

Legislative Challenges of Georgian Entrepreneurship and Business Competitiveness

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Abstract: *This paper examines the legal environment affecting entrepreneurship based on theoretical and practical examples, as well as identifies and analyses challenges based on the role of Georgia in international rankings and research on businessmen. Georgia belongs to the group of developing countries, where social problems are acutely on the agenda. A country with a gross domestic product of US\$15.8 billion (US\$4255.70 per capita), Georgia has great potential for rapid development through growth in entrepreneurship. Creating an attractive environment for businesses should therefore become an important agenda for the government. Based on quantitative research, 11,207 business entities in Georgia have been surveyed to examine the legislative challenges for businesses. The survey results revealed the need to improve the business regulation framework, facilitate institutional change in the business environment, and enact entrepreneurial legislative reform.*

Keywords: Georgia; Business environment; Legal environment; Business law; Entrepreneurship.

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1. Introduction

Georgia is located in the Caucasus Region, it is part of Europe, but not in the European Union (EU). The country was part of the Soviet Union for 70 years and gained independence in 1991, after which the issue of an effective economic arrangement is still relevant and problematic. Entrepreneurship development is a major challenge for the country's economic policy. Georgia has gone through a difficult period of independence and economic transition, which meant the establishment of completely new institutions. Privatisation resulted in the emergence of the private sector, although the reforms of the time failed to provide an incentive for entrepreneurship to form a middle class in the country (Papava, 2015). Liberalism, which is the declared course of Georgia's political economy, obliges the state to create an effective regulatory environment for the business sector and not to interfere directly in its activities. Georgian business law is constantly changing and in the process of improvement. However, it is clear that the level of economic development of the country is not satisfactory, which raises questions about how successful the process of institutional building is.

According to international ratings, Georgia is quite an attractive country for investors due to state policy and business regulations. The legal environment of entrepreneurship plays a very important role in the development and stimulation of entrepreneurial activity. Although the "one-stop-shop" principle applies when registering a business in Georgia, there are not many taxes and there is an electronic system where businessmen declare their activities without extra effort, but there are several shortcomings that need to be eliminated. The regulations should focus on the implementation of the long-term plan and therefore the interest should be expressed so that the businessman can expand his business. The biggest step in this direction was taken with the introduction of the Profit Reinvestment Act, 2017, as well as with the harmonisation of the norms required for trade as a result of association with the EU.

Business law essentially reflects the traditions, culture, and politics of the country in which it operates. The most important thing in terms of studying the business environment is the legal environment and its impact. Adapting to the legal environment is a special challenge for any businessman. Georgian entrepreneurs and those all over the world, had to deal with completely new regulations in the form of barriers imposed by the

Covid-19 pandemic. Consequently, the pandemic had an individual impact on all sectors. Measures taken by the government to prevent and manage the virus have further developed some sectors, such as finance, while leading the tourism sector to bankruptcy. The share of tourism in the Georgian economy is quite high, in addition to the fact that the country's import dependence on food products is static, as a result of which the Georgian economy cannot get high value-added from the tourism sector. In contrast, the financial sector has undergone technological advances under lockdown, which has the potential to create high value-added. It is therefore logical to think about how negatively the underdevelopment of economic sectors affects economic growth. These factors make it very important to study the issue, as promoting and developing entrepreneurship in small countries, like Georgia, can guarantee rapid economic growth. This is what makes this study relevant.

2. Literature Review

Entrepreneurship as a term goes back to 18th-century France when Richard Cantillon (1755) equated it with an economic activity in which a businessman engages in risky business in the hope of making a profit. Later, Joseph Schumpeter (1911) studied the paradigms of economic development, which meant not only increasing the scale of the economy, but also developing it in such a way as to improve its quality. Here he singled out entrepreneurship as a key factor in implementing processes. In his view, entrepreneurs were carrying out revolutionary actions in the economy, and hence he called this ability the fourth factor of production.

Say (1803), a nineteenth-century French economist, calls an entrepreneur an economic agent who transfers economic resources from less profitable to more profitable fields. Twentieth-century American scientist McClelland (1961) believes that an entrepreneur is a person who needs achievements. He is an energetic and risk-taking person. For Drucker (1964), an Austrian scientist and management theorist of the same period, an entrepreneur seeks change, responds to it, and uses the opportunities that arise from it. Innovation is an important source of entrepreneurship. An effective entrepreneur has the skill to transform a source into a resource. At the end of the twentieth century, entrepreneurial researcher, Gartner (1985), calls an entrepreneur a person who started a new business where

there was nothing before. There is no universally recognised definition of entrepreneurship, although the essence of entrepreneurship is clear. The differences between entrepreneurship and business are still the subject of active discussion.

