

Effectiveness of state support programs for digital small and medium businesses in Georgia

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Abstract

The digital economy is one of the central trends of modern global development. In addition, the small and medium-sized business segment is one of the main pillars of the economy. Digital transformation of businesses requires the integration of new business models, digital technologies and innovative solutions. State support plays a crucial role in this process, especially for small and medium-sized businesses, which often do not have sufficient financial or human resources for digital transformation. Various state programs implemented in Georgia aim to strengthen the digital skills of small businesses and develop the technological ecosystem. However, it is important to assess how effective these programs are in practice — how they affect business productivity, employment, regional development and the overall growth of the digital economy. The aim of the study is to assess the effectiveness of state support programs for digital small and medium-sized businesses in Georgia in the context of economic development. The objectives of the study are: to examine the structure and goals of the main programs implemented by the state; To analyze the impact of these programs on the digital level of business, employment and innovative activity; to identify problematic aspects of the effectiveness of the programs; to develop recommendations for improving state policy. The study is based on a mixed approach - a combination of quantitative and qualitative analysis. The study shows that Georgia's digital support programs actually contribute to the growth of small and medium-sized businesses, especially in urban environments. However, limitations in effectiveness are visible in various areas, including access to financing, digital skills shortage, lack of long-term monitoring, etc. The study showed that the programs contributed to the formation of a startup ecosystem, the development of digital services and employment growth, however, maximizing their effectiveness requires the implementation of structural reforms.

Keywords: digital transformation, effectiveness of programs, small and medium businesses.

1. Introduction

The impact of small and medium-sized businesses on the country's economy is significant, therefore, it is necessary that their strengthening be a priority of state policy. It is precisely the development of this direction that increases the number of employees, their incomes, and generally improves the economic and social situation of the country. Practice shows that in highly developed countries, small and medium-sized businesses are a factor contributing to the development of the middle class [1].

Technological and innovative achievements are mostly due to small and medium-sized businesses. Large businesses often focus on improving existing products and increasing sales to make more profits, and therefore have less flexibility. Small and medium-sized businesses not only provide employment opportunities, but also a good means of productivity and innovation [2]. To achieve success, small and medium-sized businesses focus on creating new products and services. They try to quickly adapt to changing market demands. It is worth noting that the implementation of digital technologies is a rather difficult strategy to implement.

Innovative capabilities are a key advantage for small and medium-sized businesses in terms of competition [3]. Innovation is a systemic process that involves many interdependent components, such as technology, market, organizational structure, and culture [4]. Discovering and implementing innovations is associated with great risk, as the attempt may end in failure, which means a loss of time and financial resources. If a business successfully implements an innovative activity, there is a high chance that other businesses will imitate it. In this case, the social benefit is high, although the benefit to the innovative business is small.

State policy should be aimed at supporting digital technology activities. Supporting the development of small and medium-sized businesses is crucial for the growth of the country's social and economic well-being and competitiveness in global markets [5]. Meanwhile, the government plays a major role in supporting local innovative firms [6]. It is noteworthy that in Georgia, as in other European countries, the number of people employed in small and medium-sized enterprises exceeds the number of people employed in large businesses.

