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# FUNDING OPPORTUNITIES FOR INNOVATIVE ENTREPRENEURSHIP IN GEORGIA

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**Abstract.** In the modern world, innovative business is an opportunity to implement new ideas and introduce innovation. The entrepreneurial sector contributes to the introduction and development of modern business. Financing mechanisms are the most important obstacle to innovative activities in small and medium-sized enterprises. The paper's main goal is to determine the possibilities of access to finance, the ways of obtaining financing, and the challenges of innovative entrepreneurs. To evaluate the impact of private and state support programs in creating an innovative product. The work discusses the essence of innovation and the subjects of innovative activity. It is about all the necessary information an entrepreneur needs to create an innovative product. Attention is also focused on the importance of private and state programs in financing. The work is also based on qualitative research, identifying factors hindering access to finance.

The paper outlines ways and perspectives of access to finance. In the future, paying more attention to both the private sector and the state is necessary. Because creating innovation is their common interest. The government of Georgia needs the right policy and priority directions. In particular, the establishment of tax benefits and preferential loan conditions. It is important to raise education and awareness in society in the direction of entrepreneurship. The obtained results will allow us to measure the effectiveness of the support programs. Conclusions on the optimization of innovative entrepreneurship are formulated.

**KEYWORDS:** ACCESS TO FINANCE, INNOVATION, ENTREPRENEURSHIP, EMPLOYMENT, PRIVATE AND PUBLIC PROGRAMS

## INTRODUCTION

In the modern world, innovative business is an opportunity to implement new ideas and introduce innovation. There is no recognized definition of the term “innovative entrepreneurship” in the world today. But it means innovation, which

depends on four main factors – new ideas, people, transactions and institutional context. Innovation is also defined as an experiment in market changes. Which restructures markets and industries (Hansiorg Herr and others, 2019:11) [1]. At this time, the entrepreneur searches for information, creates an innovative idea, and identifies a market

opportunity. Then, he tests the ideas to see if they are appropriate or valuable. He thinks about how he will create a product and service at the expense of which he can get a large income in the future. Also, the word “innovation” refers to technological innovations and all the social and economic values that innovative entrepreneurs create (Law of Georgia on Innovations 2020) [2]. Today, there is a boom in innovative entrepreneurship in the world; new companies are being created, and new services and products that have no analogues appear. Often, they are financed by the founders themselves, although there are companies for which both the private sector and the state should pay a lot of attention. Because creating innovation is their common interest. Today, there are no specific criteria for evaluating innovative projects globally. His financial success happens without any calculations. If a similar product appears on the market, leading to a decrease in revenue and profit, such a product cannot be called an innovative product. That is why every entrepreneur’s first concern is creating such goods and services that will cause a “big bang” in the market.

## MAIN PART

Developing small and medium entrepreneurship with innovative products is one of the country’s main priorities for economic development and represents an important challenge for the government.

The purpose of the research is to determine the ways of obtaining financing, the possibilities of access to finance, challenges, and relevant recommendations for small and medium business development. The challenges of innovative entrepreneurs ensure the growth of the population’s incomes and solve the employment problem. The goal is to evaluate the impact of state and private support programs in the creation of a new innovative product. The results obtained will allow us to analyze the effectiveness of support programs in terms of access to finance.

**Methods** – the paper is based on qualitative research. During the research, the official website of the Ministry of Economy and Sustainable Development of Georgia was used. Page materials.

10 respondents – small and medium-sized enterprises – participated in our research. Georgians are lovers of innovation. Due to the scale, many startup ideas are created and developed, which can bring regional and global success. The Ministry of Economy and Sustainable Development (MOESD) is responsible for implementing the SME policy in Georgia and two agencies supporting small and medium businesses – “Make in Georgia” and “Georgian Innovation and Technology Agency” (GITA), which were established in 2014 (Strategy for the development of small and medium entrepreneurship of Georgia 2021-2025:29) [3]. They are responsible for the implementation of SME support programs. Continuously carry out important activities (business development, promotion of exports and attraction of direct foreign investments), promoting the country’s innovation ecosystem.