As for the business environment in Georgia, KPMG Georgia (2016) presented the main geographical and economic parameters of Georgia, and against this background, analyzed all the sectors that play an important role in the Georgian economy. In addition, investment trends in countries and sectors were studied. KPMG also reviewed foreign trade figures and then moved directly to characterising the largest sectors. These issues were discussed with the legislative framework and provided a more concise report.

The most important research in this field is by Chowdhury et al. (2019). The survey, Institutions and Entrepreneurship Quality, was conducted from 2005 to 2015 and covered 70 countries, with the results published in 2018. The article reveals the role played by various institutions in terms of entrepreneurship development. Business legislation is also paramount in this study, especially in the case of developing countries. In fact, this paper on Georgia can be considered an extension of the following research.

3. Materials and Methods

The main source of data for this study originates from secondary and primary data. The secondary materials involved processing and searching for scientific literature, conducting a comparative analysis, as well as processing readily available statistical material by methods of analysis, synthesis and grouping. The primary data is obtained through a questionnaire *via* a Google Form (see Appendix) targeted at business entities operating on the territory of Georgia. The study involved respondents who were chosen by their activities, and these respondents represent all sectors of the country.

The business activities of the respondents cover almost all legal forms, which is interesting for the survey, as answers were received from micro-entrepreneurs, small entrepreneurs, individuals, Limited Liability Companies (LLCs), and representatives of joint-stock companies. The assessment, therefore, is carried out from the perspective of organisations of different sizes and regulations. The study was conducted over three months based on a survey and the results were generalised to entrepreneurs across the country. This scale of research was conducted for the first time in Georgia, especially

in the post-lockdown period. This justifies why the results of the research can be disseminated to the entrepreneurial subjects of the whole country. The reasoning and interpretation is based on the method of induction.

4. Normative Environment of Entrepreneurship in Georgia

Georgian legislation defines entrepreneurship as a lawful and repeated activity, which is carried out for profit, and is independent and organised. Legitimate activity implies any activity that is allowed by law on the territory of Georgia, while non-recurrence includes a systemic activity. Entrepreneurship enters the history of the Georgian economy from the time of slavery (first Georgian coin “Colchian Tetri” – IV-III centuries BC) and the main activity was trade, which developed more in the feudal era as family farms emerged. History has also preserved Georgia’s first trading partners: Iran, Syria, and Iraq. At the end of the 19th century, entrepreneurship was widely spread in Georgia and significant development of various fields of agriculture, trade, and industry was observed. The origin of trading houses also belongs to the same period.

The Soviet Union moved the Georgian economy too far from free-market principles, as entrepreneurship was punishable under Soviet law. The ban on all commercial activities left an indelible mark on the Georgian economy, which meant complete institutional degradation after the collapse of the Soviet Union. There was no institutional form in the country that would be necessary for a free market economy. The economy of the transition period turned out to be extremely difficult from a social point of view. No knowledge would help the government to take the right course and form capitalism (Erkomaishvili et al., 2011). During the transition period, Balcerovich’s 10-point plan was used in Georgia to lay down the basic principles of capitalism needed to build a strong entrepreneurial sector. The existence of the middle class is very important in the economy of developed countries, while the middle class is formed by promoting entrepreneurship. This is still a significant challenge in Georgia, as privatisation failed to be implemented properly in the 1990s to conduct entrepreneurial activities at the right rate (Bakashvili, 2004).

At the end of the twentieth century, after Georgia gained its independence, it began to formulate legislative regulations for the entities operating in the economy and to form the necessary institutions. The main

goal of this event was to introduce the norms that would allow all business entities to conduct economic activities within the framework of equal competition while protecting the rights of all market participants. The World Bank, the International Monetary Fund (IMF), the United States (US), and the Commonwealth of European States have greatly assisted Georgia in establishing a progressive and effective system.

The most important item in terms of studying the business environment is the legal environment and its impact (Papava, 2002). Adapting to the legal environment is a special challenge for any businessman. Business law essentially reflects the tradition, culture, and policies of the country in which it operates. All types of relations between business entities are regulated by law and follow the legal space of the country. In addition, there are international norms, which must be subject to the normative acts of any state, and therefore business, for the product created by it to be acceptable to the international market. This plays a big role in gaining a competitive advantage. The legislative aspects of international trade are noteworthy in this regard. National legislation must be harmonised with the provisions of the World Trade Organization (WTO), the United Nations International Trade Organization, and the International Chamber of Commerce. They set the standard in global business and create a favourable environment for any business whose conduct is not prohibited by law.

