Regional specifics of the Development of the Entrepreneurial Sector in Georgia

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Annotation. *In recent decades, the development of the entrepreneurial sector in Georgia has been characterized by contradictions between territorial units. Since this period, one of the main directions of economic reforms carried out in the country has been to overcome the negative tendencies in the territorial entities, resulting from the economic crisis, to maximize the potential of the regions, to transform all spheres of economic activity, taking into account their specific features. The presented article discusses the difficulties faced by the entrepreneurial sector after independence. The study focuses on the regional specifics of the development of the entrepreneurial sector in Georgia. Based on calculations, regional differences in various indicators are presented and conclusions are drawn.*

Introduction

The regions of Georgia differ from each other in the number of entrepreneurship subjects, real wages, standard of living, additional cost, population density, unemployment rate, entrepreneurial environment and many other factors or indicators that determine the differentiation of the level of entrepreneurship development in these regions and create differences in territorial economic development.

After the collapse of the centralized economy, the necessity of implementing an active regional economic policy became evident. The main direction of this policy was to accelerate balanced socio-economic development across the country's territorial units. This was to be done through the full and rational use of local natural, production, and labor potential, as well as the economic traditions of the local population. The main activity target of these actions was to increase the population's production and labor activity, maximize employment, and ensure optimal levels in all regions (Indicative Plan, 2001:160).

Table 1

Key Indicators of Industrial Development by Administrative-Territorial Units of Georgia, 1994-1997 (Share, %)[1]

Region	1994	1997
Tbilisi	21	31.5
Adjarian AR	7.7	4.7
Abkhazian AR	11.3	4.7
Guria	1.1	1.1
Imereti	17	10.3
Kakheti	1.2	2.4
Mtskheta-Mtianeti	2.5	2.0
Racha-Lechkhumi & Kvemo Svaneti	1.5	0.7
Samegrelo-Zemo Svaneti	3.4	3.3
Samtskhe-Javakheti	1.4	2.3
Kvemo Kartli	29.5	19.9
Shida Kartli	2.4	5.4

Source: Compiled by the author based on the statistical collection by the National Department of Statistics "Industry of Georgia 1985-1997", p. 79.

As the analysis shows, the disproportions in the levels of regional development were not as profound as those recorded in later decades.

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[1] In 1997, the total share was balanced by Sakenergo (14.5%).

However, the share of the capital city of Tbilisi was gradually increasing.

Main Focus of the Research

The elimination of regional disparities and the convergence of development levels across the country's territorial units are key tasks of regional policy. Following the dissolution of the Soviet Union, political and socio-economic events in Georgia created various types of regions, each with different levels of development and concentration of entrepreneurial activity (Chikhladze, 2021:57).

To describe the regional specificity of the entrepreneurial sector, several important indicators were selected by region and the capital: registered and active entrepreneurial entities, turnover, added value, and volume of investments in fixed assets.

Table 2

Registered and Active Entrepreneurial Entities by Region (as of January 1, 20205)

Region	Registered Entities	Active Entities	of which small enterprises	Share of active entities among registered (%)	Share of small enterprises among actives (%)
Tbilisi	472145	126376	101085	26,8	80,0
Adjarian AR	101932	31964	25887	31,4	81,0
Guria	23634	6365	5259	26,9	82,6
Imereti	127015	32070	26988	25,2	84,2
Kakheti	60138	15611	13193	26,0	84,5
Mtskheta-Mtianeti	20436	6147	5078	30,1	82,6
Racha-Lechkhumi & Lower Svaneti	9713	2900	2324	29,9	80,1
Samegrelo-Upper Svaneti	74278	18522	15555	24,9	84,0
Samtskhe-Javakheti	34673	10955	9377	31,6	85,6
Lower Kartli	75471	20378	16766	27,0	82,3
Lower Kartli	44664	12929	10754	28,9	83,2
Total	1044099	284217	232266	27,2	81,7

Source: Compiled by the author based on data from the National Statistics Office of Georgia (https://www.geostat.ge/ka/modules/categories/326/sacarmota-statistikuri-gamokvleva)

Unfortunately, the share of active economic entities out of registered ones is very low (27.2%) in the country, due to regional trends (see Table 2). In the regions, active entities make up only about 25-32% of registered ones. The highest rates are seen in Samtskhe-Javakheti and Adjara (31.4-31.6%), which may be explained by the relatively small total number of entities and, in Adjara, by a recent surge in newly registered economic units due to heightened economic activity.

