

Chapter 4

Challenges of the Priority Sectors of Entrepreneurship in Georgia

Leila Kadagishvili

Abstract In the program documents adopted in the economic and social fields in Georgia in recent years, special attention is paid to the further development of the real sector of entrepreneurship. The manufacturing industry, agriculture, and tourism are the priorities. Development of these fields is a precondition for growth in the economy in general, and in gross domestic product and national income in particular. These sectors ensure the creation of new jobs, guarantee employment, and increase in the middle class in the country. Unemployment and poverty remain serious problems in Georgia. The current situation in the above priority fields of entrepreneurship is examined here on the basis of academic literature, reports, and statistical data provided by governmental and nongovernmental organizations, as well as by national and international organizations. Measures for improving the situation are suggested, strengths and weaknesses of the reforms of recent years are revealed, and the importance of entrepreneurship in the development of the economy is demonstrated. In the concluding part of the paper, recommendations are made based on the conclusions.

Keywords Entrepreneurship • Economic reform • Manufacturing • Agriculture • Tourism

4.1 Introduction

The concept of entrepreneurship was introduced to the academic literature by classical economists in the late eighteenth and early nineteenth centuries. There are a number of definitions of this concept, but from our point of view, the shortest and most comprehensive one is that provided by the American scholars Robert Hisrich and Michael Peters (Hisrich and Peters 1994). They consider entrepreneurship to be the process of creating something new of value by devoting the necessary time and effort, assuming the accompanying financial, mental, and social risks, and receiving

L. Kadagishvili (✉)

Ivane Javakhishvili Tbilisi State University, 17 Pekini Street, Tbilisi, Georgia 0160,
e-mail: leila.kadagishvili@tsu.ge

the resulting monetary rewards, as well as those of personal satisfaction and independence. The entrepreneur, who operates the business and fully or partly owns its material assets, undertakes a risky activity and makes independent decisions about what, how, how much, and for whom to produce. The reward of the entrepreneur is the profit he or she received from these entrepreneurial activities, as well as the sense of satisfaction. According to the Georgian Entrepreneurs Law of October 28, 1994, which regulates the legal forms of entrepreneurial activity, *entrepreneurial activity shall be a legitimate and repeated activity carried out independently and in an organized manner to gain profit*. The concept of legitimacy implies the right of a citizen to perform all the activities not prohibited by the law at his or her own risk and expense. Thus, entrepreneurship is a special form of economic activity based on innovative and independent approaches to the production and delivery of goods to the market, which is profitable for entrepreneurs and which in addition helps him or her to realize himself or herself as a person. Along with the benefits the entrepreneur obtains, he or she also acts for the benefit of society (deliberately or otherwise); the development of entrepreneurship should thus always be supported.

Based on the Entrepreneurs Law and other legal and normative acts, several organizational and legal forms of entrepreneurial activities have gradually developed in Georgia. These are individual entrepreneur, general partnerships (GPs), limited partnerships (LPs), limited liability companies (LLCs), joint-stock companies, and cooperatives. “By creating these forms of entrepreneurship, a new type of entrepreneurship has actually developed in Georgia and prepared the basis for the formation of a mixed economy, which is characteristic of a market system” (Asatiani 2015). Yet the first few years based on the principles of the market economy proved especially difficult in post-Communist Georgia. The transition from a planned economy to a market economy was accompanied by social and political changes. Due to these changes, processes of development in the country became unpredictable. The collapse of the Soviet Union, followed by political disorder, ethnic conflicts, and irresponsible governance caused chaos and anarchy in the country. Unlike other post-Communist countries, the economic recovery and the introduction of social protection systems began from a very low level, and could not reach pre-crisis level, in spite of rapid progress ([Social Protection and Social Inclusion in Georgia](#)). With the help of the international community and the reforms carried out in the country over the following years, the situation gradually stabilized and entrepreneurial activities began to slowly increased.

4.2 Economic Reforms in Georgia

The period of transition to the market economy was characterized by a variety of reforms in Georgia. However, the social and economic outcomes of these reforms cannot be considered satisfactory. Some researchers believe that the process of transition to the market economy has finished, although, it is clear that the market economy in Georgia is unfortunately still far from western standards, and in

particular from those of Europe (Papava et al. 2015). The reforms of the transition period in Georgia, unlike those in Poland, the Czech Republic, Slovakia, and the Baltic countries, were stalled and the expenditure of hundreds of millions of dollars of western aid proved fruitless (Kvaratskhelia 2013). Exit from the transition period—or even reaching the level of social and economic development of the previous noncrisis period in the Soviet Union in 1989 — proved impossible. Despite local economic successes at different times and to different extents, Georgia could not exceed the indicators of Communist period in any social field (Jibuti 2013). From independence till to the present day, three stages of economic reforms in Georgia can be identified: the beginning stage (1991–1994), which failed due to a lack of experience and knowledge, and many other negative factors; a comparatively more favorable political, economic, and legal environment was created for the development of business in the second stage of economic reforms (1995–2002), though this period was also characterized by some failures and slow-downs. In the third stage of reform (2003–2012), which involved some pseudo-reforms, significant economic advancement occurred, but this was accompanied by serious violations of property and human rights (Meskhia 2015). Although the economic reforms had serious drawbacks, one thing is indisputable: “Georgia, as a former Soviet republic and a transition economy country, has made substantial progress in strengthening economic and political freedom and reducing crime and corruption. Systemic changes have been implemented to eliminate corruption, reduce bureaucracy, improve the qualifications of public officers, and support economic growth” (Millennium Development Objectives in Georgia: National Report 2014).

As a result of the 2012 parliamentary elections, a new government came to power in Georgia. In 2014, the government approved a social-economic development strategy for the period until 2020. This is the first strategic document in the country to outline the basic goals of the country’s economic development and approaches for ensuring sustainable economic development. The goal of economic development strategy is to improve the living standards of a considerable part of the population by achieving inclusive or comprehensive economic growth. The preconditions for the free development of the private sector have been determined in accordance with the guidelines of the economic development strategy of the country—in particular, effective and transparent governance and noninterference in business ([Social and economic development strategy of Georgia](#)). The key principle of the economic development strategy is that Georgia should become a country based on traditional and European values. One of the priorities of the government strategy needed to achieve inclusive economic growth is the improvement of business environment, which will contribute to the full realization of the country’s economic potential and social and economic development. The introduction of an effective system to promote the development of entrepreneurship will contribute to overcoming a number of problems (weak innovation potential, low competitiveness, high unemployment, lack of new jobs, low standard of living) that the country is facing.