Georgia has taken many steps forward in this regard since the first years of independence, the economy has become much more liberal since the Rose Revolution, and this has made Georgia more attractive to foreign investors. There are laws in Georgia that directly regulate business activities, they are: Law of Georgia on Entrepreneurs; Georgian Law on Competition; Georgian Law on Advertising; Law of Georgia on Trademarks; and Law of Georgia on Licences and Permits. These laws are the foundation, although, in addition to them, specific economic activities may be regulated by various regulations directly affecting them. For example, the sale of restaurant and food products by a businessman must be carried out based on the Law of Georgia on Food Safety. In addition, several ordinances and orders must be observed. Of course, the Constitution of Georgia stands above any law in Georgia and businesses must comply with its basic principles, after all, any legislative action is created based on it (Constitution of Georgia, 1995).

A favourable business environment essentially determines the inflow of investments, which is why both local and foreign investors need to have an

attractive business environment in the country. The investment environment in Georgia is legally regulated by the Law of Georgia on Investment Environment Promotion and Guarantees, which has been in force since 1996 and is constantly being modified and improved. According to this law, an investor of any nationality in Georgia has the same rights as a Georgian investor. In the process of entrepreneurial activity, it is inadmissible for a Georgian investor to enjoy more or fewer rights, guarantees, and privileges than Georgian investors when he is registered as a legal or natural person and carries out economic activities (Law of Georgia on Investment Environment Promotion and Guarantees 1996).

The Law of Georgia on Entrepreneurs was introduced in 1994, and since then, the law has undergone several amendments. However, this law has revealed several shortcomings; the roles of which can no longer provide an effective environment for entrepreneurs. The law can no longer adapt to modern challenges and therefore the introduction of a new entrepreneurial law in 2021 has been announced. The law will be even more in line with Western values, where there are far fewer disputes and more clear and transparent clauses to prevent business entities from interpreting them. This law will better and more effectively protect the civil principles of corporate law and relations with shareholders, creditors, and other entities. The old entrepreneurial law allowed the businessman to settle most of the issues based on the charter, which is a significant shortcoming of this law because the statute was taken into account during the court dispute. Numerous cases have been reported in court practice where the subject matter of the dispute was not fully mentioned in the statute and was regulated accordingly. At that time, the court was forced to administer justice following foreign practice, and it was up to it to interpret the matter itself to reach a verdict (Law of Georgia on Entrepreneurs, 1994).

The Georgian Law on Competition was adopted in 2012 and regulates the provision of free and fair competition to create a favourable environment for free trade in Georgia. The law was substantially amended in 2014 to improve and harmonise it with the Association Agreement with the European Union (EU). This was derived from Article 204 of the Association Agreement, which refers to the obligation to improve these norms. The purpose of the law is to regulate the individual, joint or unilateral actions of economic entities, as well as to concentrate them within the framework of the law (Georgian Law on Competition, 2012).

Georgian Law on Advertising establishes norms on the scope and nature of advertising. It was adopted in 1998 and has undergone some modifications since then. The law was intended to ensure healthy competition, protect the public interest and prohibit the distribution of inappropriate advertising materials. The basic principle of the law is that entrepreneurial entities should not restrict competition from other entrepreneurial entities and disseminate incorrect information (Law of Georgia on Advertising, 1998).

The Law of Georgia on Trademarks has been in force in Georgia since 1999, regulating protection and use of trade, service and collective marks. It is based on the Paris Convention and the Protocol to the Madrid Agreement, whereby a person who wants to differentiate his service or product from another person is required to obtain a trademark. A trademark can be any symbol individually or collectively and it must be displayed graphically. This law ensures the entrepreneur that the trademark created by him, which is unique and associated by the customer with his company, will be protected in case of registration and thus will ensure the preservation of this uniqueness (Law of Georgia on Trademarks, 1999).

In 2003, the Law of Georgia on License and Permits was introduced. It regulates the implementation of permitting or licensing activities and also imposes regulations and tariffs in this regard. A license tax is a one-time tax levied on an entrepreneur if the economic activity he or she carries out requires a license or permit. The law lists specific activities that are required to obtain this right: insurance, banking, securities trading, medical, military, design, construction, auditing, metrology, maritime transport, nuclear and radiation, Genetically modified organisms (GMOs) use, broadcasting, telecommunications, biological pesticides, oil and gas refining, natural resource utilisation, mineral extraction, and other similar activities. The gambling business is also subject to the same legislation. (Law of Georgia on License Taxes and Licenses, 2003).