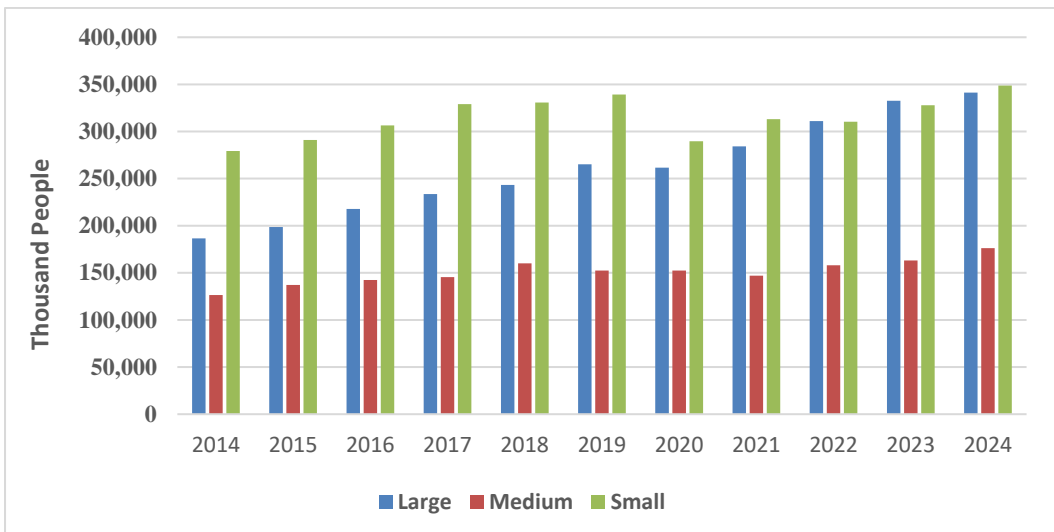


Fig. 1. Number of employees in the business sector in 2008-2023 (Thousand people)
 Source: Created by the author based on data from National Statistical Service of Georgia
<https://www.geostat.ge>

In 2024, more than half a million people were employed in small and medium-sized businesses, and 340 thousand in large businesses.

Information sharing between business and government is becoming increasingly important, as it enables the development of sound policies to identify and address weaknesses in business [7]. Decisions made by governments directly and/or indirectly affect businesses [8].

State programs operating in the country - "Enterprise in Georgia", grants from the Georgia Innovation and Technology Agency (GITA), export promotion mechanisms, educational and consulting support for digital transformation - aim to strengthen the innovative potential of businesses and increase economic efficiency.

State support can be material or non-material. Material support includes, for example, loans, soft loans, grants and subsidies, while non-material support includes organizational assistance and consulting [9].

2. Research methodology

The research process used the case study method. Case study is a qualitative research method that explores a topic in depth, allowing the researcher to develop hypotheses [10].

Based on the objectives of the study, 10 small and medium-sized businesses were interviewed that were funded by the "Enterprise in Georgia" grant. Representatives from various sectors and regions were involved in the study, which allowed us to view the issue from a broad perspective. It is worth noting that business characteristics and needs differ across industries [11]. At the initial stage, a questionnaire was developed that allows us to analyze the challenges and difficulties faced by small and medium-sized businesses despite funding from state programs/grants, and also allows us to assess the effectiveness of programs supporting small and medium-sized businesses and present relevant recommendations. The questionnaire consisted of 18 questions. The research process used an in-depth semi-structured interview method with open-ended questions. In the case of a semi-structured interview, the order of the pre-prepared questions can be changed during the interview, since the respondent's answer to one question may include another question, or the order of the questions may be logically rearranged during the interview. Also, during a semi-structured interview, if necessary, it is possible to use clarifying questions and/or change the wording of the question [12]. Open-ended questions helped us avoid "yes" and "no" answers, thus allowing respondents to provide complete and comprehensive answers. The research was conducted impartially, in compliance with ethical norms. The interview is considered the most important source during case analysis [13].

Data analysis was performed using O'Connor and Gibson's five-step guideline [14], which means, (1) Organizing the information obtained, (2) Finding and organizing ideas and concepts, (3) Identifying key issues in the data, (4) Analyzing the data and ensuring its reliability and legitimacy, (5) Discovering plausible explanations. It is worth noting that the quality of research can be assessed by its reliability [15].

We used a Fishbone diagram to visualize the research results. A Fishbone diagram is a visualization tool used in business to identify and explore multiple possible causes for a specific event, problem, or outcome. A Fishbone diagram allows us to explore potential causes related to a specific problem [16].

3. Results

The research showed significant and interesting results, which allow us to draw conclusions. Of the 10 beneficiaries participating in the study, 4 operated in the capital Tbilisi, 3 in Mestia municipality, and the rest in Marneuli, Ambrolauri, and Ozurgeti municipalities. Of the surveyed beneficiaries, 4 businesses were established at the time of receiving the grant, while 6 businesses were operating before receiving the grant. The research involved beneficiaries engaged in various fields, including hotel, bakery, tailoring, pizzeria, confectionery, food production, photography/videography.

