

## THE ROLE OF SMALL BUSINESS IN THE CONTEXT OF COVID 19 CHALLENGES

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### Abstract

Small business development is one of the most important elements and the most active form of the economy. Despite the strengthening of small entrepreneurial activity in the regions of Georgia in recent years, the growth rate of small business development is gradually declining. The problems are caused by the difficult socio-economic situation in the country which was compounded by the damage as a result of the pandemic and eventually the majority of the population faced the problem of hunger. According to Geostat, the total number of employees in small enterprises has decreased by 6.6% in the last five years. At the initiative of the government, a preferential tax regime was introduced in small businesses and the registration of individuals was simplified, but this simplification also caused problems. In particular, those who want to start a small business turn out to be unqualified staff and their businesses close down again with bankruptcy within a year. In addition, a second complicated problem appeared: due to the lack of sanctions, the closed down enterprises still remain registered and as a result we receive negative statistics.

The current crisis has shown the government responding to the COVID-19 pandemic. In particular, the government tried to help businesses through various mechanisms, however with small and ineffective results. Today, the small business sector is facing difficult times due to the temporary termination of businesses as a result of the pandemic.

It is noteworthy that even before the crisis, cases of political stubbornness and uncompromisingness led the country to economic stagnation. Foreign debt liabilities continue to rise. Debt service is not a problem when a country is sustainable and has income.

Therefore, in this situation, I consider it important that the government and the business sector work together to deal with both the economic crisis and the potential dangers posed by the pandemic.

**Keywords:** Small Business, Stagnation, Market Segment, Economic Modernization, Individual Entrepreneur

### 1. Introduction

One of the most important elements and the most active form in the country's economy is the development of small business, which is also a catalyst for innovative solutions. The main characteristic of small business entrepreneurs is its flexibility, as the market is constantly changing, the business must adapt to new conditions as quickly as possible and with minimal losses. In this regard, it is important to study the dynamics and analysis of small businesses in the current situation, as their ignorance may lead to stunted economic growth and stagnation. Accordingly, the analysis will identify the factors hindering development and the ways to eliminate them based on our own or international experience.

## 2. Presentation of the main research material

According to Professor I. Meskhia, „Business is an independent, risk-taking activity aimed at the systematic acquisition of profits through the sale of goods for the use of property, the performance of work or the provision of services by persons registered in accordance with established rules. [Meskhia, 2011.:21]

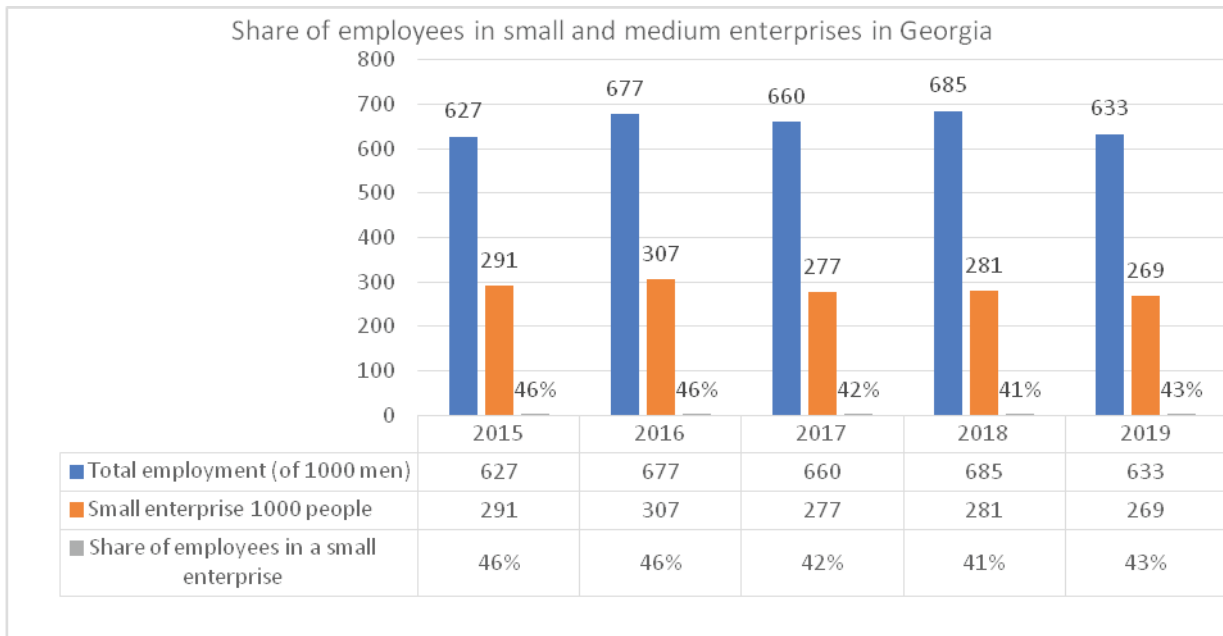
Professors G. Adeishvili and R. Asatiani believe that entrepreneurship is an independent activity of a separate entity or group of entities, which aims to produce and sell material wealth, intellect, paid services and thus make a profit. [Adeishvili, 1998: 132]

It should be noted that the development of small business in the economy of any country, especially in Georgia, contributes to the transformation of the economic system at both macro and micro levels, as it accounts for almost half of the goods and services produced in the private sector and creates 2/3 to 3/4 of new jobs and reduces the unemployment rate. [Small and Medium Entrepreneurship Policy 2010].