4.3 Entrepreneurship in the Real Sector

An increasing trend in the activity of the Georgian manufacturing sector has been seen in recent years. This is quite important for the country. In 2014, 553,359 enterprises were registered in Georgia, which is 18% more than the corresponding figure in 2012. In 2014, the turnover of the industrial sector amounted to 50,064.7 million GEL, which is 19% higher than the same indicator in 2012. In addition, the total value of the goods produced by the enterprises exceeded 26,068.8 million GEL, which is 12% higher than the corresponding figure in 2012. It is also worth noticing that the number employed in the industrial sector in 2014 was higher by 57.7 thousand people than in 2012 (10% growth was observed, with 592.1 thousand people employed in all) (<http://www.geostat.ge/>). Despite some achievements, the scale of poverty and low living standards remain serious problems. However, practical realization of the government's decisions related to improving the environment for entrepreneurship in the last 4 years should ensure the development of a private entrepreneurship sector and an improvement in living standards among the population.

Small and medium enterprises play a special role in creating jobs and in contributing to the economic development of the country. As is widely known, large businesses are involved with introducing up-to-date machinery and technologies, which in turn reduces jobs. On the other hand, small and medium enterprises create jobs and contribute to employment, which is particularly crucial for Georgia at present, as unemployment is one of the most pressing problems for the country (Kadagishvili 2016a). Small and medium enterprises represent a large share of all operating enterprises in developed countries (including European countries), accounting for over 50% of the total turnover of the manufacturing sector and creating two of every three jobs in the private sector. Over 99% of companies located in Organization for Economic Cooperation and Development (OECD) member countries are small or medium enterprises, and create two-thirds of the gross domestic product (GDP) of the country on average. Small and medium enterprises account for over 90% of all businesses in developing and transition economy countries, though their contribution to GDP is quite low—less than 20% in many cases (SME development strategy of Georgia 2016–2020).

With the support of the government and international organizations, as well as the entrepreneurial skills of the population of Georgia, small and medium business are operating despite impediments, and have begun to develop in the country—mainly in service industries, such as trade, hospitality, restaurants and catering, domestic services, transportation, and communication. According to official data on 2014, the total turnover of small and medium enterprises operating in Georgia amounted to 9038.6 million GEL, which is 26% higher than the corresponding figure for 2012. In addition, the overall output of products exceeded 5166.8 million GEL in value, also 26% higher than in 2012. Over the reporting period, the number of people employed in small and medium enterprises increased by 30.3 thousand (a 13% increase compared to 2012; 259.4 thousand people employed in all). Large

part of small businesses operate in trade and repairing services, as these are the fields where starting a new business is relatively easy; such companies don't require large investments or highly skilled labor. In 2014, large business was the leader (82.6%) in the inflow of direct foreign investment in Georgia, followed by small business at 10.7% and medium-sized business at 6.7%. In 2014, small and medium business accounted for 18% of the total business sector turnover, 19.8% of overall output of products, and 43.8% of the people employed in the manufacturing sector (<http://www.geostat.ge/>). It can be said that the development of small and medium business in Georgia is gaining strength and it is expected that the recent reforms implemented by the government in this direction will result in some positive outcomes.

Economic development of the country is impossible without the development of its real sector, and particularly the manufacturing sector. In 2014, the turnover of the manufacturing sector exceeded 9 billion GEL, which is 16% higher than the corresponding figure from 2012. In addition, the production value of the manufacturing sector amounted to 8201.5 million GEL, which is 12% higher than in 2012. According to the data on this period, the number of people employed in the manufacturing industry increased by 1725 (the rate increased by 1.1; thus, total number of employees was 116,568); 114,843 people were employed in 2012. The number of the people employed in this sector accounted for 19.6% of all the people employed in any business. The dynamism of this sector is driven mainly by the processing industry, which accounted for 80% of industrial production (6611.7 million GEL) — 18% higher than the corresponding figure from 2012. The increase in the processing industry over 2012 was mainly determined by the increase in food and tobacco production (by 27%) and the increase in the production of metallurgical and metal wares (by 6%), caused by growth in both domestic and foreign demand for ferroalloys, metal wares, and food products. Ferroalloys hold the second position (at 10%) in the export commodity structure of Georgia; significant growth was also observed in the export of juices and canned fruits and vegetables.

The production and distribution of electricity, gas, and water accounted for 14.4% of industrial production (1058.7 million GEL), which is 8.9% higher than the corresponding figure from 2012. The growth in this sector was determined by a 14% increase in electricity production (<http://www.geostat.ge/>). Georgia is one of the richest countries in hydroelectric energy resources in the region and in the whole world, and the richest of the former Soviet countries. By increasing hydropower production, the country can become a major exporter to Turkey.

The mining industry accounted for 4.9% (402.2 million GEL) of the total industrial production—10% higher than in 2012. The growth in this sector was driven by the increase in the production of crude oil and natural gas by 24%, and of metal ore extraction by 22%, caused by the growth of both domestic and foreign demand for crude oil and metal ore. Copper ores and concentrates were at the top of the list of Georgian exports in 2015 (at 12.3% of the country's total export).

In 2014, food, beverage, and tobacco production accounted for the largest share (48%) of the processing industry in Georgia; these sectors were followed by metallurgy and the production of steel wares (17%), nonmetallic mineral products

(12%), and chemical production (8%). The impact of industries such as textile and shoe manufacturing is minimal. The production of textile and textile products, leather, leather products, and footwear amounted to 117 million GEL (1.6%) (<http://www.geostat.ge/>). Light industry played an important role in the economy of Georgia in the 1980s and accounted for 20.2% of the total manufacturing production. Georgia was famous for the production of silk (49.2 million meters of length in 1980), cotton (60.1 million meters of length), and wool (5.17 million meters of length) (Soviet Georgian Encyclopedia 1991). Nowadays, production of these has ceased. Georgia has particularly favorable conditions for the development of light industry. There is good experience and the potential for the production of cocoon, wool, and leather materials in the country.

