

## THE PROBLEMS OF STATE REGULATION OF SMALL BUSINESS IN GEORGIA

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### *Introduction*

The former Soviet republics, including Georgia, achieved their state independence, which brought with it a multitude of problems. The former economic ties broke down and there was not enough qualified personnel to promote the development of a market economy, so many enterprises ceased to exist, and the country's economy collapsed. The main task was to restructure the national economy.

The republic's government did all it could to form a market economy in the country, but these

attempts were not crowned by success. The population spontaneously launched into small business, but nor did this do anything to improve the economy.

World experience shows that small business can play a significant role in resolving many problems; it plays a vital part in reducing unemployment and strengthening economic stability as a whole. At the stage of the post-communist transformation the advantages of small business are most important and can be enhanced with the help of a streamlined mechanism of state support.

### The Role and Importance of Small Business

Small business is important due to the influence it has on macroeconomic indices (GDP, employment, budget revenues and expenditures, import, export, inflation, and so on). Small business is

one of the main sources for developing and stabilizing the economic system as a whole. It also provides a quick return on money invested. In developed countries, almost half of the able-bodied population is employed in small business; it accounts for approximately 50% of all the products manufactured in the country.

According to American specialists,<sup>1</sup> small business is so vitally important for the economy because it creates jobs, introduces new technology and services, meets the needs of large corporations for specialized products and services, and creates a high level of specialization and cooperation among enterprises, as well as a highly efficient production climate. As practice shows, small businesses help to promote the introduction of innovations into the economy. This all clearly shows that small business is conducive to the wide-scale activation of labor resources in the economy. And this is the crux of its social role as a powerful means of macroeconomic stabilization.

There is an objective need for integration between small and big business in a market economy. In developed countries, the main forms of their interaction are as follows: leasing, subleasing, franchising, license agreements, and venture capital financing. Cooperation and competition with small companies help to increase the maneuverability of large companies and stimulate them to introduce the latest technology.

*In the structure of market mechanisms*, the role of small business is manifested in its ability to fight monopolism, since it is able to react quickly to changing public demand due to its flexibility.

*In the public sphere*, small business gives people a sense of their capacity as property owners and of their ability to make independent decisions; that is, it encourages people to fully realize their potential.

*In the social sphere*, small business helps to form the middle class, which today constitutes the main component in a market society.

*In the creation and preservation of a competitive environment*, small business can have a strong impact on large enterprises and stimulate their innovative activity.

Small business has the following competitive advantages: a high level of efficiency in decision-making, rapid movement of capital, a low level of irretrievable losses, a low demand for capital, the ability to quickly change the range of manufactured products, a short technological cycle, rapid resource turnover (which increases revenue, shortens reimbursement time, and lowers the level of economic risk), small overhead expenses, stable product sales, rapid adaptability to changes in market demand, and rapid information exchange which gives small companies the opportunity to react quickly to any change in competitive conditions.

Small businesses are able to exist and develop even during economic crises.

## Small Business Development Trends in Georgia

The collapse in the Soviet economic structure brought up new and multifarious problems.

At the end of the 19th century, Georgia shifted from the feudal system to capitalism, while in the 1990s, it shifted from the communist economy to market relations. The latter transformation is unique in the world economy.

At the beginning of the 1990s, privatization of state property (issuing vouchers to the population) began in Georgia (as it did in other former Union republics); the employees of the privatized

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<sup>1</sup> See: D. Rechmen, M. Meskon, K. Bouvi, D. Till, *Modern Business*, Textbook, in two volumes, Respublika, Moscow, 1995 (in Russian).

enterprises had the advantage in this process, and “associations,” “cooperatives,” and “joint-stock companies” began cropping up.

Rural residents were given plots of land free of charge, and city residents became the owners of communal apartments with the right to later privatize them. Cooperative apartments (paid in full) went to their owners. At the same time, prices and international relations underwent liberalization.

Due to the difficult economic situation, the population was forced to return to forms of home-based business, crafts, and commerce. In large cities, huge numbers of vending kiosks and stalls, beauty salons, small retail stores, and handicraft enterprises, etc. appeared. Thus, a large part of the population was engaged in life-saving small business. It was precisely during these years that Georgia began enjoying the benefits of small business and social and economic stabilization began, which helped the population to find jobs.