In February 2014, two agencies were established under the Ministry of Economy and Sustainable Development of Georgia to support the establishment of small and medium enterprises (SMEs) and increase their competitiveness: the Entrepreneurship Development Agency and the Georgian Innovation and Technology Agency. The Entrepreneurship Development Agency is a coordinating structure for the implementation of policies and programmes supporting SMEs in Georgia. The main objectives of the agency are: to increase the competitiveness of the

private sector, support start-up businesses, support the establishment of modern entrepreneurial culture, as well as to promote the diversification of exports of goods and services, etc. The main functions of the agency are business support in the process of adapting to the requirements of the Deep and Comprehensive Free Trade Area (DCFTA), on the requirements and obligations in the export and local markets (Ministry of Economy and Sustainable Development of Georgia, 2021).

5. Challenges of the Georgian Tax System

Georgia's tax system has undergone many transformations before it took on its current form. The main criterion for the efficiency of the tax system is that the taxes are simple and easy to collect, at the same time it is inadmissible to burden the taxpayer with such a heavy burden that they start looking for ways to avoid it and establish vicious fraud schemes, which was common in Georgia in the 1990s.

The Georgian tax system is known for two types of taxation based on the taxable person (Tax Code of Georgia, 2010): Direct – which is a direct regulation of property or income – and indirect – which is included in the commodity value and is paid by the manufacturer according to the sale. In Georgia, there are income, profit, value-added, excise, import and property taxes, which directly affect business entities in the process of carrying out their activities. Income tax is paid by resident and non-resident individuals who receive income in the territory of Georgia. Its object of taxation is the gross income received from the beginning of the calendar year to the end of the year, excluding other taxes specified in the Code. The standard income rate is 20% for an individual, however, there are types of benefits and it can be as high as 10%. For example, if the source of income is rental income, then the rate is 5%.

Income minus expenditure received during the year for the organisation is retained earnings that are subject to taxation, hence distribution is a necessary prerequisite for tax payment. Its rate is 15%, however, here too there are different types of activities where the rate is diversified. This scheme for the imposition of profit tax to charge only profits exempt for distributed or non-economic activities has been introduced according to the Estonian model. Businesses are exempt from tax if they reinvest the profits earned. In 2017, the given Estonian model was launched, before that, it was

paid as standard once a year. In parallel with the introduction of this model, it became necessary to declare profits and income online. Property tax is paid by any organisation that has equipment and machinery, buildings, leasing property, etc. on its fixed asset balance sheet or for investment. Its annual rate is 1%. Property tax will be paid once a year.

The obligation to pay value-added tax (VAT) can be made voluntarily or by necessity when the annual turnover exceeds GEL100,000 in the national currency, or for specific operations, in particular: when importing goods (specifically for those goods when the non-resident operates in Georgia without a mortgage), transfer transaction, or when insolvency proceedings are taking place. The object of VAT taxation is import-export and re-export, temporary import and operation, and the rate is 18%.

Excise is a diversified form of taxation for various excisable goods, such as tobacco, automobiles, alcohol and petroleum, etc., regardless of whether they were produced on the territory of Georgia or hit the Georgian market as a result of importation. It is necessary to pay it no later than the 15th of the month following the execution of the performed operation. In Georgia, the excise tax rate on products is quite volatile. Import tax is levied on any goods entering the borders of Georgia. The rate is diversified according to the type of goods, and is 5% or 12%.

The advantage of the Tax Code of Georgia lies in the fact that it is a system of neutral taxation for any type of business, which does not deprive the businessman of the incentive to carry out any business activity he wants. Georgian tax policy mirrors the tax systems of advanced countries and serves the fulfilment of strict fiscal targets, which on the one hand is a completely normal phenomenon. At the same time, focusing only on achieving strict fiscal targets in the long run reduces the payment base, which ultimately reduces their share of the consolidated budget, although statistically there may be an upward trend in absolute terms.

Public policy should preferably be aimed at expanding and optimising the payment base, which will stimulate the emergence of new business entities under low tax conditions. This in turn will contribute to the strengthening of the middle class, scientific research, and technological development, which will ultimately ensure the sustainable economic development of the country. In addition, the types of taxes should be simplified as much as possible, as they eliminate the risks of corrupt transactions and provide a mechanism that will not give businesses the

incentive to hide revenues to pay less tax. At the same time, flexible matching between direct and indirect taxes should be ensured so that it is not possible to easily impose the entire tax on the consumer, which ultimately leads to higher prices of products. It is desirable to abolish indirect taxes and merge them under direct taxes or establish them as direct taxes. It is desirable to reduce tax rates to the level where, in addition to the required minimum budget, the businessman has more resources to use to expand, introduce technologies and raise standards. In the short run, the budget may be in deficit, but in the long run, it is committed to strengthening the country's economy.

At first glance, the Georgian tax system allows businesses to be taxed due to their size, this is where various types of organisations are taxed in a diversified manner. However, one important point here is that a businessman can take a risk and register as a small entrepreneur who is taxed at a rate of 1% and carries out activities that should not be considered under that status. Consequently, the fewer differentiated taxes corresponding to a similar status, the more transparent the system will become.