It is worth noting that there is a great potential of unused natural resources in the Georgian manufacturing sector, including forests, which constitute a truly important resource. Forests provide a variety of valuable products and raw materials (wood, bark, branches, blackberry leaves, firs, pinecone, sweetbrier, sallow thorn, nettle, licorice, cyclamen bulbs, mushrooms, etc.). Almost all the forests (97.7%) in Georgia are located on mountain slopes. The total area of forests is 2005.6 thousand hectares, and the timber stock is 451,700,120 cubic meters, and 30–40% of the stock is available for recycling (Natural resources of Georgia and protecting environment, statistical publication 2014). There is both domestic and foreign demand for industrial timber. Before Georgia regained its independence, forestry accounted for 4–5% of the country's gross domestic product, as parts of the wood processing industry (69%), cellulose and paper production (17%), and the production of raw forest materials (14%). According to official statistics, the current share of forestry in the gross domestic product of Georgia is quite low compared to the preindependence period, amounting to only 0.90% in 2012. In addition, much has changed in the forestry revenue structure, which is basically represented by timber raw materials and primary production products (90–95%), which should be assessed negatively from the point of view of industrial development (Kandelaki 2015). For Georgia, it is important to develop the domestic processing of timber and to produce end products.

Along with timber production, the production and processing of nontimber forest materials is also possible: 20–22 tons of high-quality fir seeds are annually exported to western European countries and to the USA to grow Christmas trees. One kilogram of Caucasian fir seeds is exported for 35–40 US dollars. “Production and processing of nontimber forest materials has the potential to become one of the most important niche export sectors in Georgia. The European Union represents the largest market for such products, which increases by 8–10% annually and amounts to 50 billion Euros if measured in monetary terms. Despite the growing international demand for this kind of products and the huge potential Georgia has in this direction, this sector is completely underdeveloped and requires special attention to be paid, as it may become a significant source of income for people living in rural areas of the country. In addition, exporting of this product will be a significant source of foreign currency inflow for the country and will contribute to increasing the employment rate and improving social conditions” (The non-timber forest products

of Georgian forest development Forum 2015). Development of this sector will also significantly contribute to the promotion of the reputation of Georgia as a producer of ecologically friendly and high-value products. “Based on the proper management of nontimber resources, forestry can play a decisive role in the development of a green economy, create additional jobs, particularly in rural areas, and significantly contribute to the reduction of poverty. For sustainable management of forests and the introduction of the principles of the green economy, first of all, improvement in the legal framework and attraction of foreign investment is needed. However, this does not imply merciless destruction of forests, leaving further generations without any forest resources and promoting ecological disasters” (Kandelaki 2015).

Georgia is one of the richest countries in the world in terms of water resources. There are many rivers, lakes, swamps, glaciers and underground watercourses in the country. Fresh drinking water is one of the most expensive and scarce raw materials in our times. According to the United Nations (The Millennium Development Goals Report 2008; Tvalchrelidze et al. 2011), approximately 2.8 billion people lack good-quality drinking water. Due to the gradual exhaustion of the drinking water supply, Europe is beginning to face this very pressing problem. By 2025, shortages of drinking water will spread throughout whole Europe and will be especially crucial in southern Europe and the Mediterranean region in general (Lalзад 2007). The stock of underground drinking water known so far in Georgia is 573 m³/s. The maximum amount that can be legally extracted is 301 m³/s (26 trillion liters per day). Such resource provides an opportunity to provide 17.5 billion liters of the total world demand for fresh drinking water, taking into consideration bottling and transportation capacities and the daily amount of water required physiologically per person, without posing any danger to the bioeconomic environment of the resource. The large and rich European market has opened for Georgia after conclusion of the Association Agreement with the European Union. As mentioned above, the European market also faces the shortage of mineral resources. Georgia is located centrally to a number of countries facing acute drinking water shortages, and the demand for water is steadily increasing. Georgia has good opportunities to become a leading producer and exporter of high-quality industrial water on the global market.

Mineral water can be used in the production of medicines and beauty products, such as soaps, shampoos, gels, unguents, perfumes, etc. Most such products available in Georgia have been imported. It is acknowledged that the mineral composition of Borjomi mineral water is similar to that of French Vichy mineral water, which is used in the production of expensive world-famous beauty products. By implementing of research, Georgia has good opportunities for developing production in this sector (Gagnidze 2015).

Georgia has significant resources of raw materials for the development of mining and metallurgical industries. Among these raw materials, manganese remains its importance. The manganese ores in Chiatura are worth mentioning (a reserve of 176 billion tonnes). In Georgia, there are also ores of rare metals and elements (copper, gold, silver, barium, arsenic, lead, zinc, sulfur, clay (ascanite and gumbrini), andesite, calcite, antimony) of world importance. These ores will contribute to the development of nonferrous metallurgy and chemical production. In addition, auxil-

itary raw materials, such as dolomite, limestone, and others needed for metallurgical production are available in the country (Okrostsvaridze 2014).

Georgia has significant source of raw materials for the production of construction materials. Raw materials, such as like inert and paving materials, natural stone blocks, limestone (for cement production), quartz sand, refractory clay, diatomite, and agate are available in Georgia. There is a perlite ore in Paravani, too (Natural resources of Georgia and protecting environment, statistical publication 2014), which has a wide range of uses, including in the food industry, the production of building materials, and other fields. The export demand for these minerals is also high. Paving stones from Georgia are distinguished by high quality and production values; the largest deposits are in Kursebi (Teschentic), Bolnisi (Tuff), Moliti, Sadakhlo and Saliati (marble and marble limestone). Significant amounts of gypsum, plaster, ceramic clays, chalk, and other construction materials are found in Georgia. As can be seen, Georgia is rich in deposits of construction materials with unique qualities, but these are presently not being properly exploited. Construction materials of poor quality are imported in large quantities from Iran, China, and Turkey, while luxury construction materials are imported from Germany and Spain. Only construction blocks and cement are produced in Georgia. However, large quantities of cement are also imported from Heidelberg in German. Despite the excellent physical and mechanical properties of Georgian paving stones, such stones are mainly imported from Iran. It is necessary to restore the production of construction materials in Georgia, but this will be possible only by changing the deposit licensing policy and through supportive measures from the state.

Analysis shows that the country has significant reserves of natural resources that could be used to develop the Georgian industrial sector. The elimination of poverty and increases in the living standards of the population will be impossible unless the country uses its natural resources. The most important natural resources in Georgia for promoting industrial development are underground mineral waters, forests, fuel and energy resources, and metals and rare metals—the last of which are used in jewelry manufacturing, in metallurgy, and as inert and construction materials, and so on. Industrial development will promote economic growth, increase employment, and improve social conditions for the population.