The formation of small business in Georgia was also promoted, in addition to everything else, by the fact that small-scale enterprises remaining from the Soviet era were the first to be privatized. In 1993, they constituted 98.4% of the total number of privatized facilities.

On the basis of the Law on Privatization of State Property, the Provision on Privatization of State Property in the Form of Tenders, Auctions, Contract Purchase, Direct Sale, and on the Transfer of the Right to Manage Shares Owned by the State in the Form of Tenders was adopted. The most popular way of carrying out privatization was through auctions.

Until 1993, laws and government resolutions were adopted in the republic that helped to form the private sector in the country and promote business development. Among them special mention should be made of the Law on the Fundamental Principles of Business Activity (1991) and government resolutions On Approval of the Provision on State Enterprises (1992), On Approval of the Temporary Provision on Securities (1992), On Approval of the Provision on Individual Business and Individual Production Units (1993), and On Approval of the Provision on Societies with Limited Liability (1993).

The formation of small business has been stymied in the country by the fact that there were no laws on small businesses until 1999.

According to the State Statistics Department, until 1999 businesses were assessed as small depending on the number of their employees and the specifics of their operation. Industrial, agricultural, and transport enterprises with up to 50 employees, construction companies with up to 35 employees, companies engaged in medicine and education with 30 employees, wholesale and retail trade companies with 20 employees, and other organizations with 20 employees were classified as small businesses.

On 23 July, 1999, the Law on Support of Small Businesses came into force, according to which businesses were classified as small, in addition to the number of employees, by the annual turnover. For industrial enterprises, the criteria were 40 employees and 500,000 lari; for construction 20 employees and 300,000 lari; for transport and communications 20 employees and 200,000 lari; for agriculture 20 employees and 150,000 lari; for wholesale and retail trade 10 employees and 50,000 lari; in the educational, public health, and cultural spheres 25 employees and 60,000 lari; and in other spheres of economic activity 15 employees and 100,000 lari.<sup>2</sup>

Three years later, amendments were made to this law, according to which enterprises with no more than 20 employees and an annual turnover of 500,000 lari were defined as small.

It should be noted that the definition of the threshold size of small businesses envisaged in the law does not always correspond to reality, since statistics provide a very different picture. The real size of small businesses is perceptibly lower than that envisaged in the law—3-4 employees, and the annual turnover is 40-50,000 lari. This shows that the criteria were established without taking account of or analyzing the actual situation in the country. Nevertheless, we need to realize that the criteria for

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<sup>2</sup> See: Georgian Law on the Support of Small Businesses, *Advokat*, Nos. 37-38, 2006, appendix.

small businesses should fluctuate depending on the change in the level of the country's economic development.

An analysis of these data shows that the situation relating to small business in the country (both in terms of types of economic activity and in terms of its distribution around the country) does not look particularly favorable. In terms of types of economic activity, most small businesses are engaged in wholesale and retail trade, car repair, household goods and personal items—42.9% (2007), whereas in the regional structure (Tbilisi), this index amounts to 28.7%.

In the next few years, special attention should be focused on forming small business in agriculture. This conclusion can be drawn from taking a look at the volume of products put out by small businesses—in 2005-2007, agriculture, hunting, and forestry accounted for only 2%, the mining industry and quarry development for 1.6%, and electric power, gas, and water supply for 0.6%. In 2007, Tbilisi<sup>3</sup> alone accounted for 52.2% of the total volume of products generated by small businesses.

It follows from the above that the development level of small business is low (in 2007, small business output amounted to only 5-6% of the total amount of goods and services produced in the republic), which is due to the almost total absence of state support.

The economic and legal foundations for developing and supporting small business in Georgia were set forth in the law of 23 July, 1999 On Support of Small Businesses. Until it was adopted, a Small Business Development Support Fund functioned under the Ministry of Economics, which was eliminated by this law. Subsequently, a small business development and support center was instituted responsible for drawing up and implementing government policy in this sphere. This center was a legal entity of public law and had regional offices throughout the country. Its activity was controlled by a small business coordinating council which consisted of representatives from 13 different state governing institutions: ministries of economics, finance, commerce, and foreign economic relations, industry, agriculture, labor and employment, the state chancellery, and the national bank, as well as the coworkers of regional organizations. The president approved the candidacy of the director and members of the council (for a term of two years).

The Law on Support of Small Businesses granted small businesses the right to create unions and funds in order to solve tasks related to state support and development.

