

Entrepreneurial Environment in the Light of the Reforms Implemented in Georgia



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ABSTRACT: Against the background of the pandemic in the world, it is a difficult task for countries to maintain the results achieved in the economy, both in terms of economic growth and many other economic indicators. Accordingly, in order to achieve this task, countries are using all the levers at their disposal to return to pre-pandemic economic indicators and maintain them. Trade, both foreign and domestic, plays an important role in the development of the economy. In order to maintain the existing business entities/entrepreneurs in the background of the current challenges, and also to improve the entrepreneurial environment for new entities and investors, important economic policy measures are required. In this regard, the direction of tax reforms can be distinguished, which is directly related to the improvement of the entrepreneurial environment.

KEYWORDS: Economic policy, Entrepreneurship, Tax reforms, Trade.

JEL Classification: L26, F18, O38.

I. INTRODUCTION

Improving the entrepreneurial environment is important for the country, which will help to create a stable environment for both local entrepreneurs and investors. This is reflected in various economic indicators of the country. Accordingly, in recent years, Georgia has been actively implementing a number of important steps to improve the entrepreneurial environment, which is manifested both by tax reforms and the signing of various international trade agreements. Important steps have been taken in the direction of economic policy: two agencies have been created that directly create important favorable conditions for entrepreneurs and startups and also offer various types of both financial and technical assistance. The covid pandemic has created additional difficulties for entrepreneurs. In order to maintain the activity of entrepreneurs in the country and more or less to maintain all businesses, in addition, stimulating measures for entrepreneurs were implemented in Georgia, which were expressed as additional benefits in the form of tax directions, as well as in the form of assistance, which was taken into account for those entrepreneurs who had to stop their activities due to the pandemic. During the reforms carried out in recent years, special emphasis was placed on the development of small and medium-sized businesses, so that they have the opportunity to compete with large firms. With the results of the economic policy carried out in Georgia, the country occupies an important position in various international rankings in terms of economy, both in the region and worldwide.

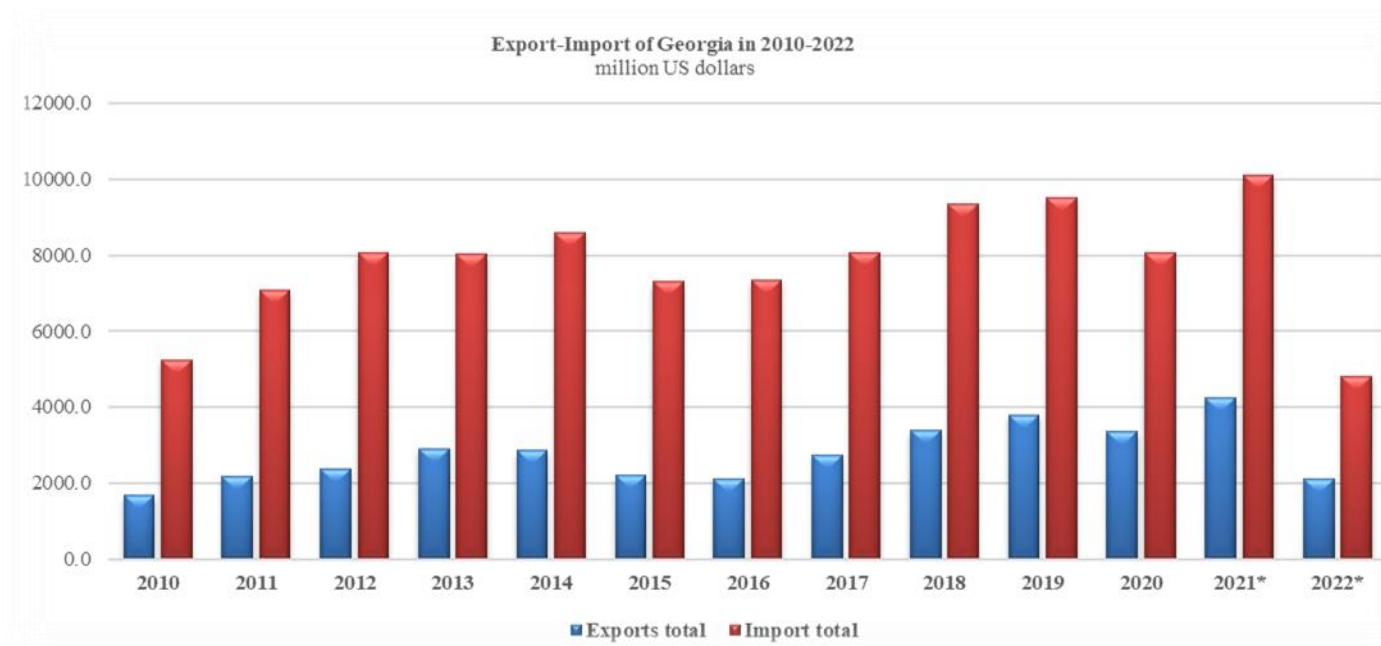
II. ASSESSMENT OF THE EXISTING ENVIRONMENT – MEASURES AND REFORMS

For the development of the economy, it is important for the entrepreneurial environment to be developed and stable, for this a combination of many factors is needed, but the important factors are: tax legislation, investment environment and favorable environment for startups. First, let's review the entrepreneurial environment in Georgia, to analyze entrepreneurs according to various indicators, to evaluate the implemented reforms in the tax direction, Also, let's review the trade regimes and additionally focus on the preferential measures taken after the Covid pandemic.

Even for the developed countries of the world, the existing challenge proved to be difficult to overcome, which significantly hindered trade on a global scale. Accordingly, Georgia was not an exception. If we take into account the fact that imported goods have an important share for Georgia. Based on the indicators of Georgia's foreign trade, we find that the trend of recent years shows that imports exceed exports by almost three times (the data for 2022 implies to the period January-May) (see diagram N1), therefore the country has a negative trade balance.