6. Position in the World's Business Environment Ranking

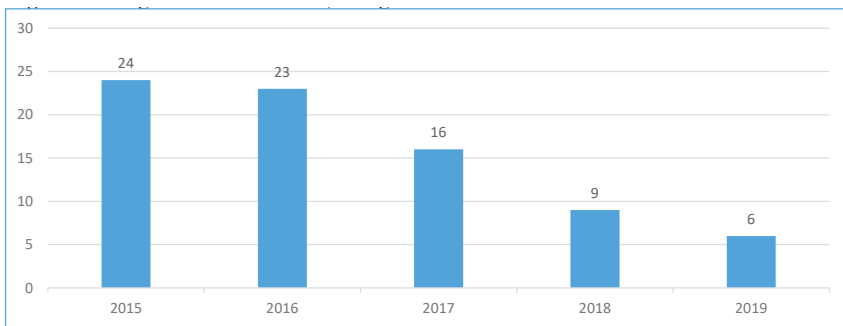
The Global Competitiveness Report (GCI) analyses the factors that play an important role in creating a business climate in the country and is important in terms of productivity and competitiveness. In addition, the competition index GCI discusses the strengths and weaknesses of the country, identifying priorities to facilitate the implementation of political reforms. The 2016-2017 research report covers 138 countries, with Georgia ranked 59th out of 138 countries, with a rating score of 4.32. Georgia has improved its position by seven steps. Since 2004, Georgia has been ranked among Armenia and Ukraine in the ranking of other countries (Schwab, 2019). In 2016-2017, the situation in Georgia improved by four steps compared to 2015-2016 in 4.9 points-basic requirements, improved by eight steps in 4.1 points-efficiency stimulation, improved by five steps in 3.2 points-innovations and development factors. The scale accords "High" to 4.51 to 5.44 points, "Moderate" to 3.51 to 4.50 points, and "Low" to 3.01 to 3.50 points.

In Heritage Foundation's Economic Freedom Index, Georgia ranked 16th in the 2018 rankings with 76.2 points (out of the 100-point system) and belonged to the group of free countries. It was ranked 13th the previous year

with 76.0 points. The report cites the judiciary as a problem for Georgia, while low taxes, trade tariffs, and fewer regulations are seen as an advantage for the country (Heritage Foundation, 2019). Georgia had improved five areas of economic freedom, including freedom from corruption, control of public spending, freedom of business, monetary freedom, and investment freedom. Until 2017, the highest score was recorded in 2015, and Georgia, in the list of “most free” countries, rose to a high level, Georgia ranked 9th in the European region and its score was significantly higher than the regional average.

The Fraser Institute’s Economic Freedom Index measures a country’s economic freedom according to government size, regulations, free international trade, stable prices, the rule of law, and property rights. According to this index, Georgia moved up one point from 8th place in 2018 to 7th place in 2018 with 8.02 points (among 162 countries) (Gwartney et al., 2020). Alternatively, the Doing Business Index, as in Figure 1, shows that in 2017 Georgia was in 9th place and in the 2018 rankings it moved to 6th place with 60.9 points (among 190 countries) (Business Doing Index, 2018).

Figure 1: Doing Business 2015-2019, Georgia



Source: Doing Business Index (2018).

For the ease of doing business, Georgia moved forward in 2019 and took 6th place in the world. This indicator is a complex indicator and contains several important components. Among them is, for example, the ease of starting a business, which makes Georgia the second largest in the world. In terms of property registration, Georgia is in fourth place, in terms of payment of taxes, in 16th place, and in terms of obtaining construction

permits, despite the recently tightened regulations, in 27th place. Economists and analysts attribute Georgia's success to the implementation of reforms in 2015 to 2019, aimed at improving the institutional and regulatory environment. The list of reforms includes:

- Starting a business – As a result of the possibility of voluntary registration of VAT tax for businesses, starting a business in 2019 has been simplified. Georgia has also expanded its existing “One-stop shop” for businesses, which involves entrepreneurs starting a company through a single procedure (Georgia ranked 2nd in 2019);
- In terms of construction permits, the procedure for issuing construction permits in 2016 was simplified by reducing the time required to issue permits (Georgia ranked 27th in 2019);
- Connection to the electricity network – In this regard, the reliability of the electricity supply has been improved since 2017, as penalties were imposed for exceeding the established norm for the duration of power outages (Georgia ranked 39th in 2019);
- Property registration – In 2017, land administration was improved by placing privately owned land in Tbilisi on the map (Georgia ranked 4th in 2019);
- Credit acceptance – In 2013, Georgia strengthened its secured transaction system by amending the Civil Code, as a result of which the right to pledge was extended to products and the replacement of collateral. Only in 2014 did the credit information system improve by adopting a new law on “personal data protection” (Georgia ranked 12th in 2019);
- Payment of taxes – In 2013, it became easier to pay taxes using the electronic system and the introduction of additional services for the taxpayer. In 2017, Georgia abolished the supplementary income tax return and improved the efficiency of the online VAT return systems. In the same year, significant tax reforms were implemented, in particular, retained earnings were exempt from income tax, which is a source of reinvestment. As a result of this reform, the share of the total tax burden in total profit decreased significantly, reaching 9.9%, down 6.5 percentage points from the previous year (Georgia ranked 16th in 2019);
- Trade beyond borders – Between 2013-2017, the time required for export and import decreased, it became possible to pre-submit

