

The role of small and medium size enterprises in regional tourism development: the case of georgia

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Abstract. Tourism industry can have a significant impact on the regional and national economy. Due to the fragmented nature of the industry rational policy should to be developed in order to achieve productive results. Which potentially will positively contribute the balanced development of the national and local economy. Naturally, to study such a complex issue, we have to take into consideration the main trends which exists at the international level as well. It's obvious, that the impact of the tourism industry on the economy is quite fragmented. Tourism enhances the process of creation of working places, tax generation, development of adjacent sectors. The system of the tourism industry can be considered as a platform, which accelerates activities in the economically depressive regions and tourist destinations. The role of SMEs in the tourism industry are crucial, which means, that SMEs can be considered as an important generator for the regional and national economy. It should be mentioned, that small and medium enterprises are more flexible and open to meet the market opportunities. As practice confirms there are no single recipe which can be taken into consideration by the different countries. This article aims to examine how tourism industry can promote balanced growth of local economic activities through the prism of small and medium size enterprises. Furthermore, research paper focuses on the study the developing trend of small and medium entrepreneurship in the tourism and hospitality industry in Georgia.

Keywords: Tourism industry, Local economic development, Tourism Policy, Poverty reduction

1. Introduction

Georgia as a tourist destination and its separate regions have a great potential for tourism development. The country is rich in natural resources, as well as cultural heritage sites and traditions. Which can be considered as a significant prerequisite for the tourism development. Existing reality confirms that, these resources are not properly utilized and rationally used, especially this issue is susceptible from the perspective of the regions. Tourism industry is an important contributor to the economy of Georgia, it's share in the country's gross domestic product in 2018, comprised 7%. Tourism has a positive impact on Georgia's balance of payment, in dynamics of 2013-2017, it is characterized by the growth trend¹. According to official statistical data, share of tourism industry is more than half of service export of the country (67.8%). Herewith, incomes from tourism, according to the data of 2018, exceeds foreign direct investments. These indicators demonstrate the role and contribution of the tourism industry in the Georgian economy. Obviously, the positive effects of the industry development should to be reflected in regional economic activities. Which on the one hand,

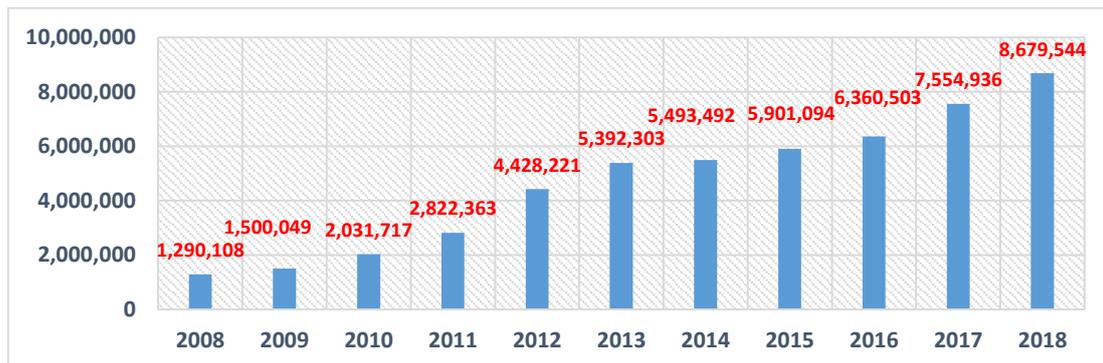
¹ www.nbg.gov.ge

requires a situational and system analysis, that will help us to identify existing problems and on the other hand, it is necessary to establish action plans and prioritize particular directions. Where we have to consider the existing potential and development opportunities of the regions.

1.1 Trends of International Arrivals in Georgia

International arrivals have been increasing in Georgia from year to year, according to the national statistic office of Georgia, international traveler visits in 2018 comprised 8.7 million. The largest share of arrivals comes from the visits from the neighboring countries. The remaining percentage is distributed over the other countries. In 2018 the highest rate is shown by Azerbaijan – with 1,424,410 visits, which is 9.5% more than the similar indicator from the previous year. Increase was observed from the Russian Federation (increase by 23.8%), Turkey (increase by 9.1%) and Israel (increase by 36.4%). The visits from the central and eastern European countries in 2018 have amounted 6, 087, 598, 11.9% increase has been observed compared to the preceding year. It can be said, that the structure of international arrivals from the neighboring and non-neighboring countries are significantly different from each other.

Figure 1.1: Dynamics of international Arrivals in Georgia



Source: Georgian National Tourism Administration

The main motivation for international travelers in Georgia is the holiday, leisure and recreation (42.7%). On the second-place observed visits to the friends and relatives (20.3%). Share of transit is 16.5%, business of professional 8.7%, shopping 6.9%. International travelers in Georgia averagely spent 4.2 nights. It should be noted that, in 2018 increased one-day visits (1.4%), as well as tourist visits 16.9%².