The lowest rates are in Tbilisi and Imereti (25.2% and 26.8%), largely due to the high number of registered businesses. Notably, the

vast majority of active entrepreneurial entities (80-85%) are small in size (with fewer than 50 employees and annual turnover not exceeding 12 million GEL).

A large portion (44%) of economically active entities is concentrated in the capital. Together with four other regions (Adjarian AR, Kvemo Kartli, Imereti, Samegrelo-Zemo Svaneti), they make up 81% of the total, while the remaining six regions account for just 19%.

In 2024, the total turnover in the entrepreneurial sector amounted to 22.3 billion GEL, with a growth rate of 109.1% compared to 2023. The highest growth was recorded in Tbilisi (110.2%) and the Kakheti region (115.1%). In
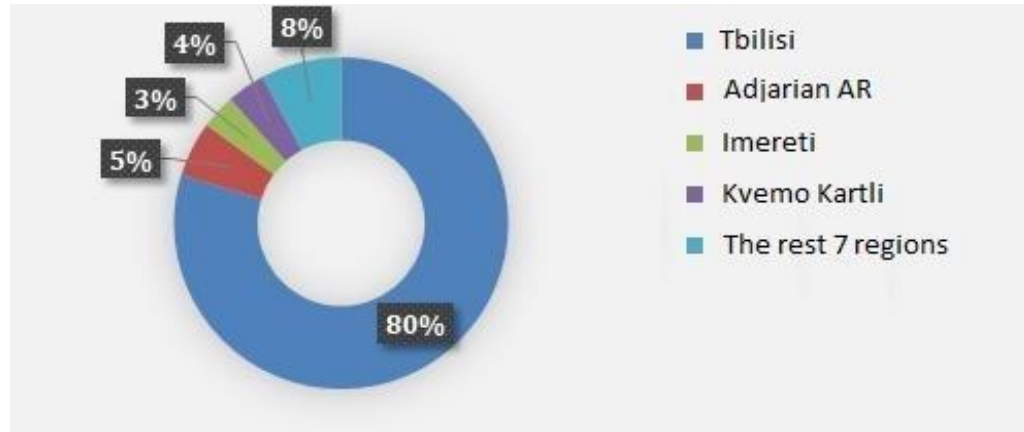
contrast, turnover declined in Racha-Lechkhumi and Kvemo Svaneti, Shida Kartli (95.8%), and Kvemo Kartli (97.7%) compared to the previous year.

The asymmetry in turnover is evident when looking at the share of each region in total turnover and the per capita turnover figures.

Four-fifths of the entire turnover in the entrepreneurial sector comes from Tbilisi, which shows the highest entrepreneurial activity. Along with Tbilisi, three other regions - Adjarian AR, Imereti, and Kvemo Kartli - account for 92% of turnover, while the remaining seven regions make up only 8% (see Figure 1).

Figure 1

Distribution of Turnover in the Entrepreneurial Sector by Region (% share, 2024)

Source: Compiled by the author based on data from the National Statistics Office of Georgia.
(https://www.geostat.ge/ka/modules/categories/326/sacarmota-statistikuri-gamokvleva)

The ratio between the highest and lowest monthly per capita turnover is 25:1 - Tbilisi at 11,780 GEL vs Racha-Lechkhumi and Kvemo Svaneti at 462 GEL. Excluding the capital, the ratio between the minimum and maximum is 6:1.

The level of entrepreneurial activity concentration in Tbilisi is so high that all other regions significantly fall below the national average (5,036 GEL per capita). For example, per capita turnover in Adjara is 1.8 times lower below the average, and in Racha-Lechkhumi and Kvemo Svaneti, it is 11 times lower.

In 2023, the total added value produced in the entrepreneurial sector amounted to 39.8 billion GEL, with a growth rate of 110.2% compared to 2022. The highest growth rates

(over 120%) were observed in four regions: Kakheti, Mtskheta-Mtianeti, Racha-Lechkhumi and Kvemo Svaneti, and Samegrelo-Zemo Svaneti). However, two regions showed a decline: Imereti and Kvemo Kartli (both at 75.6%).

Here too, a significant asymmetry is seen in the distribution of added value (see Figure 2). Tbilisi generates 70% of the entire added value in the entrepreneurial sector. Together with Adjara, Imereti, and Kvemo Kartli, these regions account for 87% of the total, while the remaining seven regions make up just 13%.