Diagram N1: Export-import of Georgia in 2010-2022

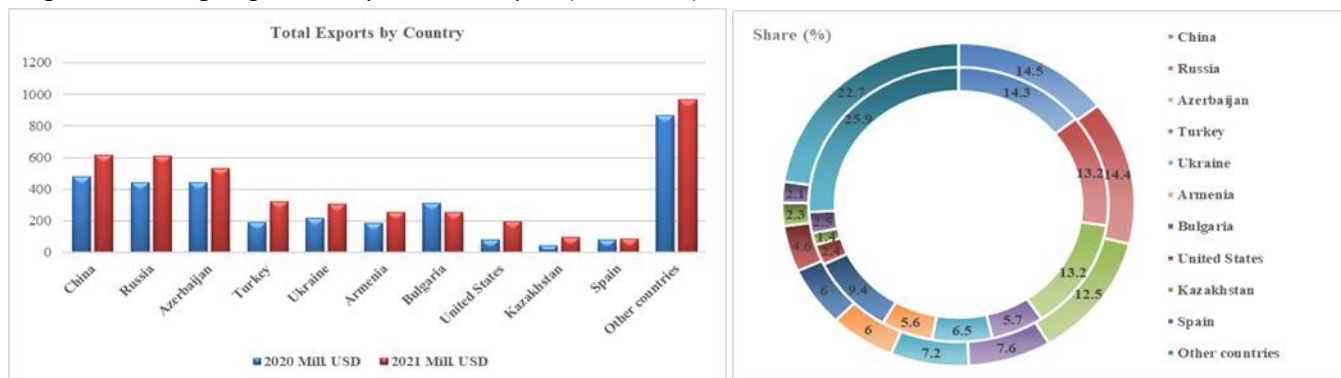
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Source: National Statistics Office of Georgia - www.geostat.ge

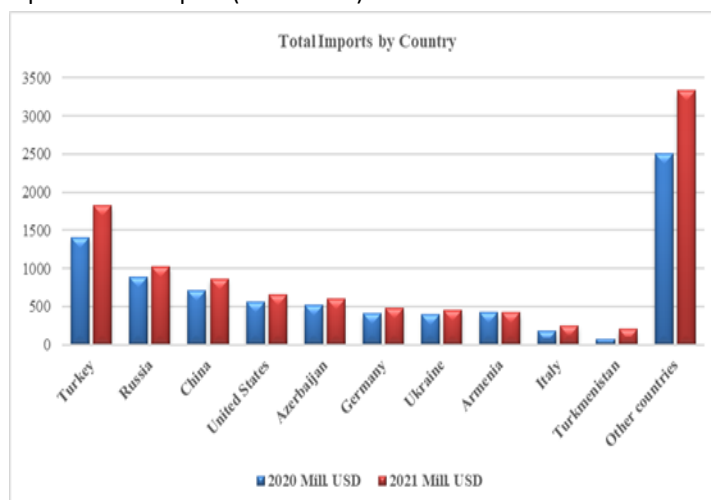
Based on the data of 2020-2021, the following countries can be distinguished from the country's trade partners, both in terms of export and import: People's Republic of China, Russia, Azerbaijan, Turkey, Ukraine, Armenia, Bulgaria, USA, Kazakhstan, Spain, Germany, Italy, Turkmenistan (see diagram N2; N3; N4; N5). The diagrams clearly show both the monetary share of the above countries in US dollars, as well as the share of these countries in the total export and import in relation to Georgia.

Diagrams N2-N3: georgia's trade partners in export (2020-2021)

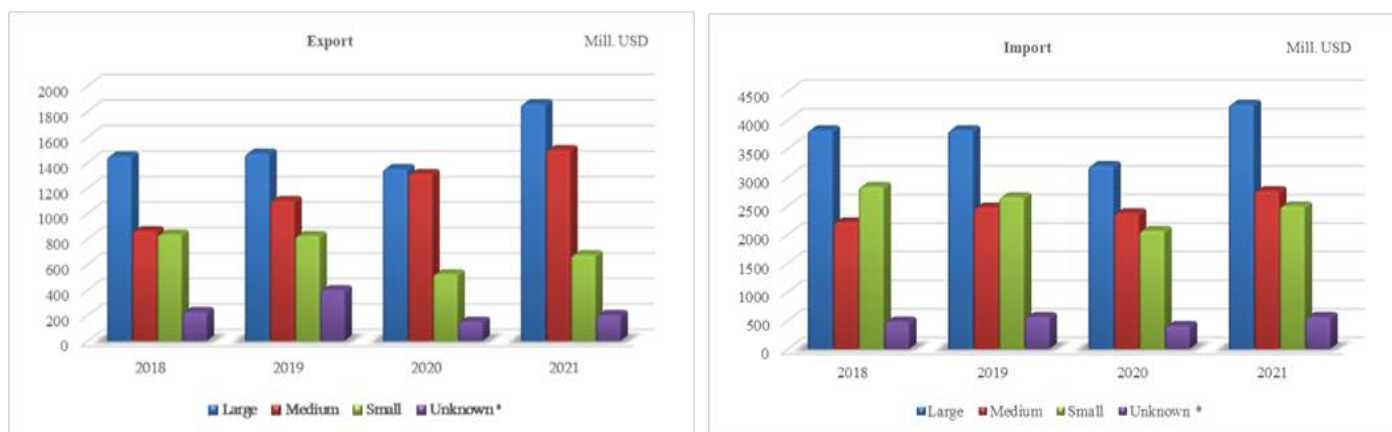


Source: National Statistics Office of Georgia - www.geostat.ge

Diagrams N4-N5: georgia's trade partners in import (2020-2021)



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Source: National Statistics Office of Georgia - www.geostat.ge

Various reforms were implemented in Georgia, which were focused both globally, in the direction of economic policy to improve the existing entrepreneurial environment and attract investments, and more locally, with the view of improving the existing tax legislation, which was aimed at encouraging existing businesses and entrepreneurs, as well as creating an attractive business environment for new startups. First of all, it should be noted that two agencies were founded by the state to promote business: "Enterprise Georgia" and "Georgia's Innovation and Technology Agency".

The main goal of the "Enterprise Georgia" agency is to improve the business environment, develop the private sector, promote the investment climate of Georgia and promote exports. The agency combines three components, three interconnected layers of economic development: business (local production), export and investment. The purpose of the "business" direction is to develop entrepreneurship in Georgia, to support entrepreneurs, to facilitate the creation of new enterprises/hotels and the expansion or will rearm of existing enterprises/hotels. The goal of the "Export" direction is to promote Georgia's export potential, increase the competitiveness of Georgian products on international markets, increase the export volume of Georgian products, and diversify Georgia's export markets. The goal of the "Investment" direction is to attract, promote and develop direct foreign investments in Georgia. The mentioned direction represents a kind of mediator between foreign investors and the government of Georgia, works on the "single window principle" and helps interested investors to get various information and in effective communication with the Georgian side.