Table 1.1 International Arrivals by Type

Visit Type	2017	2018	Change %	Share%
One Day Visits	2,413,476	2,446,530	1.4%	34.0%

² www.gnta.ge

Tourist Visit	4,069,354	4,756,820	16.9%	66.0%
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Source: Georgian National Tourism Administration

1.2 Regional development policy and small and medium size enterprises in tourism

In dynamics, increasing trends in international arrivals on the one hand, is the possibility to generate more income for small and medium sized enterprises, but on the other hand, it is also challenging, because enterprises should to meet the international standards of service production. In the context of developing countries, tourism industry is distinguished by its unique contribution. Economic outcomes are one of the main motivations for the developing countries to encourage entrepreneurship in the tourism industry (Khokhobaia, 2015).

For achieving the goals effectively developing countries are trying to elaborate and implement the relevant policy at the national and regional level. The majority of the researchers consider the tourism policy as part of a national economic policy (Gee Chuck, Fayos-Sola Eduardo, 1997). In turn, economic policy is a part of a general policy that includes different directions. Correspondingly, it should be harmonized to strategic goals of the general policy. The goals of the general policy constitutes to study the fundamental bases affecting all areas, also it combines and sets up the relevant environmental conditions by establishing different institutions.

Consequently, existing reality in developing countries leads us to elaborate the effective policy in the field of tourism at the regional level as well. The fundamental basis for the success of regional development policy is the maximal involvement of community, business and policy planners in the processes. Tourism researchers David L.Edgell, Jason R. Swanson emphasizes, that public private partnership and involvement of non-governmental sector in developing tourism policy are essential, in order to achieve productive results in a short and long term period (Edgell D. L &Swanson J.R, 2013).

Naturally, one of the central tasks of the regional policy is to increase the well-being of society. The welfare of the population depends on the involvement of local residents in tourism activities. In modern conditions, it has become actual to develop the conception of community-based tourism model, this model creates new perspectives and opportunities for the local actors to develop the supply chain and enhance local economic activities (Khokhobaia, 2016). Community based model includes activities in which are involved local residents, mainly in rural areas. The competitive advantage of this conception is that local residents are represented as a service providers and employees (Okazaki Etsuko, 2008). In other words, local residents are the main actors from the perspective of entrepreneurs. In turn, Local residents can cooperate with national and international tour operators and other organizations from public and private sectors. The above-mentioned activities are necessary for the locals to increase revenue from tourism activity and develop different services. Conception of community-based model meets the principles of sustainable development (Khokhobaia M, 2018). Which implies to maximize the positive effects of tourism development and mitigate the negative outcomes. Ultimately, community-based approach can bring significant benefits to the rural areas, especially in terms of improvement of infrastructure, ameliorate the living conditions of the local residents and etc.

As for the poverty reduction, tourism is recognized in many countries as a tool for poverty alleviation. From that point of view, it is an interesting implementation of ST-EP projects, initiated by World tourism organization. The total portfolio of ST-EP projects under implementation covers a wide range of activities: increasing local economic impact of tourism in selected areas, establishing business linkages between local producers and tourism enterprises, training of local guides, hotel employees and workers of connected sectors, enhancing the involvement of local people in tourism development around natural and cultural heritage sites. Furthermore, providing business and financial services to micro, small, medium and community-based enterprises (UNWTO, 2016).

2. Methodology

In this research applied methodology consists of a literature review and qualitative methods by use of in-depth interviews with the tourism experts and industry representatives. Statistical analysis was used in order to explore existing researches through the prism of small and medium size enterprises in the tourism industry. In the work has been used comparative analysis, synthesis, quantitative based research technique. The work is also supported by the Georgian National Tourism Administration's, the National Statistics office and National Bank's data.

3. Results and discussion

3.1 SME definition in Georgia

It should be noted that, there are no unified definition of SME worldwide. It covers wide range of definitions which varies from country to country and mostly depends on the sources reporting the statistics of small and medium size enterprises. The main aspects for identification of small and medium size enterprises are following criteria: number of employees, turnover, sales, investment, funds and etc. According to the national statistics office of Georgia small and medium size enterprises are defined in the following form: entities of any organizational-legal form which do not exceed following limits for number of employees and annual turnover respectively:

- For small enterprises - 50 employees and 12 Mln. GEL;
- For medium enterprises - 249 employees and 60 Mln. GEL³.