Figure 2

Distribution of additional cost in the business sector by region (share in %, 2023)

Source: Compiled by the author based on data from the National Statistics Office of Georgia.
(https://www.geostat.ge/ka/modules/categories/326/sacarmota-statistikuri-gamokvleva)

When analyzing the added value produced per active entity, as expected, Tbilisi leads (219,000 GEL), followed by Mtskheta-Mtianeti (137,000 GEL), and Adjarian AR (110,000 GEL). The high indicators in Tbilisi and Batumi are largely explained by the recent growth in economic activity and increased investments. In Mtskheta-Mtianeti, in addition to these factors, the small number of active entities also plays a role.

For the remaining 8 regions of Georgia, this indicator is quite low and does not exceed 95,000 GEL. The lowest figure was recorded in Racha-Lechkhumi and Kvemo Svaneti (26,000 GEL).

The concentration of added value in Tbilisi and three other regions has led to a negative deviation from the national average (140,000 GEL per entity) for all other regions.

In 2023, total investments in fixed assets in the entrepreneurial sector amounted to 7 billion GEL, with a growth rate of 120.4% compared to 2022.

High growth rates (above 120%) were recorded not only in the capital but also in four regions: Adjarian AR, Guria, Racha-Lechkhumi and Kvemo Svaneti, and Samtskhe-Javakheti. In contrast, a decrease in investment was observed in three regions: Imereti (72%), Samegrelo-Zemo Svaneti (88.2%) and Kakheti (78.4%).

A significant asymmetry is also observed in investments in fixed assets (see Figure 3). As usual, the capital accounts for the largest share (65%) of investments in fixed assets. Together with three other regions - Adjarian AR, Kvemo Kartli, and Samegrelo-Zemo Svaneti - this group covers 88% of all entrepreneurial sector investments in fixed assets, leaving only 12% for the other seven regions.

Figure 3

Distribution of investments in fixed assets in the business sector by region (share in %, 2023)

Source: Compiled by the author based on data from the National Statistics Office of Georgia
(https://www.geostat.ge/ka/modules/categories/326/sacarmota-statistikuri-gamokvleva)

The analysis by active economic entities yielded some interesting results. Specifically, the highest average fixed asset investment per active entity - exceeding the national average of 25,000 GEL - was recorded in Tbilisi (36,000 GEL), Adjarian AR (28,000 GEL), and Mtskheta-Mtianeti (34,000 GEL). The relatively high economic activity in these regions explains these positive trends. In the case of Mtskheta-Mtianeti,

the smaller number of active entities also contributes.

The ratio between the highest and lowest values per entity, including Tbilisi, is 9:1. Excluding Tbilisi, the ratio is 8.5:1.

A generalization of the regional disparities discussed above can be found in the following table:

Table 3

Ratio of Maximum to Minimum Values for Key Indicators of the Entrepreneurial Sector

	Indicator	Unit	Including Capital	Excluding Capital (Regions Only)
1	Active entities	Units	46.6	11.0
2	Turnover	Million GEL	1224.3	82.7
3	Turnover per capital monthly	GEL	25.5	6
4	Added value	Million GEL	363.3	46.0
5	Added value per active entity	Thousand GEL	8.3	5.2
6	Output	Million GEL	402.6	52.8
7	Investments in fixed assets	Million GEL	355.9	68.9
8	Investment per active entity	Thousand GEL	8.2	7.7

Source: Compiled by the author from data provided by the National Statistics Office of Georgia (https://www.geostat.ge/ka/modules/categories/195/biznes-sektori)

A common indicator of regional economic development is the Economic Utilization Index (Ri), which measures the amount of distributed GDP per unit of area (km^2). It is calculated using the following formula (Baratashvili et al., 2009):

$$Ri = GDP_r / S_r$$

Where:

- Ri = Economic Utilization Index of the region
- $GDPr$ = Distributed GDP in the region
- Sr = Area of the region (in km^2)

Table 4

Regions' Area and Distributed GDP (2023)

Region	GDP (mln GEL)	Area (km^2)	Economic Utilization Index (mln GEL/km^2)
Adjarian AR	6,683.4	2,900	13.3
Guria	1,212.8	2,033.2	2.4
Imereti	5,518.9	6,414.7	10.9
Kakheti	3,538.0	11,375	7.0
Mtskheta-Mtianeti	1,909.6	5,606	3.8
Racha-Lechkhumi & Kvemo Svaneti	416.3	4,600	0.8
Samegrelo-Zemo Svaneti	3,828.7	7,468.2	7.6
Samtskhe-Javakheti	2,031.0	6,412.8	4.0
Kvemo Kartli	5,280.1	6,436.2	10.5
Shida Kartli	2,850.7	3,428.3	5.7