"Enterprise Georgia" also carries out industrial sector and export support activities (Enterprise Georgia, 2022). Their goal is to support small and medium-sized, as well as export-oriented Georgian companies. Beneficiaries of the industrial part receive financial assistance in the form of subsidizing loan/leasing interest, while export-oriented Georgian companies are assisted by co-financing the participation in international events and exhibitions. TradewithGeorgia.com platform is also available for export-oriented companies, where they can post information about their company and products. The purpose of the industrial part is to develop entrepreneurship in Georgia, support entrepreneurial entities, promote the creation of new enterprises/expansion/ will rearm of existing enterprises and increase the competitiveness and export potential of the private sector through access to finance and real estate. The agency started its implementation in 2014. Until 2020, the interest rate for co-financing loans in GEL was no more than 10%, and in the case of leasing, no more than 12%. The loan volume/maximum value of the leasing object was 6 million GEL. In 2020, in response to the economic situation caused by the Covid-19 pandemic, the co-financing rate was changed and defined as the refinancing rate of the National Bank plus 3% for loans and 5% for leasing. The loan volume/maximum value of the leasing object has increased to 10 million GEL. In the part of loans and subsidies granted within the framework of the mentioned program, enterprises prevail in order to further improve their business environment, and the general statistics for the years 2014-2021 are as follows (see table N1). In the industrial part, based on the data of the years 2014-2021 - from the number of co-financed beneficiaries, if we break it down according to economic sectors, the provision of accommodation facilities prevails; production of other non-metallic mineral products; Manufacture of finished metal products, except machinery and equipment; production of rubber and plastic products;

Table N1: loans and subsidies granted - the general statistics for the years 2014-2021

Category	Number of beneficiaries	Amount of approved loan (million GEL)	The Amount of the granted subsidy (million GEL)
Enterprise	643	1154.1	108.9

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Hotel	174	338	35.6
Tourist Services	9	33	0.7
Restaurants	2	0.5	0
TOTAL	828	1525.6	145.2

Source: Enterprise Georgia - www.enterprisegeorgia.gov.ge

increase the competitiveness of Georgian products on international markets, increase the export volume of Georgian products, and diversify Georgia's export markets. The agency carries out the following main activities in this direction: Co-financing of participation in international events and exhibitions for export-oriented Georgian companies and publication on the TradewithGeorgia.com platform. The statistics of the activities of this program for the years 2014-2021 are as follows (see table N2).

Table N2: The statistics of the activities for the years 2014-2021

Category	Number of beneficiaries	Amount of financing (million GEL)	Amount of co-issued
International events and exhibitions	287	11.5	
TradewithGeorgia.com	540	-	
TOTAL	827	11.5	

Source: Enterprise Georgia - www.enterprisegeorgia.gov.ge

The Georgian Agency for Innovation and Technology's goal is to create an effective system in Georgia whereby innovation and technology can be developed, as well as to promote the commercialization of innovative knowledge in order to incorporate the latest technologies into all economic sectors and to create the necessary platform for innovative development. Its purpose is to develop innovative products and services with international potential in Georgia, to commercialize them and to stimulate the creation of innovative enterprises. In order to complete its goals effectively, the Agency prioritizes investing in the development of the infrastructure needed for innovation, which has been demonstrated by the opening of technoparks, innovation centers and industrial laboratories. It also continuously strives to develop tools to support the commercialization of innovation and technology, to achieve a high rate of internet access across the country, to provide high quality training, and to provide incentives to encourage innovation and technology development. The venture investment program of this agency - "Startup Georgia", which is part of the government's 4-point plan, is highlighted. The state program provided financial support to innovative ideas of start-up businesses, it includes various components: financing, simplification of tax and legal procedures, as well as promotion of relevant education. 389 startups are financed by the mentioned agency and the total number of their beneficiaries is about 56,000 (<https://gita.gov.ge/>).

Although Georgia is distinguished by liberal tax legislation and one of the lowest tax rates in the region, the trend of recent years shows that tax reforms are constantly being implemented to improve the business environment. Let's briefly review each of the major tax reforms since 2011 and evaluate each one. Among the implemented reforms, we can highlight the following: Introduction of small, micro, fixed tax payer statuses (2011 year); Introduction of uniform treasury codes (2016 year); Reduction of tax sanctions (2016-2019 years); Introduction of the Estonian model of profit tax (2017 year); Increasing the joint income threshold for those with small business status (2018 year); Automatic refund service of overpaid VAT (2019 year); New legal framework for VAT (2021 year); Qualified VAT payer status (2021 year); Let's briefly look at their content:

Introduction of small, micro, fixed tax payer statuses (2011 year) - The status of micro business can be granted to a physical person who has not been employed by hired workers and independently engaged in economic activity, from which the total gross income received by him would not exceed 30,000 GEL during the calendar year. While the physical entity with micro business status did not pay income tax. If an entrepreneur physical person with a micro business status would be obliged to comply with the obligatory registration of the Value-Added Tax (VAT) payer, it was released from a special tax regime (Georgian Tax Code, 2010. As of 2018,). Small business status can be granted to an entrepreneurial person, the total income received from economic activity during the calendar year did not exceed 500,000 GEL (at first was 100 000 GEL). Its taxable income is taxable is 1 percent and 3 percent (at first was 5 percent and 3 percent if: the entrepreneur's physical entity with small business status had

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the sum of 60 percent of the total revenue related to the gross revenue receipt (Except for the expenses incurred on the employee) and/or he worked only in the area of the special trade zone). In case, if the entrepreneur physical person with small business status, the obligation of compulsory registration of the Value-Added Tax (VAT) payer it was released from a special tax regime (Georgian Tax Code, 2010. As of 2011, As of 2022). As for the fixed taxpayer status, it could be granted to a person who was not included in the Value-Added Tax (VAT) payer and exercised one or more of the taxes charged with a fixed tax. The types of activities of their taxable property were determined by the Government of Georgia. The fixed tax rate was determined by the Government of Georgia according to the types of activities - the taxable object - from 1 GEL to 2000 GEL or 3 percent of the income received from taxable activities (Decree N415, 2010). The entrepreneur with this status was also authorized except for the taxable activities to be exercised only by the Government of Georgia authorized to do so, and such activities will be taxed according to the general rule. In case, if any part of additional activity permitted for a fixed taxpayer, the person was obliged to register the Value-Added Tax (VAT) as a taxpayer or voluntarily undertake to register the Value-Added taxpayer (VAT) then this status will be canceled (Georgian Tax Code, 2010. As of 2011).

Introduction of uniform treasury codes (2016 year) - For entrepreneurs to interact with tax authorities and simplify their activities, reform has been implemented, where various Treasury codes were broken down by taxes and since 2016 it has become a United Treasury code. Where absolutely all types of taxes are paid in uniform treasury code and for taxpayers are not broken down by type of tax (Decree N407, 2015).

Reduction of tax sanctions (2016-2019 years) - It should be noted that one of the areas of tax policy is the liberalization of tax sanctions. The Georgian Tax Code has been amended several times in recent years and this has affected various types of tax offenses, such as: Violation of the deadline for filing a tax return; Tax deduction in the tax return; Violation of the Rules of Use of the Cash Registry; Tax sanctions related to crossing the customs border of Georgia; In terms of tax audits etc. These sanctions have significantly reduced tax sanctions. This will ensure that these sanctions do not place the burden on entrepreneurs.