The agricultural sector in Georgia has very old and rich traditions. From the point of view of its agricultural properties, Georgia is a country of global importance, having an extremely long history of cultivating both wheat and grapevines. Grapevines are considered a very important part of Georgian culture, which is evident in Georgian Christianity: Georgians used to make the symbol of the cross from vine stems, and grapevines were seen as a symbol of faith. Georgia played a role in the beginnings of agricultural civilization, and agriculture was not the only an economic activity for the ancient Georgians, a determining factor in their way of life and mentality (Tvalchrelidze et al. 2011).

The population of Georgia is 3.720 million (2016) and the country covers a territory of 69,700 square kilometers. It is located at the crossroads of Europe and Asia, in the south-west Caucasus. The Caucasus mountains divide the region into two parts: a southern part, called Transcaucasia, a northern part. Georgia is

situated in the western part of Transcaucasia. A variety of relief creates specific microclimates in the country. Due to the natural barriers of the country—such as the Caucasus mountains and the Black Sea—almost every type of subtropical climate zone is found in Georgia. Soil accounts for almost half of the country's natural wealth (Natural resources of Georgia and protecting environment, statistical publication 2014). About 43.3% of total area of the country (over 3 million hectares) is considered useful for agricultural activities, including pastures and meadows. Thirteen percent of the total area is in the form of plains, 33% is covered by foothills, and the remaining 54% is covered by mountains. Due to this diversity and the fact that Georgia is bordered by the Black Sea, the country has a wide range of ecological and climate zones. This creates favorable conditions for growing agricultural crops characteristic of temperate and subtropical zones, including grains, early and late vegetables and greens, potatoes, grapes, subtropical crops, and a wide variety of fruit. Livestock and poultry production is quite widespread in towns and villages, and surrounding areas of about 1,800,000 hectares are allocated to pastures and hayfields (Agricultural development strategy of Georgia 2012).

During Soviet times, the Georgian agricultural sector “successfully” managed to find its niche, as the climate conditions of the country were drastically different from the 14 other Soviet republics. Accordingly, the agricultural sector developing in Georgia in those times had no competitors (Khaduri 2012). Georgia was a supplier of subtropical crops, fruits, vegetables, and other food products to the former Soviet republics. “Georgia has favorable climatic and natural conditions conducive to the development of agriculture. However, within the past decades, Georgian agriculture and food production has been lagging well behind other sectors of the economy” (Agricultural development strategy of Georgia 2015). During the last two decades, the agriculture sector was the Cinderella of development assistance; however, this was not only due to the lack of any defined state policy or strategy for the sector. The Government abandoned the sector (not to be confused with a *laissez-faire* approach), paying only lip service to its strategic priority for the economy. This approach was accompanied by a continuing decline in agricultural production, expressed as the decline in the sown area of arable lands and the reduction in production of primary agriculture products (The European Union's Neighborhood Program 2012). However, providing food and ensuring the economic security of the country and the social importance of agriculture, while taking into account the high level of dependence on natural conditions and other external factors, leads to the need for the active involvement of the government in this sector (Shaburishvili 2012). As a result of government efforts and cooperation with the private sector and donor organizations, some positive trends were observed in 2013–2014—in particular, growth in production, expansion of export markets, and the attraction of investment to agricultural sector. In the 2013 state budget, 227.4 million GEL was allocated for agriculture (2.8% of the budget); in 2014, the allocation increased to 263.5 million GEL (2.9%) in 2015, the corresponding figure was 292.9 million GEL (3.1%). Most of this amount (82.5%) was spent on agricultural and rural development programs, followed by food security and plant protection (9%) and the development of viticulture and wine-making (7.9%). In 2014, the turnover of

agricultural production exceeded 249.1 million GEL, which is 26% higher than the corresponding figures for 2012. In addition, agricultural output exceeded 3583.2 million GEL, which is 18% higher than in 2012. Goods to the value of 4.5 million GEL were produced as a result of the processing of agricultural products in 2014. The total output of the agribusiness sector was 10% higher than in 2013. This was mainly determined by the growth of the processing sector (13.8% growth). In the reporting period, the number employed in the agricultural sector grew by 2855 people (a 135% increase) over 2012. The average monthly salary of those employed in agricultural sector amounted to 500 GEL, which was 18% higher than the corresponding figure for 2012. In 2014, foreign direct investment in agriculture significantly increased over previous years. Foreign direct investment to the tune of 19.1 million USD was made in agriculture in 2014. This amount exceeds by 61% the corresponding figure of the previous year. The production of grapes, walnuts, nuts, milk, eggs and meat increased in 2014 compared to 2012, though production of wheat, potato, citrus, and tea reduced. In 2014, agriculture accounted for a small share of the GDP (9.2%), but was nonetheless 0.6% higher than in 2012 (<http://www.geostat.ge/>; Ministry of Agriculture of Georgia, Annual Report 2014).

In 2014, the export of agricultural products increased by 6.7% over 2012. According to the 2014 data, agricultural products worth 825.9 million USD were exported from Georgia. The export of agricultural products in that year accounted for 29% of the total exports of the country. The main exported products were nuts (22%), wine (22%), mineral and still waters (17%), other alcoholic drinks (12%), cattle (4%), and carbonated soft drinks (3%). In the same period, imports of agricultural products increased by 1.1%. According to data for the same year, agricultural products worth 1.3 billion USD were imported into Georgia. The trade deficit amounted to 4.741 million USD and 57% of the total trade turnover. Imports of agricultural products account for 15.2% of total imports to the country. The main imported goods are wheat (12%), tobacco (9%), and poultry (6%), as well as sugar, alcohol drinks, vegetable oil, fish, and others. In 2014, the trade deficit reduced by 7.3% compared with the 2013 value and by 37% compared with the 2012 value (Ministry of Agriculture of Georgia, Annual Report 2014). Analysis shows that the food products market in Georgia is saturated with imported products. In Georgia, there are favorable conditions for growing many of the agricultural products that are imported in high quantities. However, due to high production costs, locally produced Georgian products cannot compete with imported goods.