The Law on Support of Small Businesses helped to clarify the criteria for small businesses, although it was unable to meet the demands of the times. This required making amendments to it (by means of a law adopted in 2002); the criteria for small businesses were defined by new parameters and statistical values. But this law did not meet the expectations either with respect to the further development and support of small business.

In 2006, the Georgian parliament cancelled this law (instead of improving it), and a new one has still not been adopted. At the same time, the small business development and support center was abolished. It can be said that as of today Georgia has neither a legislative framework for regulating small business, nor a body for regulating its macroeconomic development.

## Theoretical Model of Macroeconomic Small Business Regulation

The mechanism of macroeconomic small business regulation is a complex system. It is called upon to enhance the benefits of small business in the country's economy and promote its optimal

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<sup>3</sup> See: *Business in Georgia*, Statistics Department of the Georgian Ministry of Economic Development, 2008 (in Georgian).

development. The purpose of forming such a system is to remove the detrimental macroeconomic or microeconomic aspects that have a negative impact on the development of small business. The mechanism of macroeconomic regulation is a unified system that ensures the normal development and functioning of small business in a competitive environment and reinforces its place in the country's economic system.

By its nature small business needs comprehensive support. Financial resources must be found, information structures launched, the network of marketing services expanded, efforts made to ensure the training of qualified personnel, and so on. Small business also needs support because it has a low level of production diversity, a small amount of authorized capital, and insufficient resources; management is rather poorly developed in this sphere, and it is very sensitive to changes in the market situation.

The development of small business is particularly important in countries with a post-Soviet economy; here it is a vital means for eradicating unemployment and forming business skills. However, a multitude of obstacles stand in its way here (the high level of corruption, the mistakes committed when carrying out reforms, difficulties encountered during the reforms in general, and so on).

So rendering support to small business should be one of the important areas of state economic policy. In this respect, the system of methods and tools for carrying out legislative, executive, and monitoring measures aimed at the macroeconomic regulation and development of small business must be improved. Only this will make it possible to achieve stabilization of the entire economy and its subsequent development.

The mechanism of macroeconomic regulation of small business development should contain the following elements: legislative support, a system of regulation indicators; a set of regulation methods and tools; a macroeconomic infrastructure of support; state entrepreneurship; regulation of the receipt of international assistance; risk-based security; regulation control; and regulation structures (see Fig. 1).

*Legislative and regulatory support* implies adopting laws and regulatory acts that define the status of small business in the economy and promote its further development.

*The system of regulation indicators* comprises all those indices on the basis of which it is possible to study the overall situation existing in small business, as well as eliminate the difficulties and shortcomings arising during regulation.

*The system of regulation measures* primarily implies defining a small business development strategy and drawing up macroeconomic policy, as well as all the measures that must be implemented to achieve the set goals.