Introduction of the Estonian model of profit tax (2017 year) - Also, very important reform was implemented in the sense of profit tax in Georgia, which entered into force in 2017. The main essence of this reform is, that Reinvested profits are not taxed. It is also worth mentioning, that the new model of the profit tax was not affected by the firms having certain activities (Commercial Bank, Credit Union, Insurance Organization, Microfinance Organization, Pawnshop, and the person who works in the systematic-electronic form of the totalizer in this part of the activity) and they stayed before the active profit taxpayers until 2023. Let's now briefly consider, what is the essence of this model and what is the difference between existing and previous models in Georgia (Acting model until 2017 shall also remain for taxpayers with the above activity): As for the model of profit tax that is valid until 2017 in Georgia, the taxable profit of a resident enterprise was taxable profit (15%). It was defined as the difference between the taxable income of the taxpayer and considering the deductions by this Code. (Under the legislation acting until 2017, the company's financial profits and tax profits were not equal to each other). And according to the new model which came into force from 2017, the object of taxation for a resident enterprise is defined as follows (Rate remained the same - 15%): Distributed profit; (Distributed profit is profit, which is distributed by the enterprise as a dividend to its partner, in cash or non-monetary form) Costs incurred or other payments, which is not related to economic activity; Deliver the goods/services and/or provide cash for free; The cost of representative expenditure of the amount exceeding the limit set by this Code. (Georgian Tax Code, 2010. As of 2018). The purpose of this important legislative amendment is to promote entrepreneurs, develop their business and do not tax it, which will be used for reinvestment. This will, in turn, promote business expansion, which also guarantees the creation of new jobs. However, it should be noted that this legislative amendment reduced the budget revenues by about 400 million GEL per year (Bukia, 2018). Therefore, not to have a place in the budget deficit, excise rate has increased on several products (tobacco products) since 2015 (Cikviladze & Bukia, 2017). However, this decision was made to promote entrepreneurs, because reinvestment allows firms to expand their business. This legislative amendment is intended for a long term and consequently, the results will be clear later. This change is a part of the tax policy considered for a long term, its goal is to create a tax system that stimulates entrepreneurial activity, increase the volume of capital, improve the investment environment, because in turn, developed business and tax system are mechanisms for promoting economic development, which will be a major push for economic growth in the long term (Bukia, 2018).

Increasing the joint income threshold for those with small business status (2018 year) - for taxpayers with small business status has improved in 2018 and it is expressed as follows: on July 1, 2018, the amendment was made to the Tax Code and the gross income margin increased from 100,000 to 500 000 GEL, while taxable income is taxed by 1% instead of 5%, however, 3% rate is taxable, if the gross income received from economic activity exceeded 500,000 GEL. A person with small business status will be taxed at the established rate from the beginning of the month (In case of carrying out a surpass of the total income of a limit of 500 000 GEL) to the end of the calendar year. However, small business status is canceled, If the total income received from the economic activity of the person in accordance with 2 calendar years, over 500 000 GEL during each calendar year. As regards

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VAT payer registration, it does not contradict the status of small business as it was in the first case (Georgian Tax Code, 2010. As of 2018).

Automatic refund service of overpaid VAT (2019 year) - It is the VAT refund system designed to support the economy and business, through which the refund surplus calculated by the automatic refund program, is automatically reflected in the personal bank account of the taxpayer, without any additional request, has become one of the most positively impacted tax reform and simplification. After activation of the automatic VAT refund program, overpaid VAT amounts of approximately 3 billion were returned to businesses. This amount was returned to the business / entrepreneurs in a simplified manner, which is a huge boost in the event of a pandemic.

New legal framework for VAT (2021 year) - A brief legislative excursion around the key tax reform related to value added tax (VAT) reform, the basic principles of pre-existing VAT and the legislation in force since 2021, we will see the following key differences: First of all, who is a person paying VAT, according to the current legislation, it is any person who independently carries out any kind of economic activity in any place, regardless of the purpose and result of this activity (Georgian Tax Code, 2010. As of 2021). Under the legislation in force until 2021, VAT payers were differentiated into seven different types, namely: A) a person registered as a VAT payer; B) a person who is obliged to register as a VAT payer; C) a person who imports or temporarily imports goods into Georgia, only for this import or temporary import, without the obligation to register; D) a non-resident (except for a natural person who is a citizen of Georgia), who provides services without registration as a VAT payer in Georgia and a permanent establishment of a non-resident registered for tax purposes in Georgia, only for this service and is subject to reverse charge; E) a person who, within the framework of a measure for securing the fulfillment of a contractual obligation, transfers the subject matter of the claim (goods) to the creditor only for this transaction and is subject to reverse charge, without the obligation of registration; F) a person whose goods are sold within the framework of a measure to secure the payment of tax arrears or for the purpose of repaying other monetary obligations (other than sanctions imposed by criminal and administrative rules) by auction, direct sale or otherwise, only for this operation, without obligation to register; G) a person whose custodial property is sold in accordance with the Law of Georgia on Insolvency Proceedings, only for this transaction, without the obligation to register (Georgian Tax Code, 2010. As of 2020). In case of VAT taxable transactions, the current legislation stipulates: A) supply of goods by a taxable person on the territory of Georgia in exchange for remuneration within the framework of economic activity; B) the provision of services by a taxable person in the territory of Georgia in exchange for remuneration within the framework of economic activity; C) Import of goods (Georgian Tax Code, 2010. As of 2021). As for the list of VAT taxable transactions before the change, it was very broken down and detailed, which also included VAT taxation facilities (A) a taxable transaction; B) import; C) export, re-export; D) Temporary importation. (Georgian Tax Code, 2010. As of 2020), and taxable transactions included the following (which in turn was also concretized in different cases): A) supply of goods and / or services within the framework of economic activity on the territory of Georgia; B) use of goods / services purchased with VAT for non-economic activities (except for the case of free delivery of goods and / or services free of charge to a state and / or municipality by a legal entity under public law), if the taxpayer has received VAT deduction for these goods / services; C) in case of cancellation of registration as a VAT payer, the balance of goods on which the payer has received a VAT deduction; D) Use as a fixed asset an own production building; E) Acquisition of services or goods from the enterprise and / or partnership in exchange for a share in individual ownership (in this case the removal and / or registration of property is considered as delivery of property by the partnership); F) return of fixed assets to the lessor by the lessee upon expiration or early termination of the lease agreement; G) moment of revocation of the status at the expiration or early termination of the status of a tourist enterprise (Georgian Tax Code, 2010. As of 2020). It is noteworthy that under the legislation in force until 2021, the VAT taxable transaction was a temporary import, which is no longer a taxable transaction under current legislation, this change makes it much easier for entrepreneurs to operate, who used the given service. Such operations included, for example, the leasing of equipment by a construction company from a non-resident. This operation was considered a temporary importation and was consequently taxed with VAT. According to the current legislation, this transaction is no longer included in the list of taxable transactions. The above differences concerned only the definition of a VAT payer and VAT taxable transactions. Naturally, there are changes in the VAT legislation in other directions as well, the existing legal records around it are very extensive and detailed, which naturally includes determining the amount, time and place of VAT taxable transaction, as well as other regulatory rules around a given tax. Which complicates the detailed discussion of legislative changes in a given format. However, there are a number of directions that have not changed substantially, for example: VAT rate (18%), Its mandatory registration requirements (From the date of exceeding the total amount of GEL 100,000 taxable goods supply / service transactions performed by a taxable person during any continuous 12 calendar months, who must apply to the tax authority no later than 2 working days for registration as a VAT payer) and grounds for deregistration. However, there is some change in taxable transactions, which determines a turnover of 100,000 in VAT. It should also be noted that unlike the current version of VAT until 2021, definitions of

