

SOME ASPECTS OF COMPARATIVE ANALYSIS OF SME STANDARDS IN THE EU AND GEORGIA

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Annotation

There are different attitudes towards small business definition. Basically, the laws of the countries are based on the criteria on the basis of which this or that enterprise belongs to the small business sector. However, in EU countries, small and medium enterprises are considered as small businesses and they are considered in one context. The concept of small and medium business combines number of employees, annual turnover and annual balance. The official definition of small and medium enterprises in Georgia is partially in line with EU standards. The concepts of small business and micro business are established only in terms of tax policy, while in institutional and quantitative or qualitative terms its definition is not officially definite.

Introduction

There are different attitudes towards small business definition. Basically, the laws of the countries are based on the criteria on the basis of which this or that enterprise belongs to the small business sector. Entrepreneurial entities in European countries are micro, small, medium and large enterprises. Georgian law does not define the concept of "small business". In general, small-scale

entrepreneurship, which involves the amount of own and working capital, number of employees, market share, and output, is a small business. Such definitions do not fully reflect its role and place in society, as it focuses only on quantitative size and not on its qualitative status.

The official definition of small and medium enterprises in Georgia is partially in line with EU standards. The concepts of small business and micro business are established only in terms of tax policy, while in institutional and quantitative or qualitative terms its definition is not officially definite. There are quantitative, qualitative and combined approaches to determinations of the SMEs. The following criteria are most often used to classify an enterprise as a "small enterprise" In the worldwide: number of staff, turnover, size of assets, amount of authorized capital, ownership structure.

Comparative analysis of SME standards in the EU and Georgia

The role of small entrepreneurship in the development of the economy is great today. It ensures the growth of the country's GDP,

is an important area of employment, thus it is contributing to the formation of the middle class; Increases economic and political stability, reduces poverty and is an effective institution for solving social problems.

In addition, small and medium-sized businesses play a crucial role in business relationships. Especially important is the role of small business in the economy for competition and developing large businesses. It ensures the mobile action of large corporations in the growth of the value chain and is an effective institution for large companies in the supply-demand chain, the introduction of new technologies and innovations (Chikhladze, 1999:15)

Small and medium-sized enterprises are often referred to as "hidden champions" because their market share is over 50 percent, their goods and services are "invisible" or less noticeable, have a high level of resilience and viability, have a significant export share, are global competitors and large. Contribute to the country's success balance. (Gvelesiani, 1999:220)

Georgian law does not define the concept of "small business". In general, small-scale entrepreneurship, which involves the amount of own and working capital, number of employees, market share, and output, is a small business. Such definitions do not fully reflect its role and place in society, as it focuses only on quantitative size and not on its qualitative status. (Tax code of Georgia, 2020).

There are different attitudes towards small business definition. Basically, the laws of the countries are based on the criteria on the basis of which this or that enterprise belongs to the small business sector. Entrepreneurial entities in European countries are micro, small, medium and large enterprises. Small and medium enterprises belong to micro-enterprises, where 1 to 9 people

are employed, small enterprises employ 10 to 49 people; In medium enterprises - from 50 to 249 people and large enterprises with 250 or more people. (Tetruashvili..., 2014)

However, in EU countries, small and medium enterprises are considered as small businesses and they are considered in one context. The concept of small and medium business combines number of employees, annual turnover and annual balance. According to the recommendations of the European Commission of 3 April 1996, organizations with less than 50 employees were considered small and medium-sized enterprises; They had an annual turnover not exceeding 7 million. Euro; Or had an annual balance not exceeding 5 million. Euro; At the same time, it met the criterion of independence (means an enterprise in the capital of which the share of one or more such enterprises, which does not belong to small and medium business, does not exceed 25%). (Tsetskhladze, 2018:27)

On May 6, 2003, the European Commission adopted the new Criteria for Micro, Small and Medium-sized Businesses, which entered into force on January 1, 2005. According to this definition, micro, small and medium enterprises are organizations with less than 250 employees, their annual turnover does not exceed 50 million Euros and / or the annual balance does not exceed 43 million Euros.

The EU Commission assesses the development of enterprises in the countries according to the criteria of small and medium-sized businesses. It is true that these definitions are voluntary for member states, but the EU recommends that this definition be used in the country's regulatory norms, which would be an important step towards harmonization of legislation. The EU recognizes the priority importance of enterprises of this size in

the economy, according to which it allocates loans and grants through various programs.

Calls on institutional investors, regional funds, venture capital companies and local governments with a budget of less than € 10 million and a population of no more than 5,000 to operate as small and medium-sized enterprises; Which will allow them to receive grants and be funded through stocks so as not to lose their autonomy (autonomous enterprise). (The New SME Definition: 10)

An enterprise is considered autonomous if it has 25 or more percent of the shares of another enterprise and 25 or more percent of its shares do not belong to any other company or state institution. Exceptions are allowed if the 25 percent threshold is exceeded by state-owned investment corporations, venture companies, venture capitalists, universities or private nonprofit research centers, institutional investors, including regional development funds, and local governments.

