulation of investments. Overall, the conducted survey confirms the need to review the state policy towards small businesses in Georgia, where special attention should be paid to innovative entrepreneurship, as well as stimulation of small enterprises entering foreign markets. It is possible to solve the following three main issues in order to promote small business: first, encouraging small entrepreneurship so that as many unemployed people as possible can start their own business. Secondly, raising the knowledge of small entrepreneurs in terms of management and professional development, and thirdly helping small entrepreneurs in sales, in order to receive the first earnings, which will further increase their motivation. All of the above can be achieved using effective accounting services.

Key words: *entrepreneurship, support programs, entrepreneurship agencies, accounting services, associations.*

JEL Classification: M13,M41,M42,M48, L26,L31,L33,O3

I.Introduction

The development of micro, small and medium entrepreneurship is extremely important for the stable growth of the country's economy. It plays an important role in the problem of unemployment and creates new jobs. It is also important that the development of entrepreneurship corresponds to modern progressive trends, which is mainly related to the latest achievements in the field of innovation and technology and their integration in daily activities. In developed countries (including EU countries), micro, small and medium-sized enterprises have a large share in operating enterprises, creates more than 50% of the total turnover of the business sector and two out of every three jobs in the private sector. In the countries of the Organization for Economic Cooperation and Development (OECD), more than 99% of companies are micro, small and medium-sized enterprises and on average they create 2/3 of the gross domestic product (GDP). In countries with developing and transition economies, micro, small and medium enterprises represent more than 90% of the total number of enterprises. However, their share in GDP is quite low - in many cases less than 20%. (Herr and Netekoveni 2019)

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II.Research Methodology

The legislative and normative acts of Georgia were used during the research. Ministry of Finance of Georgia, National Statistics Service, Materials of the Ministry of Economy and Sustainable Development. The Ministry of Economy and Sustainable Development of Georgia works to support the creation, development and growth of competitiveness of micro, small and medium enterprises. In February 2014, two agencies were

established -Entrepreneurship Development Agency and Innovation and Technology Agency of Georgia.(www.economy.ge)

Entrepreneurship Development Agency- it represents the structure of implementation of policies and programs supporting small and medium entrepreneurship in Georgia. The main goals of the agency are: raising the competitiveness of the private sector, support for start-up businesses, supporting the establishment of a modern entrepreneurial culture, promotion of diversification of export of goods and services, etc. The main functions of the agency are: business support in the process of adaptation to DCFTA requirements; providing consulting services in various fields. Collecting information about demand and obligations on export and local markets and providing it to entrepreneurs; providing assistance to entrepreneurs in terms of business planning and development; assistance to entrepreneurs in relations with donors and financial institutions; increasing access to finance using various schemes; assistance in the process of marketing on international markets, etc. (www.nasp.gov.ge)

Innovation and Technology Agency of Georgia-it is the main agency supporting the development of the economy based on knowledge and innovative technologies. The main goals of the agency are: creation of innovative ecosystem in the country and coordination of its development process; stimulating innovation, modern technologies, research and development (R&D), promoting the formation of innovative start-up companies and raising their competitiveness; (www.gita.gov.ge)

There are several organizations supporting small and medium entrepreneurship in Georgia, including: Georgian Chamber of Commerce and Industry. The Chamber is established as an independent state agency, it's main functions are providing information and consulting services for businesses, improvement of business skills and business planning, promotion of export, internationalization of enterprises and others. Chamber membership is voluntary. Currently, the Chamber has 1,007 members, 90% of whom are small and medium-sized entrepreneurs. The membership fee ranges from 0 GEL to 10,000 GEL and depends on the services rendered. Small and medium enterprises do not pay membership fees. The chamber has five regional offices. (www.economy.gov.Ge) Employers' Association of Georgia: the association is an independent organization, which unites more than 1,000 small and medium-sized businesses. The association provides consulting services for small and medium-sized entrepreneurs and implements various programs for the development of entrepreneurial knowledge, skills. Association membership is paid and ranges from \$600 to \$2,000 depending on the size of the enterprise. ([www.economy.gov. Ge](http://www.economy.gov.Ge))

Association of Small and Medium Enterprises of Georgia: is an independent organization whose goal is to protect and advocate the interests of small and medium-sized enterprises. The organization actively cooperates with business in the development of entrepreneurial skills, in the direction of providing consultations in various directions and others. The association currently has 106 members. Business associations need capacity building in relation to EU policies and DCFTA requirements, to support small and medium enterprises in adapting to these requirements. In addition, it is important for associations to deepen their relationship with entrepreneurs. Also, deepening the cooperation between these organizations themselves, in order to improve the efficiency of services focused on small and medium entrepreneurship.(www.economy.gov. Ge)