electronic documents for export and import (Georgia ranked 43rd in 2019);

- Insolvency – In 2018, the degree of credibility of both the creditor and the debtor increased during the insolvency proceedings (Georgia ranked 60th in 2019);
- Protecting the rights of minority investors – Georgia has strengthened the protection of small investors by increasing the rights of shareholders and their role in making major corporate decisions (Georgia ranked in 2nd place in 2019); and
- Enforcement of contracts – To simplify the enforcement of contracts, Georgia has introduced a mechanism for random selection of judges and automatic appointments in court cases (Georgia ranked 7th in 2019).

INSEAD's 2018 Global Innovation Index positively assesses Georgia's investment freedom environment. Compared with its ranking in 2012, Georgia's position had improved by 15 places and was ranked 21st in 2018. In 2018, the situation in Georgia had also improved in the following component of investment freedom (Cornell University, INSEAD & WIPO, 2018): Protecting the rights of mining investors, where the rating had improved by 18 places in 2018 – instead of the 20th position in 2012. According to the Global Innovation Index of the 2018 report, compared to 2012, Georgia had moved up to 4th place in the business start-up component and subsequently moved from the 8th position. According to INSEAD's 2018 Global Innovation Index, Georgia had also advanced 10 places in the loan acceptance component over the past six years and had moved to 11th place in 2018 (Global Innovation Index, 2020).

The International Property Right Index was published by the Property Rights Alliance. The level of protection of the property is assessed with a maximum of 10 points. Here, Georgia gained 4.7 points. The International Property Protection Index consists of three main components: the legal and political environment of the country, the protection of physical property, and the protection of intellectual property. In the legal and political environment, Georgia obtained 5.3 points (decreased by 0.1 compared to the previous year), 5.8 in physical property protection (decreased by 0.1 compared to the previous year), and 3.0 points in the protection of intellectual property (increased by 0.5 compared to the previous year). Georgia is followed by

Ethiopia, Mali, Kenya, Liberia, Zambia, Vietnam, Nepal, Senegal, and Sri Lanka in the list (The International Property Right Index, 2020).

The KOF Globalization Index, in turn, is used to assess the degree of integration into a country's global space. This is an aggregated indicator and includes social, economic, and political aspects, while the weighting of these three indices accounts for the Unified Globalization Index. In the Unified KOF Index, the Economic Globalization Index has a 36% share, in the Social Globalization index – 37%, and in the Political Globalization Index – 26%. The index is published by the Swiss Economic Institute (ETH). The degree of globalisation is determined by international trade, foreign capital, and migration. Greater globalisation means more development potential. In the rankings published in 2017, Georgia took 19th place, and in 2018 it was in 18th place with 79.5 points (among 178 countries) (The KOF Globalization Index, 2020).

The Corruption Perception Index was published by Transparency International. The index is based on the opinions of experts on the level of corruption in the public sector. Since 2012, the study has been conducted using a new methodology that compares the results of different years. The index is based on studies by international organisations, each of which assesses the state of corruption in different countries. In 2017, Georgia ranked 44th in the rankings, and in 2018 it moved to 46th place with 56 points (among 180 countries) (The Corruption Perception Index, 2018).

If one looks at Georgia's global position or rank based on various indices, it can be said that these ratings are a strong encouragement for investors to expand their business activity in Georgia and make new investments.

7. Effects of Covid-19 Regulations

The pandemic has greatly accelerated the development of financial technologies and helped to enhance the digitalization. It is therefore interesting to discuss the consequences of the introduction of fintech in banks as well as the competition between fin-tech and banks.