Food security implies availability and physical and economic access to vital food products, as well as production of such products in sufficient quantities. Physical accessibility depends on the existence of the product in sufficient quantity and quality. Economic accessibility means that individuals should have enough income to satisfy their minimum demands for food (Tchitanava 2015). According to studies by Oxfam, residents of Georgia spend more than half their income (54%) on food, while people in developed countries spend between 10% and 15%. Most food consumed in Georgia is imported, which worsens the situation with the ongoing currency crisis and depreciation of Lari. Daily consumption of bread and bakery products among the residents of Georgia is 1.8–2.0 times higher than

the generally recommended amounts. Most Georgian traditional cuisine consists of starch products, and due to low purchasing power, Georgian people mainly consume bread and other related products. Therefore, 62% of calories consumed in Georgia come from bread and similar products, while in developed countries this indicator does not exceed 15% (Food Security as Concept for Policy Planning 2015). The Oxfam report also indicates that, in mountainous regions of Georgia, not only are there problems of physical access to food, but economic access is also limited as well, on account of poverty. Forty-three percent of inhabitants of mountainous areas surveyed fear that food may become unaffordable to them, due to their lack of material and other resources; 49% cannot afford a variety of the food and microelements necessary for health; 25% are forced to eat less food than they want; while 13% confirmed that they often suffer from hunger due to a lack of financial or other resources.

Food security faces serious risks in Georgia. According to the UN resolution, the food security of a country is endangered if over 20% of the food consumed is imported. The amount imported in Georgia is 70–80% (Shaburishvili 2012; Tchantanava 2015). Reduction of this risk requires the creation of a business environment that will promote the development of agriculture, growth of the production of high-quality goods, and will ensure food security. Georgia can not only satisfy the demand of its own residents for food products, but should also be able to become an exporter of agricultural products. The country has great potential to achieve this goal (Kadagishvili and Seturidze 2016). The geographical and geopolitical location of the country, when considered in the light of the Deep and Comprehensive Free Trade Agreement (DCFTA) signed with the European Union and the agreement signed with the European Free Trade Association (EFTA), provides a good opportunity for Georgia to deepen its trade relations with European countries and to encourage enterprises to enter European markets.

There is great potential for the development of small and medium enterprises in the tourism sector. From the point of tourism, Georgia is a unique country. The rich natural and cultural resources of Georgia are also present in a wide variety. There are over 12,000 historical and cultural monuments in the country, four of which are included in the UNESCO World Heritage List. The country has well-developed mountain, sea, and spa resorts. The Caucasus Mountains are very important part of the tourism potential of Georgia. In addition, Georgia is the home of over 2000 mineral water springs, 1300 caves suitable for speleology (Kruber cave, the world's deepest cave, is located in Abkhazia, Georgia and has a depth of 2190 m), 26,060 rivers with a total length of 58,957 km, 860 lakes, 688 glaciers (which are not evenly distributed throughout the country, most being located in the basins of four rivers: the Kodori, Inguri, Rioni, and Tergi), waterfalls, 87 different categories of protected areas—including 14 national reserves, 41 natural monuments, 11 national parks, 19 wilderness areas, and 2 protected landscapes (Natural resources of Georgia and protecting environment, statistical publication 2014). Georgia offers its visitors outstanding cuisine and wine, live music and traditional dances. All this creates opportunities for the development of all types of tourism in Georgia.

The role of tourism in the social and economic development of Georgia is gradually increasing. Tourism is recognized by the state as one of the priority sectors, and due to policies implemented in recent years, the dynamics of tourism development has fundamentally changed. The growth rate of international arrivals in Georgia during the last 5 years has been much higher than the world average. Statistical data show that 5,515,559 visitors arrived in the country in 2014—24% higher than the number in 2012. In 2015, the number of visitors continued to grow and amounted to 5,897,685 people. Both local and international tourism play significant roles in the economy of Georgia. In 2014, most international visitors (4,863,165 or 88% of total international arrivals) were from neighboring countries, with only 652,394 (12%) coming from other countries. Turkey is the leader, with 1,442,695 visitors to Georgia. Azerbaijan had the highest increase in the number of people arriving in Georgia. In 2014, the number of visitors from European countries amounted to 232,558 people. European visitors thus account for 4% of the total number of visitors, with an 11% increase compared with the previous year. The spending of foreign visitors has significant impact on the balance of payments. About 59% of the service export revenues come from tourism sector. International tourism receipts have been steadily increasing. In 2015, tourism receipts from foreign visitors were 1.79 billion USD, while the international tourism spending of Georgian residents amounted to 0.30 billion USD. As a result, the balance of foreign tourism in Georgia totaled 1.49 billion USD (4% growth). The number of tourism-related jobs reached 195,100 in the fourth quarter of 2014. Most of these jobs are in the transportation sector (60%) and in hotels and restaurants (13%). In 2014, the contribution of tourism to total employment was 11%. Tourism accounts for 6% of GDP, more than in 2012. The World Travel and Tourism Council report, 2016 puts Georgia in the seventeenth in terms of the direct contribution of tourism to GDP and in the 25th place for the total contribution among 184 countries. Three point 3% of total investments in Georgia are made in travel and tourism industries. There are 1000 accommodation units in Georgia, consisting of 35,000 beds. As the average demand for beds exceeds the current supply, these numbers are not satisfactory. Tbilisi and Adjara regions have the leading positions in the accommodation industry in Georgia. Hotels account 63% of beds, followed by family hotels and guesthouses (16% for each). As there has been an increasing trend in the number of visitors in recent years, optimistic forecasts may be made in respect to the need for the construction of new hotels. A few international hotels chains are already operating in Georgia, including Radisson Blue Iveria, Tbilisi Marriott, Courtyard Marriot, Sheraton Metekhi Palace, Holiday Inn, Citadines, and others.