Financial resources and access to them are vital to any business. Financing and access to finance play the biggest role in the development of entrepreneurship. The situation in Georgia in this direction is as follows: in 2023, the share of small and medium-sized enterprises is 51%, and the budget financing of the entrepreneurship promotion system is 521.7 million GEL. Among them, the budget of LSI “Make in Georgia” agency programs amounted to 232.4 million GEL, and the budget of the “Georgian Innovations and Technologies Agency” was equal to 28.2 million GEL. Investments in fixed assets in the business sector amounted to 4,350.1 million GEL (National Statistical Service of Georgia, 2024) [4]. Analysis of studies of private and public programs showed that access to finance can be improved by:

1) Leasing is an important component of the financial market, which plays an important role in the development of the local capital market and the emergence of alternative sources of financing. It is the best financial instrument for financing small and medium business fixed assets. The leased asset acts as collateral. In the last period, the volume of the leasing portfolio reached 414 million amounted to GEL (Georgia Innovations and Technologies Agency, 2024) [5].

2) It is important for entrepreneurs to raise awareness for better business management; in 2021, the National Bank of Georgia prepared a

training module and held a webinar for entrepreneurs on the topic “How to assess the credit potential of our business”. After the webinar, participants filled out a questionnaire, and 100% believed that the knowledge and skills they had learned from the webinar would help them better manage their company’s finances. From 2022, the National Bank of Georgia started a series of live engagements on the Facebook page of the financial education portal “Finedu” (21 Facebook live engagements) “Conversations on Business”; with this format, it became possible to provide information to significantly more interested persons. On the Facebook page, 16 entries were made in the rubric “Conversations about business”, and five inclusions were made in the rubric “Expert Finedu”, where experts related to business and finance discussed topics of interest to entrepreneurs (OECD-2022) [6].

3) A reporting portal was created at the initiative of the Accounting, Reporting and Audit Supervision Service (SARAS), where enterprises submit reports centrally, and the administration process takes place through the mentioned system. From 2017, medium-sized enterprises must submit and publish financial and management reports, and small enterprises from 2018. In accordance with the Law of Georgia on accounting, reporting and auditing, in 2022, the rate of submission of reports by enterprises in categories 1, 2, and 3 is 93%. As a result, reports of about 75,000 enterprises were made public, and 77% of 4<sup>th</sup> category enterprises. As a result, more than 70,000 enterprise reports were registered. 81% of submitted reports are error-free. Due to non-compliance with the requirements of the law and rules, the reporting of about 200 enterprises was delayed. It should be noted that compliance of the submitted statements with the FSS standard has been improved (Accounting, reporting and audit supervision service 11.05.2022:84) [7]. Financial reporting rigour will improve investment capital and access to financial resources.

4) In small and medium-sized enterprises, interest rates were reduced on loans granted to businesses; this reduction was more significant for loans issued in foreign currency. The SME loan portfolio of commercial banks grew, reaching 21.4% annual growth in 2015-2019 (National Bank

of Georgia 2019) [8]. In addition, the government has started developing a market for various alternative bank financing instruments. He introduced measures for the development of the microfinance sector. In particular, the development of regulations for startups and fundraising. Run Georgia’s credit guarantee scheme increased to 330 million GEL (107 million USD) in 2020. The total credit portfolio reached 2 billion GEL, where the guarantee of new loans is 90%, and 30% was provided for restructuring. Firms have also benefited from improved co-financing terms, e.g. by extending the loan/leasing co-financing term to 36 months (Create an official page in Georgia2020) [9]. Additional assistance was provided to some sectors that were particularly affected.

5) In 2020, a new law, “On Investment Funds”, was adopted, which defines the legal framework for collective investment schemes and different types of investment funds (Government of Georgia 2020) [10]. However, the potential of alternative financing remains largely untapped. The reason for this is that the practice of factoring is not yet widespread, and venture capital remains at an early stage of its development.