A total of 73,775,613 payment card transactions were made by Georgia resident issuers in 2020. Compared with the previous two years, the trend is growing, but with interesting features, in particular, in 2019 the use of automated teller machines (ATMs) inside the branch decreased compared

to 2020, while the use of out-of-bank terminals and ATMs increased 1.3 times in 2020 compared with the previous year. At the same time, there is an interesting trend in the statistics of internet banking. In 2020, a total of 61,545,161 transactions were carried out through internet banking, which is 1.25 times more than the previous year. Consequently, no such leap has been made in the dynamics of the last 10 years. Moreover, according to specific months up to May 2021, compared with the previous year, the following picture, as in Table 1 is observed (National Bank of Georgia, 2021).

Table 1: Online Operations in the First Five Months, 2020 and 2021

	2020	2021
January	4,083,155	8,413,999
February	4,095,890	7,556,043
March	3,944,875	8,292,443
April	3,402,284	8,128,834
May	3,923,725	7,915,491

Source: National Bank of Georgia (2021).

As can be observed, the figures have doubled on average and are still growing in dynamics, which clarify how active people are in financial technologies. In parallel, let us consider the important points of entrepreneurship statistics. The number of newly registered business entities has been growing dynamically since 2012. The rate starts to decrease in 2019 and 2020; dropping to the 2012 rate. At the same time, the volume of output and turnover had not increased since 2018. As for employment, the growth dynamics in 2014 to 2019 changed dramatically and equalled the 2016 figure (Geostat, 2021).

Overall, it can be said that in parallel with the accelerated growth of banks for five years, entrepreneurship lags behind the development by an average of three years, which clearly shows how diversified the results of Covid-19 regulations have been in different sectors of the economy.

8. Survey Results of Enterprises Operating in Georgia

According to 2020 data, 802,000 business entities were registered in Georgia, of which 171,900 were still active (Geostat, 2021). There are 12 regions in Georgia: Tbilisi (registered 369,773, active 81,361), Autonomous Republic of Abkhazia (173,700, active 7²), Autonomous Republic of Adjara (75,529, 19,290), Guria (19,759, 4,991), Imereti (110,759, 26,074), Kakheti (50,708, 11,863), Mtskheta-Mtianeti (15,641, 3,757), Racha-Lechkhumi and Kvemo Svaneti (6,883, 1,534), Samegrelo-Zemo Svaneti (63,357, 14,521), Samtskhe-Javakheti (25,100, 5,903), Kvemo Kartli (61,744, 14,869), Shida Kartli (36,722, 934) (Geostat, 2021). The percentage of businessmen participating in the study in the total turnover is distributed like the population (error of 2%, which arises as a result of Russia's annexation of Georgian territories, inaccessibility of business entities operating in the occupied territories). Consequently, the validity of the research results is high.

According to the legislation of Georgia, the contact email of the companies and the information at the registration address are made public by the registration body and are easily accessible. The study did not involve legal entities under public law, the registered number of which is 5,250, including 2,624 active. A total of 12,000 e-mails were obtained in the middle of February 2020, on which the survey questionnaire was sent. A total of 793 e-mails were automatically rejected due to congestion and other reasons. It then took 3 months to collect the desired number of responses from the remaining 11,207 respondents.

The online survey included a feature that until all five questions were answered, the respondent could not submit their questionnaire. The questions were in a closed format: checkbox, multiple choice grid, checkbox grid, linear scale. Due to the simplicity of the questionnaire format and the small number of questions, the results were interpreted using Excel. The following discussion is based on the responses to the questions raised in the study.

(a) Reasons for choosing their business status

Most of the respondents (5,536) have chosen the legal form based on the specifics of the activity, as the legislation of Georgia provides for specific types of activity, which must necessarily correspond to the specific legal

form. Accordingly, the registering authority will not otherwise authorise the activity to be registered. On the other hand, a relatively small proportion of respondents (3,802) have chosen a form based on taxation conditions. This in turn is good because businesses want comprehensive information about what they need to pay, which is an essential moment for any startup. At the same time, it is noteworthy that this is not a case of tax evasion and unscrupulous use of preferential tariffs. This issue is a serious challenge to the tax system, which must be addressed by the regulatory body and tax policymakers by perfecting the tax system.

(b) Size of the existing taxes

For most respondents (8,269), the interest rate and the size of the tax burden is unacceptable, which is somewhat logical, as profit optimisation is the biggest motivation for a businessman. This reinforces the assumption that it is desirable to reduce the tax burden, both for businessmen and for the long-term goals of the state.

(c) Awareness of existing legislation concerning business entities

As it turned out, most of the respondents (7,016) are not familiar with business law, which may be justified by the fact that they have delegated this issue to the relevant staff. However, the fact is not positive, because the businessman must have studied the legal environment. There are several reasons for this because the product or service created by the entity must comply with these regulations, and the functioning of the organisation must take place within the legal framework. This explains why businessmen should organise educational-type events, where they will receive information about the current norms. Concerning pandemic regulations, it is completely wrong for a businessman not to have the necessary in-depth knowledge of the restrictions and to carry out activities with which he can even go so far as to promote the spread of the disease.