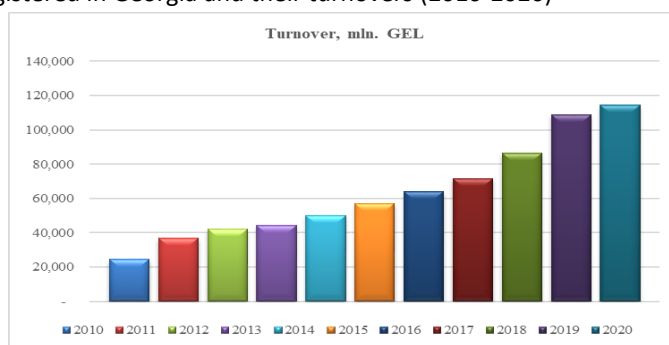
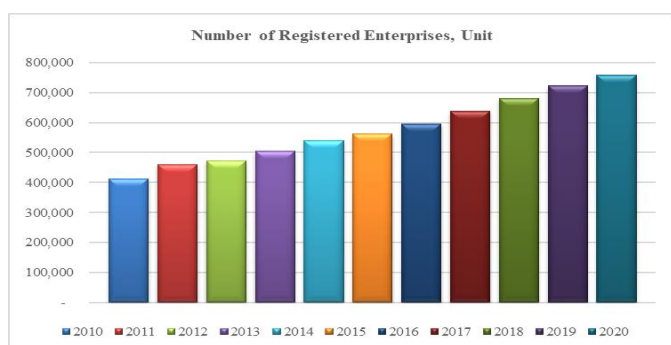
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terms specifically for VAT purposes have been added to this legislative package and added a new taxable transaction - voucher transactions. The main essence of this tax reform is to support the integration processes with the EU and to bring it closer to the EU VAT Directive. Therefore, amendments were made to the Tax Code of Georgia and the VAT regulatory provisions were formulated in a new edition. This reform has been implemented based on approaches of international best practice, which aims to improve the investment environment, reduce disputes and simplify the fulfillment of tax obligations. To summarize the main directions of the reform, it is as follows: The list of services that are not taxed outside of Georgia is expanding. More specifically, in basic cases it is considered as a place of service where the recipient of the service (taxable person) is based; Expands and clarifies transactions exempt from VAT related to the transportation of goods; Temporary importation of goods is no longer considered a taxable transaction; In addition to medical and educational activities, the supply of services and goods directly related to and auxiliary related to it is exempt from taxation; Medical educational and separate social activities will not be taxed by the organization in order to raise funds; Will not be taxed on the delivery of a sample of goods or a gift of small value; Regulations related to VAT taxation of free delivery of goods are simplified; Natural person paying VAT will no longer be restricted from accounting by cash method (www.rs.ge).

Qualified VAT payer status (2021 year) - significant reform has been implemented in the field of value added tax (VAT) this year, which refers to a new mechanism for registration as a VAT payer, this is "the status of a qualified VAT payer", which aims to improve the tax administration process, manage the risks of fraudulent schemes, as well as reduce VAT registration and illegal issuance of relevant documents. Through this mechanism, certain criteria are selected, after which the taxpayer is granted the status of a qualified VAT or non-qualified VAT payer. When determining the status, attention is paid to 8 different criteria. This mechanism is one of the levers to prevent VAT fraud, which is a key tax problem in both Georgia and European countries in terms of VAT. In 2019, the VAT Gap (in the EU) amounted to EUR 134 billion in nominal terms and 10.3 percent expressed as a share of the VTTL. Compared to 2018, the Gap went down by approximately 0.8 pp. And EUR 6.6 billion. Overall, between 2015 and 2019, the Gap declined by EUR 18 billion in spite of a significant increase in the tax base (Poniatowski et al., 2021).

As a result of a number of stimulating measures implemented over the years to improve the business environment, the directions of which were both subsidies/low interest loans and tax reforms, it is interesting to see the trend of the number of entrepreneurs registered in Georgia and their turnovers. The trend of 2010-2020 shows that both the number of registered entrepreneurs/enterprises and their turnovers are characterized by an absolute increasing trend, without failures (see diagram N8-9). And if we independently consider the number of newly registered and liquidated entrepreneurs/enterprises by year, the number of newly registered ones ranges from 27,000 to 52,000, and the number of liquidated ones - from 23,000 to 32,000. As for newly registered entrepreneurs/enterprise sectors, the following can be distinguished: Construction, manufacturing, retail and wholesale trade, food service activities, accommodation facilities, automobile and motorcycle repair. As for the share of state and non-state enterprises in the number of enterprises, based on the data of 2013-2020, we can say that almost the majority, or about 99.7%, are non-state enterprises.

Diagrams N8-N9: The trend of the number of entrepreneurs registered in Georgia and their turnovers (2010-2020)

