PANDEMIC ERA AND ITS IMPACT ON THE INVESTMENT AND BUSINESS ENVIRONMENT –GEORGIAN CASE

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ABSTRACT

In the modern world, which is experiencing more globalization, the entrepreneurship and its development are important. Business at the modern stage is one of the most promising areas to stimulate the economy, business support and its perfection should be one of the main priorities of the state, because as a result of its development the country develops both economically and socially.

Objectives: To clarify what kind of impact did the pandemic have on previously mentioned issues and what were other development hindering factors. A study was conducted to analyze the situation of small and medium business sectors, which aims to identify the problems that Georgian entrepreneurship is facing today

Methods/Approach: Both qualitative and quantitative studies carried out in business sector in Georgia

Results: The results gained within the study and further recommendations significantly define the role of small and medium-sized business sectors for Georgia. The paper gives us a clear conception on the current situation and enables us to make relevant conclusions based on the obtained results.

Keywords: COVID-19, business environment, investment, entrepreneurship, pandemic.

JEL classification: H25, H26, L21, L26, M54

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INTRODUCTION

The consequences of the coronavirus disease (COVID-19) outbreak are unprecedented and felt around the world. The world of work is being profoundly affected by the pandemic. In addition to the threat to public health, the economic and social disruption threatens the long-term livelihoods and wellbeing of millions (Gigauri I, & Guruli, 2020, 2021). The pandemic is heavily affecting labor markets, economies and enterprises, including global supply chains, leading to widespread business disruptions (Bartik., Bertrand, Cullen, & Glaeser, 2020).

The global pandemic is rapidly reshaping organizations as they adapt to a new business environment with new automation needs and changes in human behavior (customers, employees, partners and others) (Fairlie, 2020). The biggest concerns relate to health & safety as well as uncertainty around the duration of the situation. Businesses need to prepare to handle these uncertain times as best as possible and find ways to create opportunities from this crisis. Many small to mid-sized organizations are reviewing their go-to-market strategies and processes, looking at initiatives across functions including finance, HR, supply chain, services sales and marketing. For businesses to operate efficiently and realize their revenue (Mushkudiani, & Gechbaia, 2019), every function needs to be tech enabled. The finance department has likely started implementing digitally signed invoices, employee claims are no longer paper-based, purchase orders are issued electronically, and vendor payments done online. The customer care/services team is hard pressed to provide online help guides, chat bots enable real-time collaboration to resolve customer issues (Koberidze, & Dadvadze, 2015). These tools were always available, but the recent situation has triggered increased adoption and implementation. Automation can play a role for any process/sub-process that previously required physical documentation or human intervention for completion.

In the process of economic development, special importance is given to the business, which aims at further improvement of the entrepreneurial environment, that will facilitate the growth and development of small and medium enterprises (Erkomaishvili G., Gigauri L., & Talakhadze N, 2017) supporting the development of the private sector and especially entrepreneurship plays an important role in terms of the socio-economic development strategy of Georgia.

There is still no uniform standard for defining the small and medium businesses, the only thing, that is agreed by all researchers is the maturity of the small enterprise production, imperfection of quantitative and qualitative peculiarities, especially in developing countries (Parker, 2018) Despite the implementation of the support policy for the small business development represents the key EU requirement for partner countries, Georgia, as an EU associated country is also required to strictly adhere to European Standards. It should also be noted, that despite the annual growth of the economic scale in Georgia, the small business sector reveals unsatisfactory development trends.

METHODOLOGY

The quantitative and qualitative methods were used while compiling the study, where several business representatives in their companies were interviewed. We conducted the study on the available information that was published on the social pages of the National Bank and the Ministry of Finance. The article describes the current situation of the business as well as compares its functioning before the pandemic era. Consequently, the information is reflected in percentages and the diagram is made according to the methods.

RESULTS and DISCUSSION

In order to identify the business entrepreneurship and related problems, we carried out a study and results are presented below in detail. The goal is the basic problems that are faced by the entrepreneurs while doing the business. We tried to contact several business representatives for study, including wine producers, managers, who produce fizzy drinks as well as juice, etc. It was turned out, that the most hindering environments in terms of business development are related to innovations, technologies, higher education and training environment and the financial markets development. These barriers are particularly painful for small and medium business development and eventually affect the quality of their involvement in the markets.