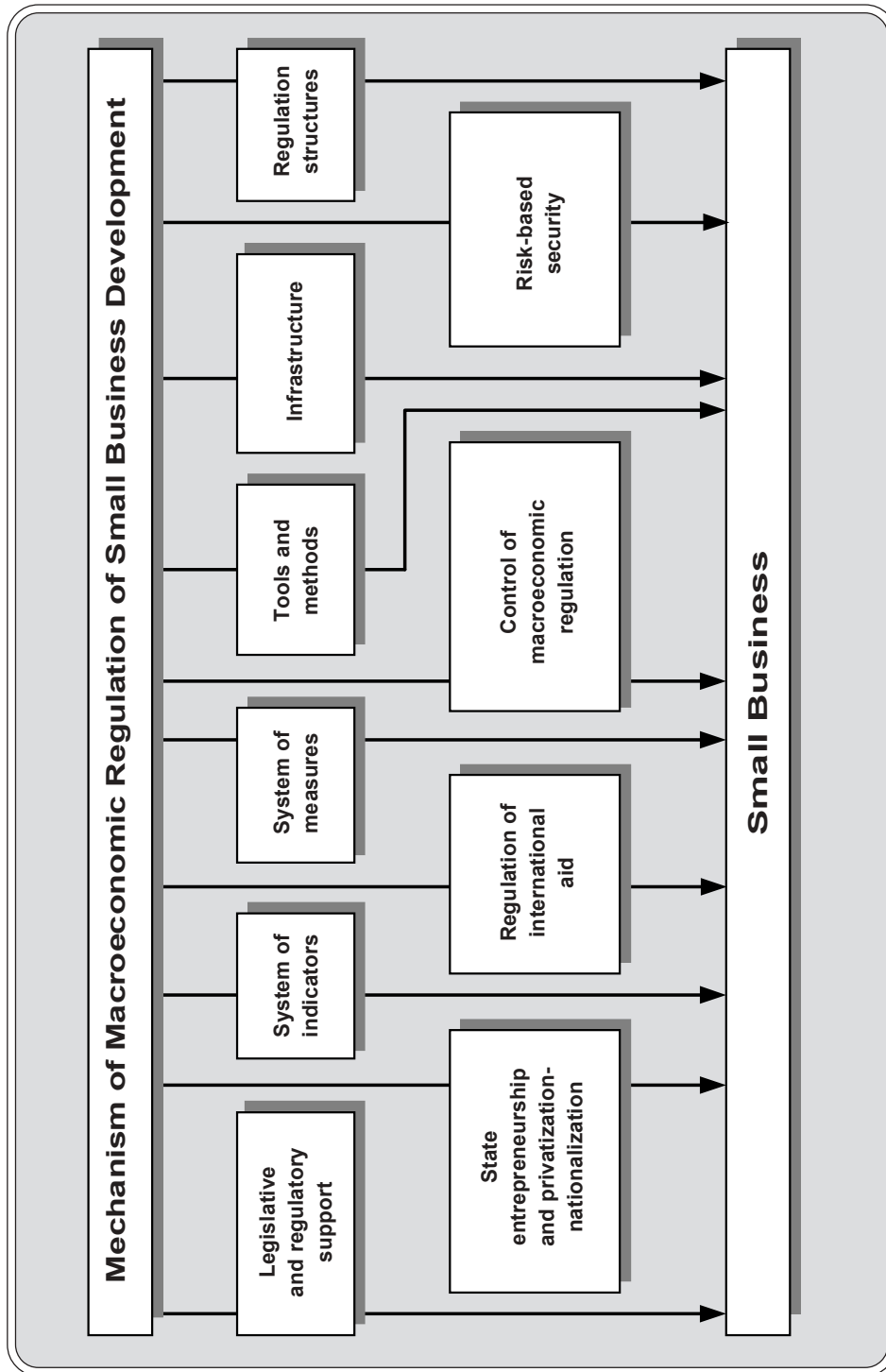
Administrative and economic tools can be singled out among *the tools of macroeconomic regulation*. The first include licensing, registration, antimonopoly prohibitions, quoting, environmental bans, and so on. The economic tools include forecasts, plans, programs, standards, regulations, tariffs, state investments, discount rates, reserve rates, loan privileges, tax rates, customs fees, tax breaks, government procurement, subsidies, compensations, fiscal, monetary tools, and so on. These tools do not entail direct warnings, but act based on the interests of the object of regulation.

Economic regulation of small business development can be carried out by means of direct and indirect methods. Direct methods are aimed at rendering comprehensive assistance to the development of small business, which should be carried by means of state subsidizing, implementing state programs, and developing state entrepreneurship.

One of the elements of macroeconomic regulation of small business development is *state entrepreneurship in small business*. This implies the operation of small enterprises (which are directly owned by the state) that are unable to operate in the private sector at a particular stage.

*Regulation of international aid* implies that the state is responsible for monitoring the receipt of international aid to ensure its further efficient use. This is carried out by the structures that directly control small business.

Figure 1



*Regulation control* implies identifying (based on an analysis of the corresponding indicators) the existing shortcomings and determining ways to eliminate them or make adjustments to the management mechanism, as well as guaranteeing risk-based security of small business.

*Structures that control the regulation of small business development* include all three branches of state power—legislative, executive, and judicial.

The mechanism of macroeconomic regulation of small business development is a system of closely interrelated elements. All the elements (subsystems) of the model presented have undergone constant changes, additions, and clarification, since small business is regarded as a dynamically developing entity.

As already noted, all the above problems are particularly pertinent today for the post-Soviet countries, since the market economy is still being formed in them. Small business, as the primary source for enhancing competition and forming and ensuring the stability of big business, is a powerful means for overcoming economic backwardness.

So forming a mechanism of macroeconomic regulation of small business development support and its smooth functioning is a necessary prerequisite for improving the market economy.