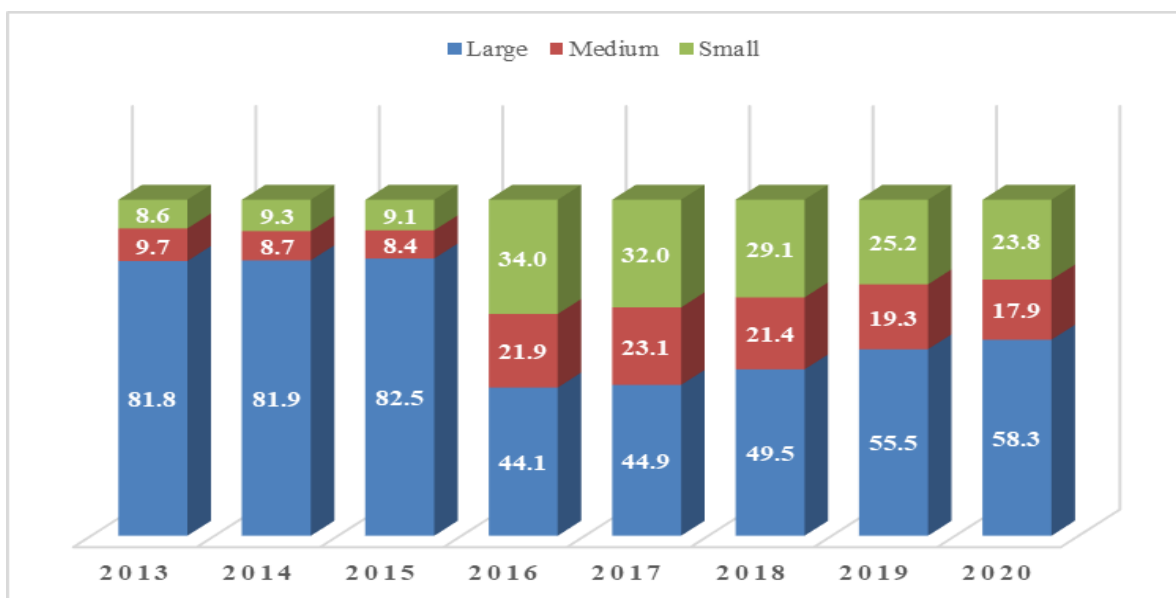


Source: National Statistics Office of Georgia - www.geostat.ge

Accordingly, the gradation of existing enterprises according to size and their share in the total turnover is very interesting here. A number of stimulating measures were implemented by the state to encourage small and medium-sized businesses, as the share of large enterprises prevailed in the total turnover. The results of the implemented reforms are largely visible, because based on the data from 2013-2020, it can be seen that the share of small and medium-sized businesses in the total turnover has increased in recent years (see diagram N10), while their share in the total turnover in 2013 was from 8.6% to 9.7%, already According to the data of 2020, it is from 17.9% to 23.8%. Which is a striking effect, considering that it is generally difficult for small and medium-sized businesses to compete with large businesses (www.geostat.ge).

Diagram N10: Turnover by size of enterprises (2013-2020)

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Source: National Statistics Office of Georgia - www.geostat.ge

In order to give the entrepreneurs/enterprises in Georgia the opportunity to enter the international markets and increase both their awareness and competitiveness, and therefore, in order to improve the entrepreneurial environment of Georgia, Georgia has signed free trade agreements and trade regimes with various countries and/or groups of countries. In terms of trading modes, it can be distinguished (www.economy.ge):

- ✓ Most-Favored-Nation - Most of Georgia's trade partners are members of the World Trade Organization (WTO), and accordingly, trade relations with WTO member countries (164 countries) are carried out on the basis of "Most Favored Nation" (MFN).
- ✓ Generalized System of Preferences - GSP - The main essence of the Generalized System of Preferences (GSP) is to establish reduced rates of the basic import tariff on goods imported from beneficiary countries, which makes it easier for goods from developing countries to enter the market of developed countries. Georgia is a beneficiary of the regime of the generalized system of preferences of the following countries: USA, Japan and Canada.
- ✓ Free Trade Regime - Free trade regime refers to the exemption of trade between the parties to the agreement from customs and import duties, except for mutually agreed exceptions. Georgia has a free trade regime with all CIS countries, Turkey and the European Union. with People's Republic of China and the European Free Trade Association (EFTA).

Regarding multilateral international agreements, the following can be distinguished:

- ✓ The regime of free trade with the Commonwealth of Independent States (CIS) member states, except for the Russian Federation, is regulated by the 1994 CIS Multilateral Agreement "On the Creation of a Free Trade Zone", and also in a bilateral format with the countries with which Georgia has signed such a bilateral agreement.
- ✓ Georgia is also a participating country of the 2002 Multilateral Agreement on the Creation of a Free Trade Zone within the framework of the Organization for Democracy and Economic Development (SUAM).
- ✓ Agreement on the establishment of a deep and comprehensive trade area (DCFTA) with the European Union (entered into force on September 1, 2014). The Agreement on the Deep and Comprehensive Free Trade Area (DCFTA) with the European Union is the most important part of the Association Agreement, because it includes the mechanism of economic integration with the European Union and opens the internal market of the European Union for Georgia. Unlike other free trade agreements signed by Georgia, the DCFTA involves the liberalization of trade in both goods and services. In addition, the DCFTA covers a wide range of trade-related issues and provides for the gradual convergence of trade-related legislation of Georgia with the legislation of the European Union. DCFTA allows Georgia to gradually adopt three of the four freedoms of the EU internal market: free movement of goods, services and capital. The fourth freedom - the free movement of people is facilitated by the process of liberalization of the visa regime.
- ✓ Pan-Euro-Mediterranean Regional Convention on Preferential Origin (in force since May 17, 2017) - The Convention establishes provisions on the origin of goods subject to trade according to the relevant agreements signed between the parties.

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- ✓ Agreement on strategic partnership and cooperation between Georgia and the United Kingdom of Great Britain and Northern Ireland (effective from December 31, 2020) - Among other goals, attention is focused on economic cooperation, creation of appropriate conditions that will promote economic and trade relations.

Among the bilateral international agreements, the following are important:

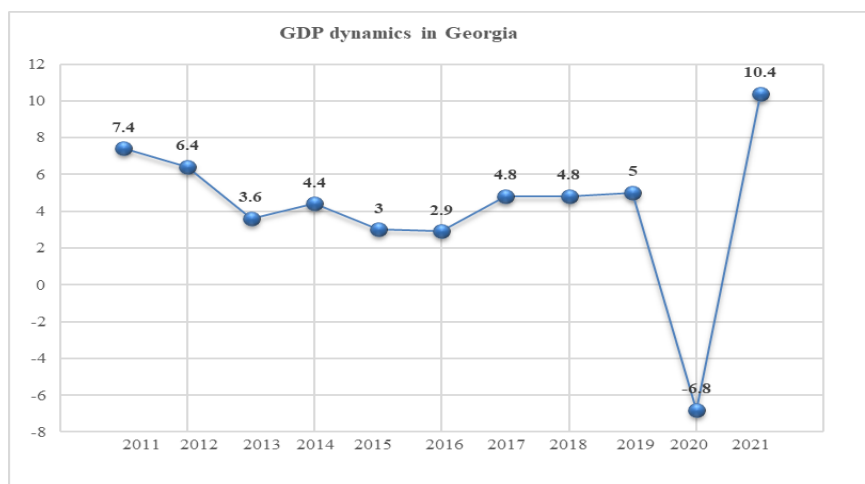
- ✓ Georgia has signed bilateral free trade agreements with the following countries: Russia, Azerbaijan, Armenia, Ukraine, Moldova, Kazakhstan, Uzbekistan, Turkmenistan, Turkey. It should be noted that during trade with the CIS countries, Georgia has a number of exceptions and different "rules for determining the country of origin of goods" (for example, with Uzbekistan, Russia, Turkey).
- ✓ "Agreement on Free Trade between the Government of Georgia and the Government of the People's Republic of China" - which provides for the strengthening of partnership in the economic sphere, further liberalization of bilateral trade and attraction of investments.
- ✓ On June 27, 2016, the free trade agreement between Georgia and the European Free Trade Association (EFTA) was signed. From September 2017, the agreement entered into force for Norway and Iceland, and for Switzerland and Liechtenstein from 01 May 2018. Among the goals of the agreement, we can highlight: liberalization of trade in goods under the General Agreement on Tariffs and Trade (GATT 1994); liberalization of trade in services under the General Agreement on Trade in Services ("GATS"); jointly ensuring the growth of investment opportunities; avoiding, eliminating or reducing unnecessary technical barriers to trade and unnecessary sanitary and phytosanitary measures; promotion of competition in their own countries, especially if it is related to economic relations between the parties; achieving greater bilateral liberalization of the parties' public procurement markets; ensuring adequate and effective protection of intellectual property rights in accordance with international standards; development of international trade in such a way as to promote the implementation of the goal of sustainable development and ensure the integration and reflection of this goal in the trade relations of the parties; Promoting the harmonious development and expansion of international trade through the mentioned measures.
- ✓ Georgia - Hong Kong, China Free Trade Agreement - within the said agreement, the parties aim to create favorable conditions for the development and diversification of trade and promote commercial and economic cooperation in areas of common interest.
- ✓ WTO (World Trade Organization) agreements:
 - General Agreement on Tariffs and Trade (GATT) - The main purpose of the agreement is to liberalize trade by reducing trade barriers, including lowering the level of protectionist tariffs.
 - The General Agreement on Trade in Services (GATS) is a multilaterally agreed set of trade rules and norms that regulate international trade in services.
 - Trade-Related Aspects of Intellectual Property Rights (TRIPS) - The agreement mainly sets before the states the requirements related to the infringement of intellectual property rights.
 - Technical Barriers to Trade (TBT) - Accordingly, each member must introduce technical regulations in such a way that they do not create unnecessary barriers to international trade.
 - On the use of sanitary and phytosanitary measures (SPS) - the agreement does not define any prohibitive or licensing measures for the import, re-export and transit of goods, except for those measures aimed at protecting human health, animals and plants.