Air transport infrastructure is crucially important for the development of tourism in the country. There are three international (Tbilisi, Batumi, and Kutaisi) and three local (Mestia, Natakhtari, and Telavi) airports in Georgia. Due to the increase in tourist flows to Georgia, the number of passengers using Georgian international airports has also increased. In 2014, Georgian airports served to 2,008,171 passengers, which is 9.51% (174,364 passengers) higher than in 2013. The number of passengers increased in all three Georgian international airports in 2014. In the same year, 1,575,386 passengers passed through Tbilisi international airport—9.7%

(139,340 passengers) higher than in the previous year (Kadagishvili 2016b). In 2014, air transportation of passengers in the Georgian aviation market was carried out by three Georgian lines (Georgian Airways, Vista Georgia, and Air Caucasus) and 32 foreign airline companies. Over the last year, four foreign companies, Air Arabia, Yanair, Dniproavia, and Air Cairo, began carrying out regular flights from Georgia. Since October 27, 2014 regular flights between Georgia and Russia resumed. Flights between Tbilisi and Moscow are performed by Georgian Airways and by the Russian lines S7 Siberia, Transaero, and Aeroflot (The Civil Aviation Agency Annual Report of 2014). Georgian airports are well-connected with a range of different countries through transit flights. However, one of the main priorities of the country is developing direct flights, which will support tourism development in the country and have a positive impact on the development of economic relations between countries. Georgia already has some strategic directions, but needs some help in this regard. These directions are Italy, Germany, France, Great Britain, Netherlands, Spain, Switzerland, and Belgium, as well as Romania, Bulgaria, Slovakia, China, India, and Japan (Kvirikashvili 2015). In turn, an increase in the number of airlines operating in the market will create a competitive environment and promote the growth of foreign visitors.

Georgia has been included in lists of the ten safest countries for traveling. It has won some achievements in international relations. The National Tourism Administration of Georgia has participated in various fairs and exhibitions in the tourism sector. “Modern, up-to-date technologies have been introduced, the speed of information dissemination has increased, the use of the internet has spread widely in both business and social activities. This has simplified business activities and at the same time provided an opportunity for the whole world to become familiar with the culture, history, and geography of Georgia. World famous international hotels have been built in Tbilisi, Batumi, Bakuriani, Anaklia, Bazaleti, etc., which has ultimately created favorable conditions for the development of the tourism business” (Kadagishvili 2015). In May 2015, Georgia hosted the European Bank for Reconstruction and Development (EBRD) business forum. EBRD is the largest investment institution in Georgia, having invested over 2.6 billion USD in over 178 projects. In June of the same year, the Youth Summer Olympic Festival was held in Tbilisi. The increase in marketing activities is also worth mentioning. In particular, Georgia has been advertised in nine target markets (Azerbaijan, Turkey, Ukraine, Kazakhstan, Russia, Belarus, Hungary, Latvia, and Israel), as well as through the world’s top-rated channels (CNN and Euronews), which will help increase the popularity of the country throughout the world.

Despite the above factors, the country cannot fully utilize its resources. The reasons for this are both subjective and objective. Despite the government’s liberal policy, there are some issues that need to be decided if the tourism industry is to be effectively and sustainably developed (Khokhobaia 2016). To achieve effective and sustainable development of the tourism industry, it is necessary to “improve the quality of service, develop infrastructure, develop tourism capacities, and to promote environmental diversity (planning and development of new forests, parks, botanical gardens) and institutional development and organization of the tourism sector” (Erkomaishvili 2016).

The development of tourism should continue in the future. This will contribute to the inflow of additional foreign currency. Tourism development will promote the development of other tourism-related sectors, such as hotels, agriculture, the food industry, the transport and telecommunications sector, education (involving tourism-related training). All this will contribute to the growth of employment and income, which is among the best ways to eliminate poverty.

4.4 State Policy for Supporting the Development of Entrepreneurship

The development of entrepreneurship would be impossible without state support in the first stage of the transition to a market economy. That experience demonstrated that “the modern state is not beyond the market or above the market, but is organic organically built into the market and is a major player on the market, fully responsible for the realization of the interests of the whole community” (Mekvabishvili 2009).

Creating favorable conditions for entrepreneurial activities and the development of the private sector is one of the main tasks for the government of Georgia. According to the World Bank, the private sector creates nine out of ten jobs in the global economy. The government of Georgia is implementing reforms to prepare for the development of entrepreneurship. In March 2014, the Enterprise Development Agency was established, and in June of the same year, a new government program called *Produce in Georgia* was launched (Ministry of Economy and Sustainable Development of Georgia). The basic goal of this reform program is to develop entrepreneurship, supporting the establishment of new enterprises, improving the competitiveness and export potential of the private sector. In addition, the government has added a new component to the Produce in Georgia program, aiming at the development of micro and small enterprises in the region. On February 19, 2014, the Innovations and Technologies Agency of Georgia was established with the support of the World Bank. The purpose of establishing this agency was to support the development of knowledge-based and innovation-based economy and innovative ecosystems, promoting the commercialization of knowledge and innovations and development of high speed internet. The main functions of the agency include promoting the commercialization of knowledge and innovation and developing innovative entrepreneurship, including start-ups. In July 2015, the EU approved the first transfer of a 6 million euro tranche as part of the Deep and Comprehensive Free Trade Area Facility for Small and Medium Enterprises. The EU has allocated 45 million euro for this program, which clearly shows the readiness of the EU to support the implementation of the Association Agreement and the Deep and Comprehensive Free Trade Area agreement in Georgia, while at the same time promoting the development of small and medium enterprises as a basis for sustainable economic development and inclusive growth. The Association

Agreement signed between Georgia and the EU is important for both the political and economic development of Georgia. “It can be said that, by means of the above-mentioned agreement, it will be possible to strengthen different administrative and institutional structures in the country, and also to harmonize Georgian legislation with European standards, which will make it easier for Georgian business subjects to operate in the European market” (Khokhobaia 2015). Implementation of the Association Agreement, including the Deep and Comprehensive Free Trade Area, which represents a general plan for the integration of Georgia with Europe, will increase the country’s attractiveness in terms of foreign direct investment, which will facilitate the introduction of modern technologies into Georgia, will help create new jobs, and will provide opportunities to Georgian citizens.

In the process of economic development, the government of Georgia is paying special attention to the development of small and medium enterprises and improving their competitiveness. In order to facilitate the development of small and medium businesses, in 2016, the government of Georgia developed its SME Development Strategy 2016–2020. The strategy is based on the main principle of Think Small First and aims to improve the competitiveness of small and medium enterprises, which in turn will create a solid basis for inclusive and sustainable economic growth. The aim the strategy should be achieved by 2020. According to the strategy document, the number of people employed in small and medium enterprises should increase by 15%, productivity by 7%, and the output of small and medium enterprise by 10% annually.