However, it's worth to note, that among the above mentioned problems, there is another serious problem, that also inflicts a great harm to entrepreneurship. During the pandemic, it became necessary not to develop the small and medium businesses, but to commence and maintain them even more. Currently, Georgian companies are facing serious challenges, as the COVID -19 causes serious damage to all businesses. In order to give more clarity to our study, we present an example of one of the companies (anonymity is preserved), that is engaged in wine production. 100 people participated in the study, the age of 51,2% of respondents range from 20 to 25, 32,5% are from 25 to 40 years old, 8,2% up to 40-45 years old and 8,1% above 45 years old.

Figure 1. Age of employees in the business sector

Source: Own compilation

Pursuant to this data, we can conclude, that the younger generation was more interested in the study, that indicates their involvement in similar studies.

The most of the respondents, i.e. 35% are with bachelor's degree, 50% with secondary education, 7% with master's degree and 2% with PHD, and the remaining 6% have incomplete secondary education, based on this data we can assume, that the younger generation is more interested in similar studies.

Figure 2. Education of employees in the business sector

Source: Own compilation

The majority of respondents named several issues that hindered their businesses to develop. All these are added by the fact that the state bans 90% of these businesses from operating to prevent the spread of a pandemic. Some issues have emerged that need to be paid a lot of attention in the current COVID-19 era, because the development of business and the world economy requires the functioning of the following factors, such as:

- Availability of foreign currencies;
- Improvement of investment and entrepreneurial environment;
- Export facilitation;
- Improvement of tax policy and etc.

The restrictions imposed to prevent the spread of the pandemic, increased vagueness, and reduced demand in the financial sector increased the risks. The focus is made on the financing of companies by banks. Despite the sustainable level of the total debt of the companies, the vulnerability of companies to existing risks is due to the significant reliance on external sources of funding, significant relative share of short-term debt and high dollarization of liabilities as well. The regression induced due to the pandemic and vulnerability of companies in terms of the identified risks stipulate an increase in credit risk of the financial sector. The difficulties caused by increased credit risk in companies are significant for the financial sector and have an influence on to households as well. The negative impact of the pandemic is relatively strong in the event of small and medium-sized businesses. In order to maintain access to funding sources for companies, which is a prerequisite for their operation and employment, targeted anti-crisis support programs are of utmost importance.

In addition, the National Bank foresees the role of microfinance organizations in terms of providing financial services to business and population to the regions of Georgia, so it provides liquidity support with additional swap operations along with the standard refinancing loans which will be available to microfinance

organizations in addition to banks. The term of swap operations is defined for 1 month, with the right to monthly renewal for the next 1 year. The National Bank, in the current situation and after the end of the pandemic, when the economic life is back to normal, will traditionally ensure the existence of an adequate level of liquidity in the financial system and in the whole economy as well.

The second problem that hinders the operation of the business is the obstruction of the investment and entrepreneurial environment. Favorable entrepreneurial and investment environment significantly affects productivity as far as directly impact on the efficient allocation of resources in the private sector. Due to the fierce global competition and dynamic economic processes, business requirements are changing rapidly.

According to Geostat, the volume of foreign direct investment in Georgia amounted to 616.9 USD million in 2020, which is 52.9 percent less than the verified data of 2019. The main reason for the decrease is the transfer of several enterprises to the ownership of a resident of Georgia, which reduced foreign direct investment by 340.5 million. The diagram given below shows the dynamics of foreign direct investment in Georgia in 2014-2020. Foreign direct investment is characterized by stable decline in recent years. For example, in 2019 and 2020, about 1/3 less investment was made compared to 2018. It clear that the current situation of the world is reflected in the general investment climate.

Table 1. Dynamics of Foreign Direct Investment in Georgia

Year	I	II	III	IV	Total
2014	331,9	217,6	749,5	538	1837
2015	343,4	493,2	531,1	361	1728,8
2016	392,6	452,4	507,4	300,2	1652,6
2017	413,2	395,7	634,8	534,6	1978,3
2018	328,6	406,1	365,4	206,2	1306,3
2019	313,7	236,6	396,0	364,5	1310,8
2020	175,0	241,3	303,3	-102,8	616,9

Source: Own elaboration based on National Bank of Georgia

If we look through the data of mainly developed countries abroad, we will notice that more than half of the GDP of these countries fall to small businesses. It is enough to mention, that currently, 50-52% of the GDP are produced via small business in the USA and Germany, 52-54% in Japan, 56-62% in France, 50-53% in the UK, 57-60% in Italy, 63-67% in the EU. This sector produces and sells large scale products for entrepreneurial purposes and wide variety of services. Works related to different types of services are performed as well.