## **Main Areas in the Macroeconomic Regulation of Small Business in Georgia**

We believe that the following set of laws should be prepared for improving the legislative base of small business development in Georgia: a Law on Small Business, a Law on Mutual Protection Associations for Small Enterprises, a Law on the Innovation Activity of Small Enterprises, a Law on Regulation of Contractual Relations in Small Business, and a Law on State Support of Small Business.

The Law on Small Business should set forth the essence of small business, criteria for assessing and determining the size of small enterprises, organizational and legal forms, registration conditions, simplified bookkeeping procedures, its organizational structure, a mechanism for transforming small businesses, the appointment of experts, public information and confidentiality.

The mechanism of macroeconomic regulation will not be effective if, first, criteria for assessing the development of small business and the size of small businesses are not determined. Whereby the country should not be guided by indices characteristic for other states—the situation existing in Georgia should primarily be taken into account.

Relying on the studies carried out, the following criteria should be adopted for evaluating the development of small business in Georgia: annual volume of products sold; number of employees; total number of small businesses; number of residents per small enterprise; number of small enterprises per 1,000 residents; average monthly salary of people employed in small business; and the percentage of small business (in GDP, in the total number of employees, and in the total number of enterprises).

As for the criteria for defining whether an enterprise can be classified as small, the dimensions of the country's economy and its level of development should be taken into account. In particular, the values of the indices (according to our suggested criteria) for operating enterprises should be calculated. Those enterprises that have values lower than the average should be classified as small, those with average indices as medium, and those with indices higher than the average as large enterprises.



Based on the analysis conducted and in the short-term perspective, those businesses with no more than ten employees and with an average annual turnover of no more than 150,000 lari should be classified as small.

The Law on Mutual Protection Associations for Small Enterprises should define the functions of a Union of Creditors. It should operate under government control and serve small businesses, issuing them the necessary loans (for developing enterprises, for raising the qualifications of the union members, for putting their children through school, and so on). This same law should envisage insurance against possible risks with the possibility of their redistribution to insurance companies.

The Law on the Innovation Activity of Small Enterprises should determine those spheres that belong to innovation activity—scientific research, R&D, invention, education, and so on. Methods for encouraging and stimulating innovation activity in small business should also be determined.

The law should set forth principles for the operation of technoparks, joint venture companies, a national investment agency, and state enterprises for encouraging investors in innovative small business.

The law should envisage venture (risk) activity; innovation companies willing to allot capital should be engaged in this. It should also envisage the main types of activity of a venture fund, the main entities of venture activity, and small innovation companies. They should form a link between the scientific sphere and production.

Small innovation enterprises act as the consumers of scientific production for the scientific sphere and as a means of commercialization of scientific results. Small innovation enterprises act as a supplier of goods and services and one of the main sources for raising competitiveness and for modernizing production in the production sphere. The law should also define the types of small innovation companies.

It is impossible to imagine the business activity of small enterprises without the existence of a *Law on Regulation of Contractual Relations in Small Business*. The market economy relies on unions of free entrepreneurs and they, as a rule, are formed by contracts between market entities. The law should establish the legal regulations of contractual relations between small businesses and other market entities (large businesses, state institutions, credit institutions, and so on), in particular, leasing, franchising, venture, and contractual agreements.

The *Law on State Support of Small Business* should define the functions of small business development support funds and centers, as well as a system and infrastructure of state support of small business; and a United Small Business Development Fund of Georgia should be created. State support of small business should be envisaged not only by specific laws, but also by other laws that apply to the entire economy.

Quantitative and qualitative development indices can be included in the *system of indicators* of macroeconomic regulation of small business development. The quantitative indicators include: volume of manufactured products, number of employees, number of small enterprises and their density, and the percentage of small business in the gross domestic product.

The qualitative indices include: the branch structure of small business, the percentage of innovation enterprises in the total number of small businesses, the regional structure, average salaries, productivity, capital intensity, capital productivity ratio, and length of working week in small business.

*The system of measures* of macroeconomic regulation of small business development, as mentioned in the theoretical model, implies defining a development strategy and drawing up a corresponding macroeconomic policy. The main area of development of small business at the current stage should be raising the percentage of small business based on an increase in the number of enterprises and their qualitative improvement. Particular importance should be placed on development in the innovative sphere.