III.Research Results

In 2014, the government of Georgia launched the state program "Make in Georgia" in order to create new competitive industries for the development of micro, small and medium entrepreneurship, as well as to develop the existing ones. The program provided for the support of entrepreneurial entities in the direction of industrial and agricultural industries in terms of creating new enterprises and expanding the existing ones. According to the latest data, business promotion mechanisms have been expanded, both in finance and technical direction. In 2023, the "Make in Georgia" program helped 503 business entities with 1.18 billion GEL and created 17,740 jobs. Most of the money was invested in agriculture and tourism. (www.enterprisegeorgia.gov.ge). Within the framework of the program, innovative approaches were developed and introduced, among them, the hiring of foreign companies and cooperation with experts in the relevant field in order to represent the country. As a result, the world's largest and multibillion-dollar corporations became interested in the country's potential and started operating, such as: Girtka, Concentrix, Indorama, Teleperformance etc.(www.forbes.ge). In terms of facilitating access to finance, the state implements the following programs: universal industrial part, credit-guarantee scheme and micro and small entrepreneurship support mechanism. The state ensures the creation of alternative sources of capital market development.

Georgia actively cooperates with the Organization for Economic Cooperation and Development (OECD), the European Education Fund (ETF), with the European Bank for Reconstruction and Development (EBRD) and other international organizations for the development of small and medium enterprises. A number of projects focused on small and medium entrepreneurship are implemented within the framework of the Eastern Partnership initiative. Within the framework of the Entrepreneurship Growth Program (EGP) and Business Advisory Service

(BAS) programs (supported by the European Union), which is implemented by the EBRD, supported more than 800 small and medium enterprises.

Georgia also actively participates in the EU East-Invest project, within the framework of which promotion of small and medium entrepreneurship is carried out. The Tax Code of Georgia defines enterprises with different statuses that benefit from different taxation regimes. According to the Code, the status of micro business can be granted to a person who does not use hired labor and independently engages in economic activity. His annual income does not exceed 30,000 GEL during one calendar year. According to the same code, the status of a small business can be granted to an entrepreneurial individual, whose total income from economic activities during a calendar year does not exceed 100,000 GEL. In addition, a person who is engaged in economic activity and during any continuous 12 calendar months, the amount of his transactions subject to value added tax exceeds 100,000 GEL, is obliged to register as a VAT payer, in which the average annual number of employees does not exceed 50 employees and the average annual turnover does not exceed 12 million GEL.

Medium-sized enterprises include enterprises of all organizational and legal forms, in which the average annual number of employees ranges from 50 to 250 people, and the average annual turnover is from 12 million GEL to 60 million GEL. According to the latest data, there are a total of 53,991 micro, small and medium-sized enterprises in Georgia. Among them: 592 medium-sized, 4,182 small and 49,217 micro enterprises. (www.geostat.ge)

The research conducted by us aims to outline the development of entrepreneurship in micro, small and medium-sized enterprises. Using promotional programs and accounting services. The research was conducted in the period from March 25, 2024 to April 21, 2024. Quantitative data collection and analysis was used for data accuracy. The survey was conducted using the Computerized Telephone Interview (CATI) method. 100 micro, small and medium enterprises participated in the research. Enterprises were randomly selected in each category, (www.rs.ge) The results of the conducted research are as follows:

1 Question. Are you applying for any micro, small and medium business promotion programs available in Georgia? The majority of respondents, 45%, named "Produced in Georgia", 34% applied for preferential agrocredit, 12% applied to GITA's innovation promotion and 9% to Business Advisory Service Program (BAS - EBRD).

2 Question. State the reason why you did not apply for any SME promotion program? 92% of respondents answered this question. 48% indicated that they are not interested in these programs, 8% indicated that their company does not have the proper capabilities to apply for such programs, 5% did not know the existence of such programs, 23% stated that their business did not correspond to the purpose of the programs, 10% did not believe that they would receive support, and 6% did not see the benefits of the programs.

3 Question. Do you know which professional organization your accountant is a member of? 13% of respondents do not know which organization their accountant is a member of. 87% answered the question. Accountants of about half (49%) of enterprises are not members of a professional organization (PAO). Among them: 19% belong to the Federation of Professional Accountants and Auditors of Georgia (GFPAA/BAF), 2% to the Federation of Auditors, Accountants and Financial Managers of Georgia (GFAAFM), 2% of the Association of Certified Chartered Accountants (UK ACCA), and 20% are members of other professional organizations. The majority of company heads (78%) have heard of BAF, more than half (58%) of the Federation of Auditors, Accountants and Financial Managers of Georgia and almost half (44%) about the Association of Chartered Certified Accountants of the United Kingdom.

4 Question. Do you currently receive services from an accounting/auditing firm? 79% do not receive services, 21% of enterprises receive the services of an accounting firm, in particular, 48% receive services only from an auditing firm, 33% receive services only from an accounting firm and 19% receive services from both accounting and auditing firms.

5 Question. How did you find your service accounting/auditing firm? 66% of enterprises found an accounting/auditing firm based on recommendations. 34% have a relationship with the director of an accounting/auditing firm.