Source: Compiled by the author using data from the National Statistics Office of Georgia (https://www.geostat.ge/ka/modules/categories/23/mtliani-shida-produkti-mshp)
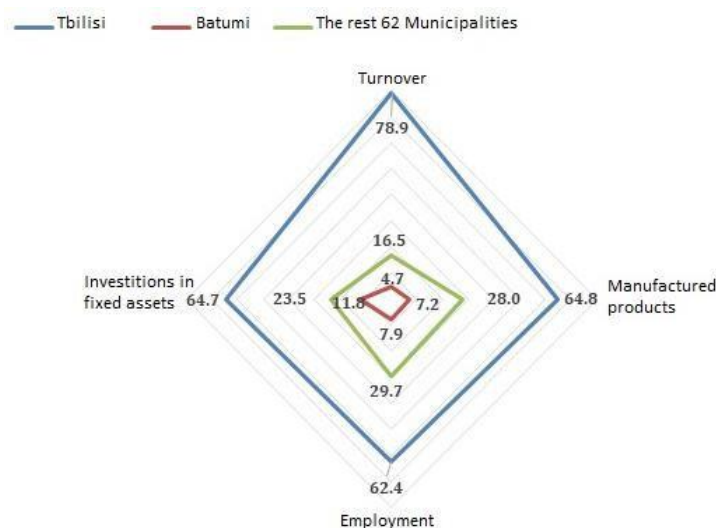
The highest Economic Utilization Index is found in Adjarian AR (13.3 million GEL/km^2) and Imereti (10.9), while the lowest is in Racha-Lechkhumi and Kvemo Svaneti (0.8). The ratio between maximum and minimum values is 16.6.

The concentration of business activity in large municipalities - mostly self-governing cities - suggests that a large share of entrepreneurial activity is concentrated in these areas.

Specifically, self-governing cities account for 88.1% of the total turnover in the entrepreneurial sector, while the remaining 11.9% is distributed across 59 other municipalities, which represent 92.2% of all municipalities.

These cities also generate 79.2% of the total output of the entrepreneurial sector, meaning nearly one-fifth of the output comes from the remaining municipalities.

Figure 4

Comparison of Selected Entrepreneurial Sector Indicators Between Tbilisi and Batumi vs Other Municipalities

Source: Compiled by the author based on data from the National Statistics Office of Georgia
(https://www.geostat.ge/ka/modules/categories/195/biznes-sektori)

78.6% of all employed persons in the business sector are located in self-governing cities, while the remaining municipalities employ 21.4%. Furthermore, 82.3% of investments in fixed assets are concentrated in self-governing cities (Figure 4).

Considering the increased economic activity and the upward trends in certain areas of entrepreneurial development in the last decade, we also presented a comparative illustration of indicators for Tbilisi and Batumi versus the rest of the municipalities. Naturally, this highlights significant differentiation in key indicators of the entrepreneurial sector.

Conclusion

1. As the analysis shows, in the early years following independence, the disparities in regional development levels were not as deep as those observed in subsequent decades. However, the share of the capital city (Tbilisi) has been steadily increasing.

2. A large portion (44%) of economically active entities is concentrated in the capital. Alongside four other regions, these entities comprise 81% of the total, while the remaining six regions account for only 19%.

3. Four-fifths of the entire turnover in the entrepreneurial sector is concentrated in Tbilisi, which also records the highest level of entrepreneurial activity. The level of

entrepreneurial concentration in the capital is so high that all other regions significantly lag behind the national average.

4. There is also significant asymmetry in investments in fixed assets - 65% of the total is invested in the capital. Along with three regions (Adjarian AR, Kvemo Kartli, and Samegrelo-Zemo Svaneti), this group accounts for 88% of all entrepreneurial sector fixed asset investments, leaving only 12% for the remaining seven regions.

5. An examination of the economic activity types in Georgia's regions revealed a relatively narrow range of sectors. For five regions, the dominant field is "Agriculture, Forestry, and Fishing" (accounting for 12-35% of activity). In the capital, almost a quarter (24.6%) of business activity is concentrated in "Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles. "

6. Self-governing cities are responsible for 88.1% of total turnover in the entrepreneurial sector, while the remaining 59 municipalities account for just 11.9%. These cities also produce 97.2% of the sector's output, with the rest contributing just over one-fifth.

7. Overcoming the negative trends brought about by economic crises in territorial units, and fully utilizing regional potential, will be impossible without encouraging balanced socio-economic development across all areas.

8. Eliminating regional disparities, addressing the significant differentiation in key indicators of the entrepreneurial sector, and narrowing the development gap among Georgia's territorial units must become the primary objectives of regional policy.

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