6) Digitization – such as online lending, fintech and crowdfunding. It offers a new mechanism of bank financing to small and medium-sized enterprises. For example, financing from partner enterprises or platform-based lending. Creating a strong legal framework for alternative and digital financial solutions will facilitate establishing and expanding these practices. In this regard, Georgia may consider introducing regulatory experimental initiatives (EU4Digital 2020 [11]) (Attrey and others 2020:50 [12]). They are an effective tool to boost innovation in fintech. For example, equity-based crowdfunding.

7) 40 startups were financed within the co-financing program of the “Georgian Innovations and Technologies Agency”, and 27 beneficiaries were financed within the framework of small grants. As a result, startups have access to innovative finance (Ministry of Economy and Sustainable Development 2024) [13]. However, SMEs still face difficulties accessing finance compared to large enterprises, and 20.6% of small enterprises refuse to grant loan applications. In contrast, in the case of large enterprises, this figure is 2.6% (The con-

clusion of the thematic research of the Parliament of Georgia 2021) [14]. Some enterprises face the risk of transitioning from liquidity to a solvency crisis. While an unprecedented amount of government support allowed many firms to overcome the crisis. They require tailored policies. In particular, the reopening of enterprises and the promotion of new jobs. Loan guarantees should be provided for viable but insolvent enterprises, as they need more incentives to develop restructuring plans (Blanchard and others, 2020:89) [15].

To better present the current situation in Georgia, we conducted a study. Our goal was to include small and medium-sized enterprises in the study and find out what problems they faced in setting up their business, whether the current promotional programs in the country are sufficient, and whether they would like more promotional activities. Due to its specificity, the issue is constantly changing and needs constant re-research. It is impossible to study and investigate the issue fully.

**Question 1.** The first question of the research was about the age of the respondent. Most of our interviewees are young people aged 18-30. The percentage of respondents according to gender was distributed as follows: female – 60%, male – 40%. 30% were medium-sized enterprises, and 70% were small-sized enterprises. **Question 2.** What is the duration of the existence of small – and medium-sized enterprises? According to the results of the interviewees, 30% were enterprises lasting one or less than one year, and 70% were between 1-5 years. **Question 3.** The next question was about how important is the role of innovation in business development. 40% stated that it is important and 60% very important. **Question 4.** When asked what contributed to business development from the side of each enterprise, the following answers were recorded: 1) We are currently in the process of development and expansion, one of the important supporting forces is our knowledge... 2) Simple regulations; 3) The need for a site in Georgia contributed to the development of the company; 4) Proper management, 5) Increased demand for our product on the market; 6) Original and quality product 7) The level of demand on the market; 8) the originality of our products, 9) Quality product and affordable price, 10) Original

and creative product. **Question 5.** The next question was about the problems they encountered while implementing the startup idea. Among the many named problems, the financing problem can be seen as the source of our interest. 1) There are many important problems, but we have everything ahead of us, and we will overcome everything step by step; 2) More technical problems; 3) Sorry, you can't list them. 4) Financing problem; 5) Since many unscrupulous businesses are in the market, initially gaining trust was the most difficult. However, we managed somewhat easily. The next problem/difficulty was finding/renting the space while meeting the increased demand; 6) Logistics and finance; 7) Mainly the absence of a sales place in shopping centres; 8) There are many problems, but the main one is financing. 9) It's enough, it's not even worth listing. 10) Financial problems were the biggest problem for our company. **Question 6.** The survey also included questions such as whether they intend to create an innovation. 80% of respondents are ready to create an innovation, and 20% are not. **Question 7.** The next question was related to how they imagine the development of innovative entrepreneurship in Georgia and what perspectives they see about this issue. Their answers are as follows: 1) The business of the future does not exist and cannot exist without innovation; the global technological environment demonstrates this. Therefore, if we want to develop national social, innovative entrepreneurship, there is more to be done than what exists today. 2) More support for young and small businesses. 3) If everyone does their job, everything will be fine. 4) I think that help is needed, even in the form of a correct call for a project and an idea. 5) The development of innovative entrepreneurship is possible everywhere nowadays. We live in an era of globalization, so borders do not limit our products. 6) less intervention by the state and more freedom in legislation and taxes, 7) Quite a lot of funds are needed for this and experienced personnel, which often represent a big problem to find. 8) I think Georgia has great potential in this regard. I believe that more support and attention to startups will bring greater success. 9) The main thing is the right action from both the state and the private sector. 10) I think Georgia should use the talents and ideas of young innovators. **Ques-**