Agriculture has been recognized as a strategic direction in Georgia in recent years. The Funding of the Ministry of Agriculture has increased in order to intensify production and food security. The budget of the Ministry of Agriculture has also increased; special attention is being paid to improving systems, buying and applying agricultural equipment, and implementing a special program for small farm owners. The Law on Agricultural Cooperatives has been adopted by the parliament of Georgia, a Project Management Agency has been established, and funding of the agricultural sector has significantly increased through the activities of this agency and the support of the banking sector. The Agricultural Research Center has been created to support development of the agricultural sector and the production of food products, protecting and maintaining the biodiversity of birds and animals (Agricultural development strategy of Georgia 2015). As a result of the above activities, by 2015 the state had approved 106 projects (including 84 industrial projects and 22 agricultural projects) with a total investment volume of more than 267 million dollars. State-owned property has been given to 42 beneficiaries, and commercial banks have been allocated credits of over 133 million GEL. In 2015, the government of Georgia developed a Strategy for the Development of Agriculture in 2015–2020. The agricultural development strategy covers issues that will help to improve the competitiveness of the agriculture sector, steadily increasing the production of high-quality goods. The first practical steps have already been taken for agricultural development in the country, and the first positive signs have also appeared. However, the future will show whether this approach bears fruit.

The national tourism strategy is one of the more important reforms of 2015. This strategy sets out the vision of the tourism sector until 2025—a 10-year vision for the development of tourism. The strategy includes significant areas, such as tourism marketing, tourism products, tourism policy, infrastructure, and others. The strategy is a dynamic document that will be periodically reviewed. The main goal of the strategy is to introduce Georgia to the world as a high-quality tourist destination for all seasons, with in its own unique culture, cultural heritage, and national tradition of hospitality. The National Tourism Administration of Georgia is planning to increase the number of tourists to 8.4 million visitors by 2025. According to the estimates of the Agency, if this is achieved, the number of people employed in tourism sector will increase from 180,000 to 270,000, while spending per visitor will increase from 320 US dollars to 365 US dollars, while the volume of investments will increase from 183 million GEL to 874 million GEL.

Despite these reforms, there is still a lot to be done in the country, as the economic reforms implemented in Georgia, despite its many advantages, cannot fully ensure the successful regulation of economic and social processes to meet the interests of individuals and of society as a whole. Accordingly, the living standards of the majority of the population remain very low.

Government, scientists, economists, and entrepreneurs agree that one of the main factors that will contribute to the development of entrepreneurship is raising the level of professional knowledge. There is low level of accessibility to entrepreneurial education in Georgia. The country needs more highly qualification personnel who can respond to the challenges of entrepreneurship. The socioeconomic development strategy set out by the government of Georgia indicates that state policies should be directed to improving human resource capacities. It should be noted that the main goal of Enterprise Development Agency (19 February, 2014) is to support the introduction of mechanisms that make it easier for enterprises and start-ups to have access to information, finance, and education, and to promote the development of a high entrepreneurial culture. The agency will deliver training to 6000 people during the 26-month training program, and 3000 business ideas will be funded. In addition, the higher educational institutions in Georgia offer educational programs in Business Administration; a new model of accession to and funding of vocational education has been elaborated. This is an opportunity for everyone to learn and obtain a profession (Millennium Development Objectives in Georgia: National Report 2014). Twenty-six vocational educational centers are planned in different regions of the country. This will widen the geographical area of accessibility to vocational education (Regional Development Program 2015). Despite the above measures, the educational and vocational education systems require continuous reform and comprehensive development, as programs in “Entrepreneurship” can be found neither among the higher education curriculums nor in vocational programs. Development of entrepreneurial thinking is impossible if only fragmented tasks are dealt with. The latter implies that training is required at all levels of education—general, vocational, higher, and lifelong learning (Lekashvili 2014)—to ensure closer ties and cooperation between the education system and the labor market, employers, and employees.

4.5 Conclusions and Recommendations

Entrepreneurship has seen difficult and controversial days from Independence to the present. The political, economic, and legal environment in the country was not able to ensure the rapid development of business, but overall an increasing trend is still observed.

Therefore, we would like to draw attention to some of the measures that should be implemented to ensure the future development of entrepreneurship: Further deepening of economic liberalization, encouraging the development of entrepreneurship through various tax mechanisms, budget financing, targeted state programs and other financial, economic and organizational mechanisms; continuing the development of favorable legal, economic, investment, technological, and infrastructural environments; the use of funds in ways that have been well tested in global practice (financial, insurance, venture capital funds, leasing companies, etc.); efficient usage of natural resources of industrial importance and the maintenance of natural ecosystems at the same time; the development of processing industry; the production of local food products and reducing the risks to food security; encouraging the formation of farm unions (cooperatives); improving accessibility to agricultural equipment; providing farmers information about modern technologies in the agricultural sector; developing the tourism infrastructure; making international travel to Georgia easier; raising international awareness of Georgia as a country with European democracy; improving state policy to establish close links between business, universities, and scientific and research centers.

Implementation of the above measures will significantly contribute to the development of entrepreneurial activities and will eventually have a positive impact on economic growth and the competitiveness of the country.

References

- Agricultural development strategy of Georgia 2012–2022, Government of Georgia, Tbilisi 2012. <https://matsne.gov.ge/ka/document/view/2280820>
- Agricultural development strategy of Georgia 2015–2020, Ministry of Agriculture of Georgia, Tbilisi. 2015. moa.gov.ge/Download/Files/46
- Asatiani, R. (2015). *Conceptual analysis of the world economy in the twentieth century and economic portrait of Georgia* (p. 182). Siahkle: Tbilisi.
- Erkomaishvili, G. (2016). *Priorities of the development economic policy of Georgia* (p. 107). Tbilisi: Universali.
- Food Security as a Concept for Policy Planning, EENPARD. Tbilisi, 2015. <http://enpard.ge/ge/food-security-as-a-crosscutting-concept-for-policy-making-in-georgia/>
- Gagnidze I. (2015). Entrepreneurial University: The most important player of the effective policy of education and science. *Journal of Economics and Business* 4, (Vol. 7, p. 128). Tbilisi: TSU.
- Hisrich, R., & Peters, M. (1994). *Entrepreneurship* (p. 20). Meridiani: Kutaisi.
- National Statistics Office of Georgia. (2015). *Entrepreneurship in Georgia*. Tbilisi: Statistical publication. <http://www.geostat.ge/>