Therefore, the state should always be interested in small business development. According to the legislation of Georgia, the classification of small business includes those enterprises with more than twenty employees and with an annual turnover of 0.5 million GEL. As small business is an indicator of the success of the economic model, the Georgian government has created preferential tax conditions for small entrepreneurs. In recent years, significant reforms have been initiated by the government to encourage and promote small businesses, and the change went into effect on July 1, 2015. The 1% preferential tax regime affected up to 120,000 small business entrepreneurs. In addition to preferential tax regime, the registration of physical persons has also been simplified, but this simplification has also caused problems. In particular, the number of small business start-ups has increased, who did not have the proper knowledge and skills to be actually ready for the market, as small entrepreneurs not only have to fill the market segment, but also have to strengthen and play a role in raising the country's prosperity. Due to this situation, these start-up businesses fail to meet the standards and therefore close down again with bankruptcy within one year. In addition, there is another problem: due to the lack of sanctions, the entrepreneur remains registered after closure, as they do not close down officially without tax service and these formalities take several months. The other problem is the negative statistics, as the number of active enterprises is vague. At this stage, Covid-19 has fundamentally transformed the role of business in the economy. The scale of the crisis has reached an unprecedented level. The main task of the government is to mitigate the blows received and avoid expected, because they may cause more damage to the economy than Covid-19. We will be able to see the results of the uncertain threats and detailed assessments in the next two or three years. The current crisis has shown the government responding to the COVID-19 pandemic. In particular, the government tried to help businesses through various mechanisms, however with small and ineffective results. Today, the small business sector is facing difficult times. Most of them are in critical condition, unable to pay loans, salaries, taxes, etc. The reason is the temporary termination of the businesses as a result of the pandemic. Entrepreneurs in Georgia see the development of small businesses in the field of agriculture. According to their point of view, the initial stage should be the supply of consumer goods to the domestic market, although they emphasize passivity of the state, as significant small business opportunities in this area are poorly used in practice. In particular, locally produced products are replaced by imported goods.

It should also be noted that in terms of small business development, most of the small enterprises are relatively simple and primitive. But they make a sustainable contribution to ensuring inclusive economic growth. In recent years, the strengthening of small entrepreneurial activity is especially relevant. However, the growth rate of small business development in the regions of Georgia is gradually declining. The problems are caused by the difficult socio-economic situation in the country. The economic situation was compounded by the damage caused by the pandemic, which eventually caused most of the population facing starvation. Small and medium enterprises in Georgia make up 99.7% of economic entities. 98.4% -170942

of them belong to small enterprises, and 1.3% – 2258 – medium-sized enterprises. Despite some measures taken by the government in small businesses, the country still faces the same challenges. [www.geostat.ge, 2019] According to Geostat data from 2019, out of 160 thousand operating enterprises in the business, 150 thousand have the status of small businesses, according to the data of enterprises in 2017, the share of small enterprises in employment is 42%, in 2018 -41%, and in 2019 – the number of employees in small businesses has increased By 2% and amounted to 43 per cent. [www.geostat.ge, 2019]



*Source:* National Statistics Office of Georgia

### 3. Conclusion

According to the data of February 1, 2019, the annual turnover of small business income in the economy was 108,5076.5 million GEL and about 50% of employees were earning 3000 GEL during the year. 2020: 13] This provides empowerment opportunities to create jobs even in crisis situations and partially offset the consequences of major reductions. It is also noteworthy that even before the crisis, cases of political stubbornness and uncompromisingness plunged the country into economic stagnation. It is not small business development but inclusion that requires institutional support. From this difficult and versatile crisis situation in the country’s economy, unfortunately, there is no prospect of the end of the political, economic and corona virus crisis in the near future. Each of them undergoes its own mutation and I think it does not happen for the benefit of the population. The current budget for 2021 envisages 18,400 million GEL. Part of the increase consists of the Covid’s expenses. The budget will be accumulated through foreign debts which means owing 33.670 million GEL by the end of 2021. Debt service is not a problem when the country is sustainable and has income. Therefore, for Georgia, these commitments are the signs of economic crisis.

From my point of view, the cooperation between the government and the representatives of the business sector to act jointly to deal with both the economic crisis and the impending threats posed by the pandemic is important.

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