At the present stage, the study of the expediency of signing an agreement on free trade between Georgia and Israel is underway. Meanwhile, the expediency study of free trade between Georgia and India has been completed. We will see the results of these activities later.

Like all over the world, the negative impact of the Covid 19 pandemic affected Georgia as well. First of all, it was expressed in 2020 GDP indicators, both in the world and in Georgia, which was recorded with a negative mark in most countries. However, Georgia was able to end 2021 with a significant increase in GDP (see Diagram N11), despite the great challenges of the pandemic, which caused a strong downturn in the economic sector in general (www.geostat.ge).

Diagram N11: GDP dynamics in Georgia (2011-2021)

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Source: National Statistics Office of Georgia - www.geostat.ge

In order to overcome the difficulties caused by the pandemic, Georgia implemented a number of different stimulating measures to make it relatively easy for businesses to overcome the difficulties caused by the economic collapse. Due to the fact that some firms stopped functioning and most of the self-employed entrepreneurs were on the verge of ceasing their activities, the state implemented a number of measures in the tax direction to preserve their entrepreneurial activities. In order to reduce the negative impact of the Covid-19 pandemic, for the stability of the business environment and to promote entrepreneurs, the Revenue Service of the Ministry of Finance of Georgia planned and implemented measures in two stages. Of which the events of the first stage can be significantly distinguished (www.rs.ge):

- ✓ Issuance of 200 GEL compensation - according to the Resolution N286 of the Government of Georgia, 200 GEL compensations were issued until August 2021. The following persons had the right to receive the mentioned compensation: an employed person affected during the spread of the coronavirus (including a person who is on leave due to pregnancy, childbirth and child care, as well as adoption of a newborn) if he:
 - Engaged in hiring activities for any two and/or more months from January - November 2020 and received salary during this period, as evidenced by the withholding tax declaration submitted by the employer to the Revenue Service for the reporting months of January - November 2020 by January 1, 2021 (except, In the case of a person being on leave due to pregnancy, childbirth and child care, or the adoption of a newborn) and
 - From December 2020 to February 2021, for any one or more months, they do not receive a salary/fixed payment of a salary of no more than 10 GEL (including due to the termination/suspension of the employment relationship).
 - The right to receive compensation of GEL 200 is also available to the person hired in a free industrial zone enterprise affected during the spread of the coronavirus (including the person who is on leave due to pregnancy, childbirth and childcare, as well as the adoption of a newborn), taking into account the time periods and conditions listed above.

Based on the information submitted by the employer, the Revenue Service, based on the data base at its disposal, checks whether the employee meets the conditions for issuing compensation, establishes a list of relevant persons and submits it to the employment agency no later than the 25th of the month in which the compensation is issued, by which the compensation is issued through a banking institution, to the bank account of the individual specified in the employer's application, no later than 3 working days after receiving the information provided by the Revenue Service.

- ✓ One-time compensation of 300 GEL for registered self-employed persons - individual entrepreneurs affected by the spread of coronavirus, individuals with small business status, individuals with micro-business status and individuals paying a fixed tax have the right to receive one-time compensation of 300 GEL if they:
 - engaged in economic activity in the fourth quarter of 2020;
 - Due to the restrictions imposed since November 28, 2020, the right to carry out activities/access to the sales space of customers has been suspended and
 - They do not receive funding from the budget.

In order to receive compensation, these persons must submit an application "Request for compensation by a registered self-employed person (COVID-19)" from the e-services page of the Revenue Service. Based on the information submitted by the applicant, the Revenue Service, based on the database at its disposal, checks the correctness of the identification data and bank

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details of the individual and submits the information to the employment agency within 3 working days at the latest. And, the compensation will be issued by the employment agency no later than 3 working days after receiving the information provided by the Revenue Service.

- ✓ One-time compensation of 300 GEL for employees and unregistered self-employed - the following are entitled to receive one-time compensation of 300 GEL:
 - The hired person, if as of November 27, 2020, he was engaged in hiring activities for the benefit of the employer, who has been suspended due to the restrictions imposed since November 28, 2020, the right to carry out activities/admit/access the object to the customer's sales space and from this period does not receive a salary from the same employer (including, due to the termination/suspension of the employment relationship).
 - Any other natural person (unregistered self-employed person) if he actually engaged in economic activity at the facility of the person registered as a tax payer in Georgia, which, due to the restrictions imposed since November 28, 2020, has been suspended from carrying out activities/allowing/accessing the facility to the customer's sales space.

In order to issue compensation to hired employees and unregistered self-employed, the application "Information submitted by the employer/facility owner about the persons who have the right to receive compensation (COVID-19)" is submitted by employers/facility owners (except for non-entrepreneurial natural persons) from the page of the electronic services of the Revenue Service. Based on the information submitted by the applicant, the Revenue Service, based on the database at its disposal, checks the correctness of the identification data and bank details of the individual and submits the information to the employment agency within 3 working days at the latest. And, the compensation will be issued by the employment agency no later than 3 working days after receiving the information provided by the Revenue Service.