- Jibuti, M. (2013). *Modern social and economic challenges to Georgia and the best ways to overcome them*, Academy of economic sciences of Georgia, collection of papers (p. 140). Siakhke: Tbilisi.
- Kadagishvili L. (2015). *Economic integration and the new challenges of Georgia*. No. 107, Series: Administracja I Zarzadzanie [Administration and Management] (34). Siedlce University of Natural Sciences and Humanities, Siedlce, Poland, p. 113. http://www.tstefaniuk.uph.edu.pl/zeszyty/archiwalne/107-2015_10.pdf
- Kadagishvili L. (2016a). *Systematic approach to develop small and medium-sized businesses in Georgia*. Paper presented at the Third International Scientific and Practical Conference on Strategic Imperatives of Contemporary Management, 17–18 March 2016 (p. 210). Kiev: KNEU.
- Kadagishvili, L. (2016b). Development prospects for transit potential of Georgia. *US–China Law Review*, 13(7), 518.
- Kadagishvili L., & Seturidze R. (2016). Agriculture as the priority of the economic development of Georgia, Governing Business Systems. Theories and Challenges for Systems Thinking in practice, 4 Business Systems Laboratory International Symposium, Mykolas Romeris University, Vilnius, August 24–26, p. 212. <http://bslab-symposium.net>
- Kandelaki, T. (2015). Forest resources and forestry in the economy of Georgia. *Journal of Sustainable Management of Forests for the Development of the Green Economy in Central Asia and Caucasus*, 3. http://www.rec-caucasus.org/files/publications/pub_1450374259.pdf
- Khaduri, N. (2012). *The role of the agricultural sector of Georgia in achieving macroeconomic stability, first international conference sustainable development priorities of agriculture, conference proceedings* (p. 549). Tbilisi: TSU.
- Khokhobaia, M. (2015). Tourism policy challenges in Post-Soviet Georgia. *International Journal of Social, Behavioral, Educational, Economic, Business, and Industrial Engineering*, 9(3), 986–989.
- Khokhobaia, M. (2016). From rational policy of tourism development to the effective policy. *California Business Review*, 4(1), 11.
- Kvaratskhelia, M. (2013). *Ilia Chavchavadze and the contemporary world*, Academy of economic sciences of Georgia, collection of papers 11 (p. 275). Siakhke: Tbilisi.
- Kvirikashvili G. Ambassadorial of diplomatic representatives of Georgia abroad, 2015 (03.09.15) http://www.economy.ge/uploads/news/2015/ambasadoriali/ministris_sitkva-ambasadoriali.pdf
- Lalad A. (2007). *An overview of global water problems and solutions* (p. 36) London. in Tvalchrelidze A., Silagadze A., Keshelashvili G., & Gegia, D. (2011). *The socioeconomic development program of Georgia* (p. 203). Neker Publishing House: Tbilisi
- Lekashvili E. (2014). Entrepreneurial thinking and its development problems in Georgia. *Journal of Economics and Business*, 6, 69. Tbilisi: TSU.
- Mekvabishvili, E. (2009). *Globalization of economy: Trends, challenges and prospects* (p. 144). Tbilisi: Universali.
- Meskhia, I. (2015). *Economic reforms in Georgia: Analysis, challenges, forecasts*, *Journal Economics and Business* 2, volume VIII (p. 50). TSU: Tbilisi.
- Millennium Development Objectives in Georgia: National Report* (prepared by the government of Georgia in cooperation with UN office in Georgia), (2014). Tbilisi http://www.ge.undp.org/content/dam/georgia/docs/publications/GE_UNDP_MDG_Report_Georgia_2014.geo.pdf
- Ministry of Agriculture of Georgia, Annual Report 2014. <http://www.moa.gov.ge/Ge/Public/Reports>
- Ministry of Economy and Sustainable Development of Georgia. <http://www.economy.ge/>
- Natural resources of Georgia and protecting environment, statistical publication, Tbilisi, 2014. http://www.geostat.ge/cms/site_images/_files/georgian/agriculture/Garemo_2014.pdf. Last accessed on 20 Mar 2016.
- Okrostsvardize A (2014). *Development dynamics and modern conditions in the mining sector of Georgia*. Tbilisi. <http://eprints.iliauni.edu.ge/usr/share/eprints3/data/3498/1/A.O.CENN%20Project.pdf>

- Papava V., Tapladze L., & Gegeshidze A. (participants) (2015). *Georgia's economy: Reforms and pseudo-reforms* (p. 40). Tbilisi: Intelekti.
- Regional Development Program in Georgia in 2015–2017. http://gov.ge/files/381_43285_728272_1215-1.pdf
- Shaburishvili S. (2012). Foreign experience in the agricultural sector insurance and Georgia; First International Conference on Sustainable Agricultural Development Priorities. Conference proceedings. Tbilisi: TSU, p. 494.
- SME development strategy of Georgia 2016–2020. gov.ge/files/439_54422_706524_100-1.pdf
- Social and economic development strategy of Georgia 2020. www.mrdi.gov.ge/ge/news/actionplan/5302260e0cf298a857ab7dce
- Social Protection and Social Inclusion in Georgia: Executive summary, European Commission, Institute of Social Studies and Analysis (ISSA), Tbilisi, p. 3. ec.europa.eu/social/BlobServlet?docId=6886&langId=ka
- Soviet Georgian Encyclopedia. (1991). *Editor in chief I. Abashidze* (p. 131). Tbilisi.
- Tchitanava, N. (2015). *Agriculture in Georgia: Transformation, problems, prospects* (pp. 84–64). Iverioni: Tbilisi.
- The Civil Aviation Agency Annual Report of 2014. <http://www.gcaa.ge/geo/annualreport.php>
- The European Union's Neighborhood Program: agriculture and rural development sectors in the Eastern Partnership countries, Georgia. (2012). Tbilisi. http://eeas.europa.eu/delegations/georgia/documents/virtual_library/cooperation_sectors/georgia_assessment_final_ka.pdf
- The Millennium Development Goals Report*. (2008). New York: United Nations Department of Economic and Social Affairs, p. 56.
- The non-timber forest products of Georgian forest development Forum, June 26, 2015, the EU for Georgia. enpard.ge/ge/
- Tvalchrelidze, A., Silagadze, A., Keshelashvili, G., & Gegia, D. (2011). *The socioeconomic development program of Georgia* (p. 121). Neker Publishing House: Tbilisi.