The legislative, executive, and judicial bodies are the *regulation structures* of small business in Georgia. The parliament adopts corresponding specific and general economic laws that define the rules of the game in small business. The executive bodies define the development strategy for small business and draw up a corresponding policy and system of measures. Both the parliament and executive power monitor how the adopted laws are put into practice. The judicial bodies protect small business, as well as other economic entities, from lawlessness and injustice, which promotes their enhancement.

A distinction should be made between specific and non-specific structures of macroeconomic regulation of small business development.

It seems expedient to create a specialized state independent structure under the cabinet of ministers of Georgia called *the Small Business Development Administration* for rendering assistance to small business in free competition conditions. Its functions should include the following: determining state policy in the development of small business; preparing corresponding laws; developing a state financing program for small business with its further submission to the parliament for approval; analyzing the activity of small business; developing corresponding programs and carrying out corresponding measures for its stimulation; organizing the establishment of contacts between small and big business; defining and coordinating small business infrastructure; information support; rendering assistance (in the form of guarantees) for obtaining loans; and attracting investors.

The Small Business Development Administration should be financed by the state.

Economic ministries (in particular, the Ministry of Economic Development) should act as non-specific structures for regulating small business.

The Ministry of Economic Development should:

- (1) Develop a small business development strategy and state economic policy.
- (2) Closely study the acts drawn up by the Small Business Development Administration and submit them to the legislative body.
- (3) Define the areas of small business development in priority branches.
- (4) Assist the financing of R&D in small business, as well as introduce the latest technology.

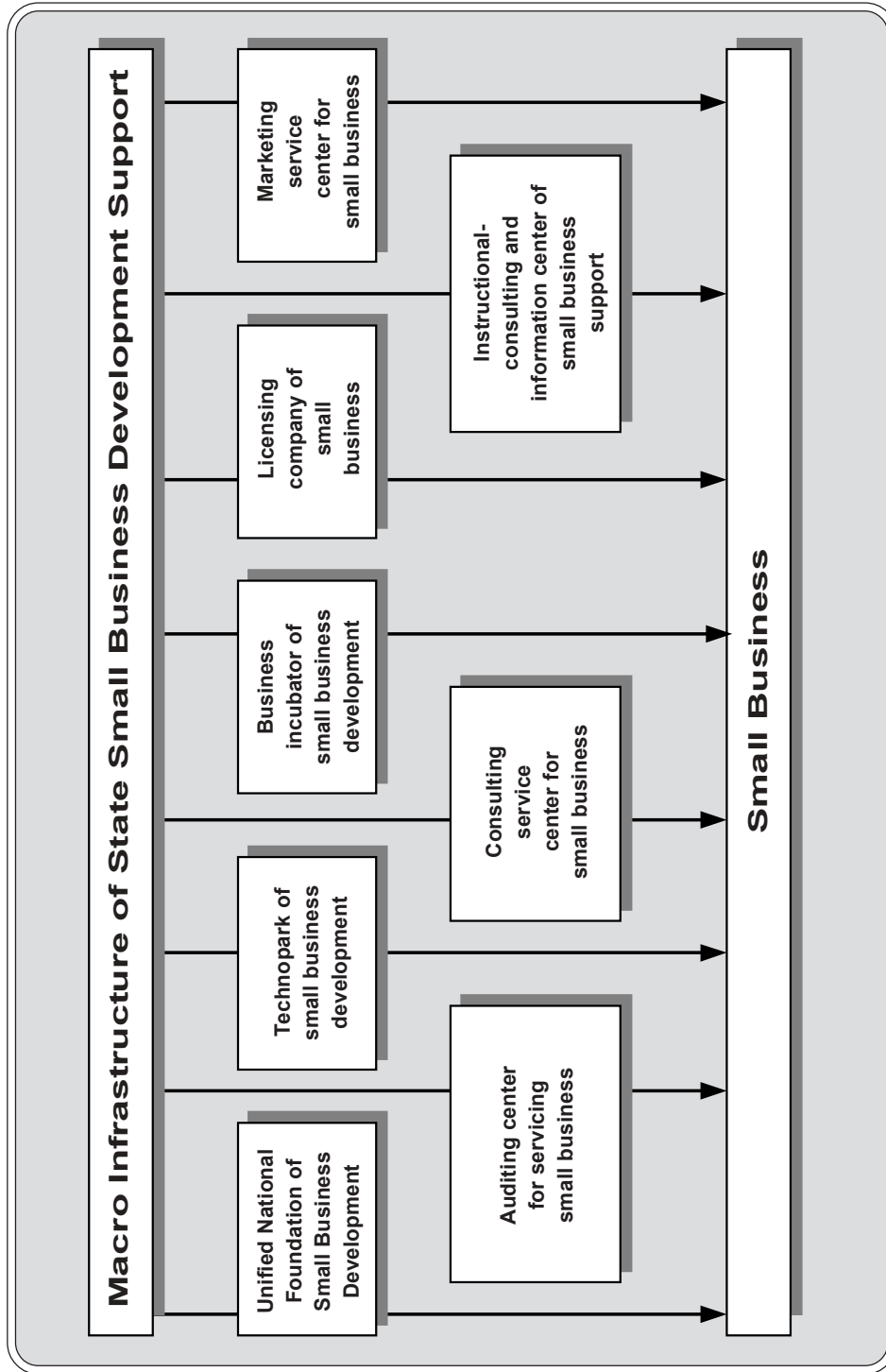
The existence of a *macroeconomic infrastructure of small business support* is one of the most important links in the regulation mechanism. A macrostructure of small business support should be created under the Small Business Development Administration (see Fig. 2).