Thus, the European Commission distinguishes three types of enterprises:

1. Autonomous enterprises, which is the most common form in practice.
2. Partner companies. These types involve ventures that are financially partnering with other companies and none of them exercises direct or indirect control over each other.

3. Interconnected enterprises. These are the companies that make the connections through direct or indirect management of the controlling stake.

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Prior to January 1, 2011, the Georgian Law on Entrepreneurs (1994) and the National Investment Agency (2006) defined MSS differently from the current Tax Code, which stipulates that the number of employees in a small enterprise is no longer valid, while the annual Turnover should be less than 100 thousand GEL. The definition of a micro-enterprise was also established.

If we compare the definitions of small and medium businesses in the EU with Georgia, then we will see that there are big differences between them.

Table

Small and medium businesses in the EU and Georgia

| Enterprise | Number of workers | | Annual turnover | | carrying amount | |
|------------|-------------------|-----------------------|-------------------|---|-----------------|---------|
| | European Union | Georgia | European Union | Georgia | European Union | Georgia |
| Medium | < 250 | < 100 | < 50 Million euro | 1.5 million GEL | 43 million euro | |
| Small | < 50 | <20 | <10 million euro | 500 thousand GEL (Until January 2011) 100 thousand GEL (From January 2011) | 10 million euro | |
| micro | < 10 | 1 (From January 2011) | <2 million euro | 30 thousand GEL (From January 2011) | 2 million euro | |

Source: The table is compiled by us from <https://ec.europa.eu/eurostat> , www.geostat.ge and Data on Acces to Finance. Enterprise and Finance. European Commission. http://ec.europa.eu/enterprise/policies/finance/data/index_en.htm

According to the Tax Code of Georgia, the criteria for micro-business and small business are set. According to the Code, the status of a micro business can be granted to a natural person who does not use the labor of employees and is independently engaged in economic activities, from which his total gross income during the calendar year does not exceed 30,000 GEL. This status is granted, revoked and a micro business certificate is issued by the Minister of Finance of Georgia. Small business status can be granted to an entrepreneur, whose total income from economic activities during the calendar year does not exceed 100 thousand GEL.

The Tax Code applies special preferential tax regimes to individuals with micro and small business status. Micro businesses are not taxed with income tax and are exempt from the obligation to use the cash register, while small businesses have a preferential tax regime. (Tax Code of Georgia, 2020).

In agreement with the Finance and Budget Committee of the Parliament of Georgia, the Government of Georgia has the right to prohibit the implementation of certain activities, within the framework of which the status of a small business can not be granted to an entrepreneur. These principles are absolutely in line with European standards and create the minimum institutional conditions for the development of this field.

Nevertheless, the functioning of markets for small and medium-sized entrepreneurs remained limited, as due to the structure of the Georgian economy, large entrepreneurs are mainly located in the processing and mining industries, they are dependent on imported products and use less services of local SMEs, which does not provide horizontal way to build relationships.

Reforms in recent years have been reflected in the positive assessments made by various international organizations, which are mainly based on the analysis of new laws and legislative changes. At the same time, the legal and regulatory environment for small and medium-sized businesses has deteriorated sharply. The Law on Support to Small and Medium-sized Enterprises and government decisions aimed at state support for small and medium-sized business development were repealed. The government has declared a liberal economic course, according to which all sectors of the economy are governed only by free market laws, the state does not give priority to any sector and imposes a uniform tax regime for all enterprises. Under the economic policy course, under the conditions of equal tax regime, the share of small entrepreneurship in the whole value chain created gradually decreased. Although the number of registered new enterprises has increased, this has not led to significant changes in the output ratio. (Baratashvili... 2012)

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Other disadvantages of small and medium business development are that small businesses are not stable and they do not have permanent suppliers and purchases are relatively expensive. At the same time, small and medium-sized enterprises find themselves in fierce competition with foreign enterprises, as a result of which they replace imported products. Imports have partially replaced local agricultural and food production. (Dzotsenidze, 2014)

One of the serious barriers to the development of small and medium enterprises is qualification and experience. Their knowledge of markets, sales channels and consumers is insignificant. In addition, their knowledge of marketing management and tax legislation is low. Added to this is the fact of pandemic crisis and that only a small number of large and foreign capital are interested in providing services to small and medium-sized enterprises. We should conclude that this sector needs support.

Conclusion

Main disadvantages of small and medium business development are that small businesses are not stable and they do not have permanent suppliers and purchases are relatively expensive. At

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