- ✓ Supply or import of goods intended for medicinal/medical purposes is exempted from VAT – According to the decision of the Interagency Coordination Council, by the joint order of the Minister of Finance of Georgia and the Minister of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia, from April 1, 2020 to July 1, 2021, the supply of the following goods intended for medicinal/medical purposes and/or Imports, which, in addition to the main purpose, represented essential items during the pandemic: Classified tests, gowns of plastic material, face shields, nitrile surgical gloves, isolation coveralls, medical gowns, sets of medical gowns, caps and gowns, face masks and masks, gowns of cotton material without lunch and gowns of textile material, medical caps, safety glasses of plastic, Non-contact thermometers, oxygen, applicator reagent.
- ✓ Postponement of the deadline for customs clearance of automobiles - the deadline for customs clearance of automobiles imported between October 1, 2019 and May 1, 2020 has been extended to June 1, 2021. Pursuant to the order of the Minister of Finance of Georgia, the owner of a mechanical vehicle imported into the customs territory of Georgia from October 1, 2019 to May 1, 2020 shall be released for violating the term of presentation/general declaration/declaration of the said vehicle or the term of declaring the vehicle or for violating the conditions of the customs procedure stipulated by the relevant articles of the Customs Code of Georgia from liability, as well as from the charges specified in the Tax Code of Georgia for non-payment of the amount of tax due on the said vehicle within the period established by the tax legislation, if he ensures that this vehicle is placed in the customs procedure or declared for re-export before June 1, 2021.

Regarding the measures of the second stage implemented to reduce the negative impact of the Covid-19 pandemic, for the stability of the business environment and to support entrepreneurs, the following can be significantly distinguished from them (www.rs.ge):

- ✓ Taxpayers who have kept their jobs (employees) - the private sector employer is entitled to reduce (not pay in the budget) the income tax withheld and payable from the salary paid to the employee up to 750 GEL, if the salary received by the employee from the same employer during the calendar month does not exceed 1500 GEL (for 6 months from May 2020).
- ✓ Hired employees who are no longer paid - starting from May 2020, monetary compensation from the state budget began to be issued to those who were left without wages in the month of April. Compensation will be available to employees who have received wages at least once in the first three months of 2020 (January, February, March) (which is confirmed by the declaration(s) submitted before May 1, 2020) and in the following month(s) they no longer receive wages. Information about this is presented to the tax authority by the employer. A compensation of 1200 GEL was established to help the mentioned persons, which was disbursed for 6 months starting from May 2020, in the amount of 200 GEL every month.

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- ✓ Self-employed persons - since May 2020, one-time monetary compensation (in the amount of 300 GEL) has been issued from the state budget to individuals who are self-employed. For the purposes of compensation, all individuals who engaged in any type of economic activity and received income are considered self-employed, except for those who are employed.

Starting from 2019, in order to stimulate the entrepreneurial environment, the program of automatic refund of the excess value added tax (VAT) was developed, which returns the existing excess to entrepreneurs through a simplified procedure, so that businesses can use the mentioned funds to expand their activities. For example, only in 6 months of 2022, 1.1 billion GEL was returned to the business in the form of excess VAT. In 2021, the amount returned in the form of excess VAT amounted to 1 billion 930 million GEL, which is 900 million GEL more than in 2020, and 1 billion 300 million GEL more than in 2019. As for the sectors, which of the sectors mostly returned the said surplus to further expand their activities? It should be noted that a high rate of return is recorded in such sectors as industry, the largest part of which is reflected in exports, and also construction, which has a high rate of employment. And the effect of the amount of the mentioned VAT refund in the economic growth was only 0.5 percentage points in 2021, and in total in 2020-2022 its effect is 1.5 percent (www.interpressnews.ge).

III. CONCLUSION

In terms of economic policy in Georgia, a number of stimulating measures were taken for the development of the entrepreneurial environment. Two agencies were established: "Enterprise Georgia" and "Georgia's Innovation and Technology Agency". The main goals of these agencies are: improvement of the business environment; private sector development; Promotion of Georgia's investment climate and promotion of exports; formation of the ecosystem necessary for the development of innovations and technologies; Promotion of commercialization of knowledge and innovation; stimulating the use of innovations and technologies in all sectors of the economy; Creating the necessary environment for the growth of innovation and export of high-tech products and the development of high-speed Internet throughout the country. Its purpose is to develop innovative products and services with international potential in Georgia, to commercialize them and to stimulate the creation of innovative enterprises. A number of tax reforms have also been implemented to support entrepreneurs so that they have a legal framework conducive to business development. In order to give the entrepreneurs/enterprises in Georgia the opportunity to enter the international markets and to increase both their awareness and competitiveness, and accordingly, in order to improve the entrepreneurial environment of Georgia, Georgia has signed free trade agreements and trade regimes with various countries and/or groups of countries. To overcome the difficulties caused by the pandemic, Georgia implemented a number of different stimulating measures, so that the difficulties caused by the economic collapse were relatively easy to overcome for businesses.

Based on the results of the carried out reforms, it is important to focus on important international ratings, what impact these reforms and various stimulating actions have had in economic directions, and what position Georgia occupies in general in this regard.

First of all, we should highlight the World Bank's "Doing Business" rating, where Georgia ranks 7th among 190 countries with 83.7 points as of 2020, which is naturally very important. The various reforms implemented in recent years, which affected both the institutional side, as well as the legislative and regulatory level, were reflected in the international rankings. It should be noted that in 2006, Georgia was ranked 112th in terms of ease of doing business, but as a result of the reforms implemented since then, Georgia is in the top ten. It is surpassed only by New Zealand, Singapore, Hong Kong, Denmark, Korea and the USA. It should be noted that in the given ratings, the country is evaluated according to various indicators and components, and as of 2020, starting a business in Georgia - 2nd place; Property registration – 5th position; Protection of Investors' Rights - Position 7 (www.worldbank.org);

It is also important to consider the rankings of the Index of Economic Freedom - Based on the Economic Freedom of the World report of 2019 published by the Fraser Institute in 2021, Georgia ranks 5th with 8.26 points, which is definitely the best result. It is surpassed only by Hong Kong, Singapore, New Zealand and Switzerland. It is natural how in the case of other ratings, the country is evaluated according to different indicators, however, our attention should be focused on one of the indicators - freedom of international trade, where Georgia has been assigned the 3rd place (www.fraserinstitute.org).

According to the "Open Budget Index" of the International Budget Partnership, Georgia ranks first among 120 countries in 2021 with 87 points, which is truly the best result. It should be noted that before significant reforms - in 2006, Georgia occupied the 42nd place with 34 points, and the reforms of these years made the result visible (www.internationalbudget.org).

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