*The National Fund of Small Business Development* should find financial resources and make efficient use of them, provide small business employees with high-quality financial servicing, and issue preferential and interest-free loans to enterprises that operate in spheres that are of state priority.

*The technopark of small business development* should create conditions that promote the development and activity of small innovation companies, carry out rapid commercialization of the results of R&D and encourage scientists, promote the development of science-intensive production units, hold seminars and consultations on the problems of innovative activity for the employees of small companies, help small businesses to participate in exhibitions of high technology and ensure them access to the international market, develop and implement small business personnel training projects in management and marketing, set up (for example? in Rustavi, Kutaisi, Zugdidi, and Telavi) equipment for innovation enterprises and permit them temporary use of laboratories and industrial facilities.

*The business incubator of small business development* should create the conditions necessary for developing small businesses (from the moment they are founded to the time they achieve full financial independence), provide small businesses with production and office space, render professional servicing, and take part in developing various innovation programs.

Figure 2



*The licensing company of small business* is responsible for introducing efficient leasing of moveable property and real estate, providing small businesses with equipment, facilities, and so on, creating a pool of secondary equipment in order to lease it, providing small business entities with specialized equipment (for example, transportation means, road-building equipment, special machinery and plant, and so on), providing small business with short-term rental of equipment and small-scale mechanization facilities (along with service personnel), and creating an information base for small business.

*The marketing service center for small business* ensures the output of products that enjoy the greatest demand among the population, assists in developing a certain segment of the market (at the lowest cost) and in determining solvent demand, defines additional products that could be offered to an existing client, identifies new customers who will purchase the existing range of products, and helps to create new types of products. The center should carry out corresponding marketing in compliance with the industrial profile of the small enterprise.

*The auditing center for servicing small business* that exists under the Georgian Small Business Development Administration is responsible for auditing small business entities to ensure they are observing the legislative and regulatory acts and carrying out correct bookkeeping procedures, as well as for providing legal consultations on civil, economic, labor, customs, and tax law.

*The consulting service center for small business* is responsible for drawing up a business plan to justify the feasibility of forming a small business, providing legal assistance during registration, forming an authorized fund and registering documents, defining sources (national and international funds) from which small businesses can obtain financial aid, and gathering information on the infrastructure that influences its development.

*The auxiliary instructional-consulting and information center for small business support* is intended for filling in the growing gaps in different spheres (information, marketing, business activity), raising the professional level of enterprise employees, and training professional personnel, consultants, and government officials for small business.

All the organizations in the designated infrastructure will at the first stage exist at the macro level and be financed from the state budget; it would be expedient to draw funds from big business and international aid. As the market economy and small business develop, a particular organization may become redundant at the macro level and it can be joined to the market structure. The Small Business Development Administration should ensure organization and coordination of this infrastructure.

Several funds and sponsor organizations are operating in Georgia in order to assist the formation of a market economy and develop business, such as the Eurasia Fund, World Bank, World Vision (which has micro-credit activities), and the European Bank of Reconstruction and Development (EBRD).