Export promotion is a crucial factor in production. Georgian companies try their best to export their products in foreign markets, which is certainly associated with considerable risks. Exports promotion and development mainly includes: connection of foreign buyers with Georgian

producers/manufactures, organizing trade missions, providing information on existing exports procedures in Georgia, providing information to clients on existing custom tariffs in foreign markets, etc. The impact of the pandemic is certainly felt here as well, in particular: Georgia has close economic relations with the European Union, which represents 1/3 of the export market.

Figure 3. Export abroad in 2019.

Source: Own elaboration based on National Statistics Office of Georgia

The share of Azerbaijan is important in terms of the export and movement toward this country was restricted (17.2% of exports in January-February, 2020), the share of China in export, despite the fact that coronavirus outbreak had already started in this country in January-February, is also large and amounts 12.4%.

Figure 4. Export abroad in 2020.

Source: Own elaboration based on National Statistics Office of Georgia

And Russia is in the third place, the export share of which in the same period of time was 11.5%, while export share was getting more and more less in other countries.

Agriculture is an important part of industrial production and local exports. In particular, wine exports. As of January-March of this year, 43.7 million Gel worth wine export was carried out, which amounts to 7.2% of local export. The above mentioned is less than 0.4 million USD compared to the same period of last year. Pursuant to the data of the Ministry of Finance, in January and February 2020, the export of Georgia decreased compared to the data of the previous years of the same period. In January the difference was only 0.46%, but already in January the export of Georgia significantly decreased by 17.9%. In February, the COVID-19 was widespread throughout the world. The decline in Georgian export can be assumed to be conditioned, at least in part, due to the world trade reduction.

Improvement of tax policy was named as one of the issues as a result of the study. With regard to Covid-19, reduction of the physical relationship between employees and customers / payers is the most important requirement in terms of the safety. Tax refunds and financial assistance are potentially very important services because both individuals and companies may need help to save themselves and carry on with business. Other services related to, for example, customs security and control should be maintained, though less severity may be allowed temporarily. In addition, in order to cope with the crisis, the timely implementation of measures developed by governments to assist individuals or businesses is of utmost importance.

It is necessary to reduce liabilities for taxpayers, to extend deadlines for submission of tax declaration and tax payment with clear instructions to which taxes and taxpayers the established term apply and to what period as well. Tax administrations of those countries with a high level of electronic filing of tax declarations may consider extending the deadline only for the payment of taxes, i.e. tax declarations will be submitted within the usual, established timeframe, taxpayers shall be allowed to reduce their current income and profit payments, considering the expected reduced revenues of this year. Mitigation/facilitating measures for terms and conditions established for tax debt payment, in times of crisis, to identify necessary and additional / new work processes and redistribute resources from non-essential operations to necessary operations. Extension of the term for submission of documents related to cargo and postponement on import. Also, receiving documents submitted without signature and seal. Enabling electronic submission of the documents if possible.

CONCLUSION

Business development and assessment of the current situation as well as research are important for any developed or developing country, including Georgia. Thus, it was established that in order for their business to be effective, the business must have a stable environment, which requires appropriate steps by the state. Programs focused on the mentioned business sector, regulatory bodies, fewer barriers, support, if necessary, etc. This is a short list of things that need to be regulated for small and medium businesses. A study was

conducted to analyze the situation of the business sector, which aims to identify the problems that Georgian entrepreneurship is facing today and to develop ways to improve the situation of the business sector in Georgia.

It was also revealed that, despite the global recognition of small entrepreneurship as the most important sector, not all opportunities are used for its full development in Georgia. Enhancement of small business support shall be a crucial part of the state economic policy, which can be implemented through state regulation of small business development, particularly, with macroeconomic regulation. Systematic, targeted work shall be carried out in direction of constant perfection of the legislative framework, in order to thoroughly stimulate the development of effective priority, public and social directions of small economy.

Conflict of interests

The authors declare no conflict of interest.

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