(d) Assessment of development of business legislation

The majority of respondents (8,904) believe that business legislation is not aimed at business development. It appears that the interests of businessmen

are less obvious in such legislations, recognizing that these documents are not easy to understand. The fact that the legislation is difficult to comprehend is not new to non-professionals, although it is still desirable to simplify it within the permissible norm so that businessmen can find out about it independently, if necessary. The fact that businessmen think that the law does not protect their interests is quite negative for the system itself and indicates the need for change. Due to the size of the tax burden, businessmen are likely to assume that the system is not conducive to their development, which has been repeatedly voiced within the paper and it is therefore advisable to revise tax rates.

(e) Barriers a specific norm creates for their activity

Here they focus on the regulations imposed during the pandemic, when there was a restriction on certain facilities, for example, supermarkets began to put clothes on their shelves, because clothing stores were not allowed to operate. Consequently, they entered into unhealthy competition with the old players in the clothing market and created a generally inefficient situation in the economy. This indicates how diversified the results of this regulation could be for different sectors. Most respondents (6,009) rarely, but still sometimes, encounter problems with the law, although quite a large proportion (3,712) often have similar problems, which is very negative and it is advisable to study all the cases of conflicts between businessmen and the law individually to find ways to improve the system.

9. Conclusion

The advantage of the Tax Code of Georgia is that it is a system of neutral taxation for any type of business, which does not deprive the businessman of the incentive to carry out any business activity he wants. Georgia's tax system needs to be further refined and some adjustments made in the interests of businessmen. Covid-19 has fundamentally changed lifestyles and effected all segments of the economy. Some changes have brought development, while others have resulted in negative outcomes. Fintech is one of the industries that has undergone a special evolution and rapid growth during this period.

Based on interpretation of the findings, the study supports the argument that a healthy business legislation is needed for the development of entrepreneurship; and particularly the Georgian business entities. Consequently, reducing the risks for the entrepreneur through a better business environment make his profits more tangible, which then gives him the motivation to further develop his business. Therefore, entrepreneurship has the potential to strengthen in Georgia with some legislative reforms.

Based on this study, it is recommended that: (1) It is desirable to abolish indirect taxes and merge them under direct taxes or establish them as direct taxes; (2) Businessmen, presumably due to the size of the tax burden, believe that the system does not facilitate their development, which has been repeatedly mentioned in the paper, and it is advisable to revise tax rates; (3) It is desirable that all cases of a businessman in conflict with the law be examined individually and that the system should find ways to improve; (4) State policy should preferably focus on expanding and optimising the payment base, which will stimulate the emergence of new business entities in the context of low taxes; and (5) Types of taxes should be simplified, as it eliminates the risks of corrupt transactions and creates a mechanism that dissuades businessmen from hiding income to pay less tax.

Notes

- ¹ The activity statuses allowed for entrepreneurs in Georgia are: Individual Entrepreneur, Joint Stock Company, Limited Partnership, Partnership, Limited Liability Company, Joint Stock Company, Cooperatives.
- ² Inaccurate as Republic of Abkhazia and Samachablo (20% of Georgia) is occupied by Russian Republic.

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Appendix 1: Survey of Georgian Business Legislation

1. What led to the selection of business status for your business?
 - Specifics of business activities
 - Taxation measures
2. How favourable is the amount of taxes for the Georgian economy
 Absolutely acceptable O O O O O Completely unacceptable
3. Connect the statements with the relevant laws:

	Common Policy on Payments Paid by State Authorities, Municipalities and Judicial Institutions	Regulates legal relations related to the fulfilment of tax obligations	General principles of recognising and writing off bad debt as a bad loan, forgiveness, transfer to a third party, right of repayment to another legal entity with a certain discount	It is not allowed for an entrepreneur to be examined by two different bodies on the same issue	Includes particularly important state or public interests or is related to the use of state resources
Tax Code of Georgia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Law Of Georgia On Entrepreneurs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Law of Georgia on Licenses and Permits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Law of Georgia on the Fundamentals of the Tax System	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Law of Georgia on Tax Debts and Restructuring of Government Loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. To what extent is Georgian business legislation aimed at business development? (Evaluate the following opinions on a 5-point scale, 5 strongly agree, 1 strongly disagree)

	1	2	3	4	5
Promotes development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is easy to understand the legislation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tailored to the interests of the businessman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Which norm poses the biggest barrier to your activities and in what terms?
- The unhealthy competition created by restrictions imposed to prevent the spread of Covid-19
 - Inflexible legislation
 - The problem of quasi-law (ambiguity of law)