6 Question. What are the services received from the audit/accounting firm? The majority of businesses receive accounting (52%) and auditing (33%) services, (15%) receive tax services.

7 Question. What are the three most frequently named services received from an audit firm by SARAS category (%)? 73% of micro-enterprises received accounting services, 60% audited financial statements, 37% received tax services. 53% of small enterprises received accounting services, 70% audited financial statements, 26% received tax services. 28% of medium-sized enterprises received accounting services, 92% audited financial statements, and 19% received tax services.

8 Question. Does the business intend to receive (additional) services from an accounting/auditing firm in the future? Only 10% say that they want to receive this service in the future. The majority of businesses that currently receive accounting/auditing services (58%) do not intend to receive any additional services in the future. (38%) plan to continue cooperation with accounting/auditing firms.

9 Question. Name the main reason why additional services from an accounting/auditing firm may be required? 59% of the respondents named risk reduction as the main reason for additional services of accounting and auditing firms. 56% think they need help in complying with laws and regulations, and 49% need help in business improvement.

10 Question. What services/advice might you need from accounting and auditing firms in the future? Almost three-quarters of enterprises may need financial reporting (73%), accounting (70%), internal audit (68%) and tax (63%) services. About half cited compliance with ISO standards (53%) and valuing their business (50%). And half mentioned drawing up business plans (48%) and starting a new business (45%). Most medium-sized businesses require auditing of financial statements more than any other service. When it comes to small and micro businesses, there is only a small difference between their needs. Small businesses are more likely to need audits of financial statements and internal audits. A micro-business may need less tax services.

The survey showed that most of the micro, small and medium businesses currently work or will work with accounting/auditing firms operating in Georgia. The majority also point out that it does not matter where the accounting/auditing firm operates, but it must meet their needs. Among the enterprises that plan to cooperate with an accounting/auditing firm in the future, more than half (59%) prefer to cooperate with a firm representing an international network. Or with a firm that operates in different regions (61%). The corresponding percentages are lower for enterprises that already cooperate with accounting/auditing firms. In addition, some respondents made an additional note at the end of the questionnaire. The most interesting notes are given below:

- "Accounting/auditing services are expensive"
- "Bureaucracy complicates everything"
- "It is important to raise awareness about accounting/auditing services"
- "Accounting and reporting should be made easier"
- "It would be good if professional accounting organizations offered membership to accountants"
- "Accountants are not sufficiently experienced in micro-business matters"

IV. Conclusions

As a result of the conducted research, the following conclusions and recommendations can be formulated: small entrepreneurship objectively exists and develops as an independent form of business. The support system is a mechanism of state regulation of small business, which creates all the conditions for the development of small enterprises. According to the results, the accountant of most of the small and medium-sized enterprises in Georgia is the Federation of Professional Accountants and Auditors of Georgia (GFPAA/BAF). Member of Georgian Federation of Auditors, Accountants and Financial Managers (GFAAFM), Association of Certified Chartered Accountants (UK ACCA) and other professional organizations. Only a few enterprises applied to the business promotion program. Most of them applied for such programs as "Produce in Georgia" and/or preferential agrocredit. The main obstacle mentioned by the respondents, which leads to low participation in micro, small and medium business support programs, is the lack of interest or the assumption that the business does not meet the requirements of the program. More active promotion and better communication with micro, small and medium enterprises can be an effective way to raise business awareness regarding the promotion programs for small and medium enterprises.

Research has shown that only one-fifth of micro, small and medium-sized businesses receive services from accounting/auditing firms. Mostly, enterprises found accounting/auditing firms based on recommendations. Most of them receive accounting and financial audit services. More than a third use tax services. The main reasons for using the services of accounting/auditing firms are: reducing tax risks, helping to comply with laws and regulations, and improving business operations. Most business leaders agree that the accounting/auditing firms they work with or will work with should meet their business needs. Also, the majority of enterprises currently cooperate or will cooperate with accounting/auditing firms operating in Georgia. More than half will work with companies representing an international network or firms operating in different regions.

We believe that as a result of supporting programs, small enterprises should be opened, new jobs should be created, encouraging innovative activities in small businesses, stimulating investments.

On the whole, the conducted survey confirms the need to review the state policy towards small businesses in Georgia. Where special attention should be paid to innovative entrepreneurship, as well as stimulation of small enterprises entering foreign markets. I think it is necessary to develop an information-advisory system to increase the awareness and competence of small business owners and managers. It is also necessary to implement appropriate changes in the tax legislation and subordinate normative acts in the direction of small business support. For the growth and development of small and medium-sized enterprises, it is important to operate a proper financial reporting system to increase the reliability of reporting.

Finally, it is possible to solve the following three main issues in order to promote small businesses: first, encouraging small entrepreneurship so that as many unemployed people as possible can start their own business.

Second, raising the knowledge of small entrepreneurs in terms of governance and professional development, and thirdly, helping small entrepreneurs in sales, in order to receive the first incomes, which will further increase their motivation.

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