To illustrate the research results, we constructed a "Fishbone" diagram:

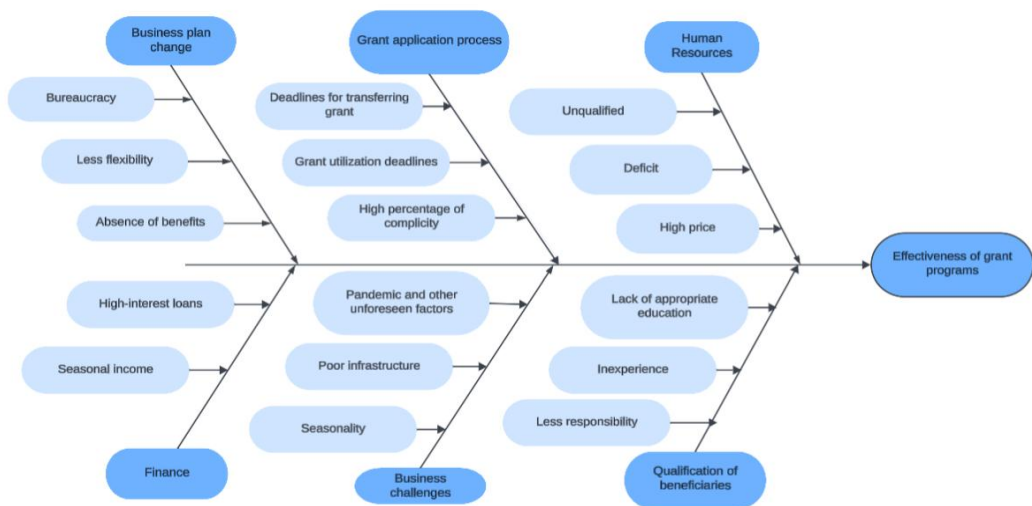


Fig. 2. Fishbone Diagram
 Source: Created by the author

In each case, beneficiaries note that support from state programs is crucial for the development of their businesses. Nevertheless, the study showed that increasing the effectiveness of grant programs is possible and necessary. The study also revealed that it is necessary to increase the accessibility of participation in grant projects. Beneficiaries note that it would be better if grant competitions were more transparent and reliable. In the digital age, digital skills are a crucial factor in acquiring knowledge [17].

Access to international markets remains a significant challenge for beneficiaries. Increasing exports is crucial not only for individual businesses, but also for the country's economy. Digital inequality and digital illiteracy pose serious challenges to society [18]. Addressing the issues identified during the research process will help businesses succeed.

4. Conclusion

The necessity of state support for small and medium-sized businesses is substantiated by international practice and experience. According to best practice, support measures are of a complex nature and are fully aimed at economic development. It is noteworthy that state support should exclude discrimination against the activities of other business entities and restriction of competition. In the long term, artificial changes to the natural market situation are unacceptable.

Small and medium-sized businesses form the foundation of Georgia's economy. They are a major source of employment and a significant share of economic activity. The introduction of digital technologies - e-commerce, business analytics, automation, digital marketing, financial technologies - creates opportunities for small and medium-sized businesses to grow, reduce operating costs, and become more competitive in the global market.

The state has launched a number of programs to support digital innovation over the past decade: grants, startup funding, support for access to digital infrastructure and technology training. However, research and macroeconomic trends indicate that the results of the programs are not evenly distributed across different enterprises and regions.

Information about existing programs to support small and medium-sized businesses needs to be available to a large part of the population, and it is also necessary to increase the accessibility of programs in all regions of the country. Through case analysis, it was determined that small and medium-sized businesses need access to international markets for long-term success. Therefore, the country's policy should be maximally directed towards promoting export growth. State policy should actively support the participation of small and medium-sized businesses in international fairs and exhibitions held abroad. This helps businesses save on advertising costs and increase awareness by establishing contacts.

Qualified human resources play a significant role in business development. Research has shown that the level of education of businesspeople hinders the success of digital businesses. To overcome this issue, it is necessary to improve the skills of employees through seminars, trainings, and workshops.

For Georgia, as a country with a transition economy, government support focused on the digital sector is critical to accelerating technological progress and ensuring inclusion in global value chains.

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