The Open Society-Georgia Fund has elaborated an economic development program for 2006-2008, which envisages small business support.

Small businesses engaged in material production and innovation activity must be created in the state sector.

At the current state of Georgia's economic development, the main obstacles in the enhancement of small business can be considered the low level of economic and technological development, the low qualification of blue- and white-collar workers, the absence of a developed small business development support infrastructure, the low average wages, the insufficient development of management and marketing, the underdevelopment of the economic reforms, the slow rate at which market relations are forming, the low level of investment activity, the unsophisticated taxation system, inefficient use of foreign loans, the burgeoning external debt, the outmoded import-export structure, lack of protection of the domestic market from low-quality and fake products, the low level of customs con-

trol, backwardness in the service sphere, in the economy of the regions, and in the insurance sphere, and so on.

The following can be singled out among the internal non-economic dangers: violation of the country's territorial integrity (a large number of displaced persons); the problematical demographic situation; regional separatism; deterioration of the environmental situation, and natural disasters.

Among the external economic dangers, the financial crisis, increase in fuel prices, and others should be mentioned.

External non-economic dangers include the deterioration in the international and regional political situation.

In order to assess the level of security, we should take a look at the corresponding indices, for example, the percentage of small business in GDP, small business structure (branch and regional), volume of investments (foreign and domestic), the level of wages, and the percentage of small business (in terms of number of employees).

Today small business in Georgia is operating at high risk, so enterprises should make use of the possibilities offered by the insurance system.

The marginal risk should be estimated in order to ensure the security of small business development in Georgia.

So we can say the development of small business is under threat today in Georgia and requires active support from the state.

The parliament, which should monitor the performance of the laws adopted, the government, and the judicial power hold the prime responsibility for *monitoring macroeconomic regulation of small business development*. Control functions should be carried out on the basis of an analysis of the corresponding indicators with subsequent development of measures for correcting the mistakes.

It is vital to raise not only the quantitative but also the qualitative level of small business. Special tax measures should be adopted to meet these requirements. The current Tax Code does not envisage any special benefits for small business. The Law on Entrepreneurs envisaged simplified bookkeeping procedures for small business, but this provision was eliminated by the amendments made to this document in 2006. It would be expedient to create special tax legislation; for this purpose, a separate section called "Taxes on Small Enterprises" should be introduced into the Tax Code. This requires adopting special tax breaks for small businesses in those regions or branches that are of prime significance for the country's economy. For example, small business can be enhanced in such regions as Mtskheta-Mtianeti, Samtskhe-Javakheti, Zemo Svaneti, Racha-Lechkhumi, Tskhinvali, and Abkhazia; the most promising branches are the processing industry, agriculture, fishing, tourism, etc.

Small business needs to be protected from dumping, unhealthy competition, bad advertising, and other phenomena of the "bureaucratic market" that prevent the normal functioning of the market mechanism; the state should ensure fair competition.

The Small Business Development Administration should resolve all of the above-mentioned problems.

The low popularity of small business in Georgia today is also due to the fact that the population does not show any particular interest in it. So the Small Business Development Administration should help to boost its popularity through the mass media. In addition, this problem should be resolved with the assistance of the entire small business support infrastructure.

The Small Business Development Administration and Unified National Fund of Small Business Development should provide for preferential loans to be issued to small businesses.

A method for encouraging enterprises oriented toward high-quality, competitive, and innovative production should be applied to raise the qualitative level of small business. Such enterprises should be granted tax breaks and enjoy zero customs fees, and various ways of accelerated depreciation should

also be used. Fifty percent of the basic cost of fixed assets that have served for more than three years should be written off. Special attention should be focused on selecting those branches that will ensure an increase in production volume and revenue into the state budget.

The small enterprises of these branches should also be able to replace import with locally manufactured products. This primarily relates to enterprises of the light and food industries.

Structural improvement of rapidly developing small business should be carried out, and it should be rendered all kinds of support, particularly those enterprises that are mastering the latest technology; within two years they should be made exempt from all types of taxes. They should also be issued preferential loans.

### *Conclusion*

The study carried out shows that the level of small business development in Georgia is low, which is due to the country's low level of economic development, on the one hand, and the weak regulation of small business by the state, on the other; there is almost no corresponding legislative framework, regulation mechanism, state support infrastructure, and so on.