**tion 8.** “How innovative entrepreneurship is growing in Georgia” – the answers to this question are as follows: 1) Modern innovative businesses are the world’s tomorrow... especially for a country with wealth like ours. 2) Will help strengthen the economy, 3) Positively, of course. 4) More or less, 5) Positively, 6) Of course, positively. Starting any new/innovative business contributes to the development of the country. 7) Directly proportionally, 8) Such innovations are so small that I don’t think they play a big role, 9) Innovations directly affect the country’s economy, therefore, the more innovative products and services there are in the country, the more profits Georgia will see. 10) The creation of innovation has a direct impact on the country’s economy. **Question 9.** 90% of respondents stated that they would like and need more incentive activities and events, while 10% stated a negative answer. Also, it would be very interesting if they know of any startup ideas that failed due to insufficient support. It was found that it is known to 75%, and not to 25%. **Question 10.** It was interesting to hear their opinion on whether the Georgian government encourages small and medium-sized businesses to create and implement innovations. 70% of the respondents believe it is happening, and 30% evaluate it negatively. 90% of respondents in the study think that our country’s existing state or private programs are not enough to develop innovative entrepreneurship, and 10% consider it enough.

As a result of the conducted research, the factors hindering access to finance for small and medium-sized enterprises were identified: lack of necessary market conditions, high loan interest rates, lack of necessary credit security, and uncertainty of business success in advance. According to the majority of respondents, small and medium-sized businesses are encouraged in Georgia, although they think that this is not enough. Therefore, it is necessary to respond to the given problem, and more support from the state is needed. Conducting possible policies and implementing necessary measures. So that they have access to all the necessities that will help start an innovative business.

## CONCLUSION

Today, the development of innovative entrepreneurship in Georgia plays a major role in solving employment problems. By 2030, small and medium-sized enterprises will have the opportunity to employ up to 100,000 additional citizens, increase productivity by 50 per cent, and contribute 60 per cent more to the added value created in the economy (Development Strategy of Georgia – Vision 2030) [16].

Financing mechanisms are the most important obstacle to innovative activities in small and medium-sized enterprises. The current state of the world has made it even more difficult for innovative enterprises to access finance. In the future, it is necessary to pay more attention to both the private sector and the state because the creation of innovation is their common interest. The government of Georgia needs the right policy and priority directions. In particular, the establishment of tax benefits and preferential loan conditions. Educating and raising awareness about entrepreneurship in society is important because the country should have more innovators who will create products and services that will bring great success to the country.

The following conclusions are formulated in the work:

1. 1) The country’s policy should ensure and maximally support the creation of market innovation, which will increase the population’s involvement in economic development.
2. 2) Allocate more sources of funding, which will be distributed fairly and impartially to implement various innovative ideas.
3. 3) It is necessary to regulate such conditions that will help firms to enter the market, and to improve their growth and development.
4. 4) It is important for small and medium-sized enterprises to prepare financial statements according to international standards. The difficulty is important in terms of finding international business partners. Also, the difficulty of financial reporting will improve access to financial resources and investment capital.

5. 5) Universities should promote the education of students to better understand the essence of innovation among young people and to provide the necessary information for starting a business;
  6. 6) More research is needed to explore the innovation environment.
- cess to finance are the country's most important priorities. A strong and well-developed small and medium entrepreneurship sector will significantly contribute to exports, innovations, and the creation of a modern entrepreneurial culture. At the same time, it will play a special role in raising the country's level of well-being.

Thus, improving the business environment, promoting economic growth, and increasing ac-

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