Furthermore, natural person registered as taxpayer can be granted the status of micro business. Natural person can obtain status of micro business, if the following conditions are met: 1. does not use hired work force; 2. independently conducts economic activities and total gross annual income does not exceed GEL 30 000 for a calendar year.

3.2 Role and contribution of small and medium size enterprises

SMEs play an important role in the developing as well as in the developed economy, from the practical point of view it constitutes the powerful engine for the national and regional economic activities. These enterprises are major sources of income generation, technological

³ www.geostat.ge

innovation, which enhances the process of transferring new knowledge to the industry and society.

Obviously, Small and medium enterprises are one of the most important driving forces for the tourism industry. Providing stable business environment is vital for these business entities. Since, they represent the country's economic development, job creation and a significant source of tax generation. World practices and experiences confirm special functions of small and medium enterprises in terms of developing a local supply chain, enhancing economic activities at the regional level and etc. These functions include strengthening the mechanism of competition, introduction of innovations, social functions and etc. (Vanhove N, 2005).

In order to increase the contribution of small and medium size enterprises in the regional tourism development, it's necessary to support entrepreneurial activities, improve legislative regulations, develop and implement effective policies towards sustainable development. From this point of view, interesting approaches are developed by the Organization for Economic Development and Cooperation (OECD). Which in turn implies simplification of the legislative regulations, special focus is on a range of issues such as: business environment, improvement of education system, availability of finance and attracting investments (OECD, 2012).

In Georgia since 2005, fight against corruption, facilitation the privatization process, gave extensive possibilities of entrepreneurial entities, which has already been positively reflected in the international rankings of the country. Position in the international rankings plays an important role in case of attracting investments, ensuring the positive image of the country by foreign investors (Gaprindashvili, 2015).

According to the World Bank's doing business report Georgia has moved from 112th in 2006 to 15th. In 2019 country is ranked in the 6th position, it can be said that, Georgia is a leading country in the region in terms of regulation for a starting business, dealing with construction permits, getting electricity, registering property, getting credit (World Bank, 2019). Assessment of the mention rankings gives the possibility to objectively look at domestic small and medium size companies and the existing regulations.

It should also be noted that, mentioned rankings gives the overview of the main points about the existing situation, but it' does not draw the comprehensive picture about operational processes in business and poorly reflects the problems faced by small and medium sized companies.

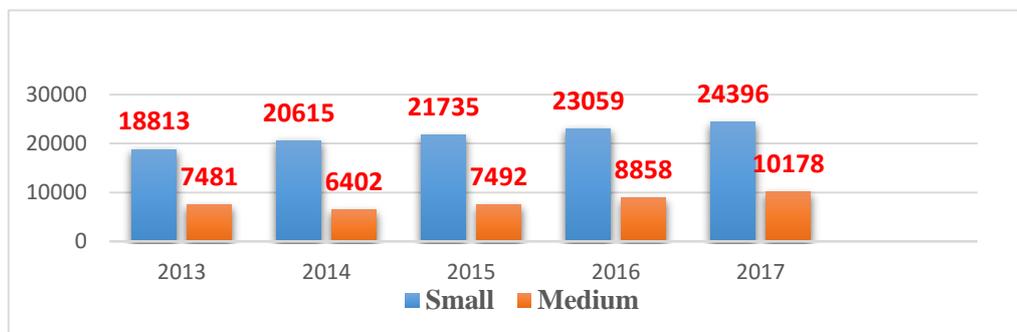
Since 2005, 37 reforms have been implemented in the country, which had both institutional and regulatory character. As a result of structural reforms and changes the number of licenses and permits reduced, significant changes initiated in the tax code (number of taxes decreased from 21 to 6), which generally simplified the rules for the business subjects and gave the nudge towards the development from the national and regional perspective. The outcomes of the structural reforms are reflected in the international rankings mentioned above and it determines the particular position of the country.

According to the data of the National Statistics Office of Georgia, the number of registered enterprises during the last 5 years are increasing. According to the data of 2017, 639427 enterprises were registered in the database. The leading industries by the number of registered entities are: wholesale and retail trade – 132926, manufacturing – 28557, construction – 16497, transportation and storage – 15972. Increased observed in accommodation and food service

production, in 2017, 13627 registered business enterprises, compared with the same period of the previous year growth 5%⁴. However, accommodation and food service activities are only the part of the tourism industry, available official statistical data gives us the limited possibility and makes difficult in-depth analysis of the existing trends, because it's not impossible to identify other service suppliers, for instance, recreational and entertainment service providers, tour operators and travel agent and etc.

The number of employees (Accommodation and food service providers) have been increasing in small and medium size enterprises. The graph below shows in dynamics the number of employees in small and medium size enterprises in Georgia. It should be noted, that accommodation and food service activities employ the largest number of workers in the tourism industry.

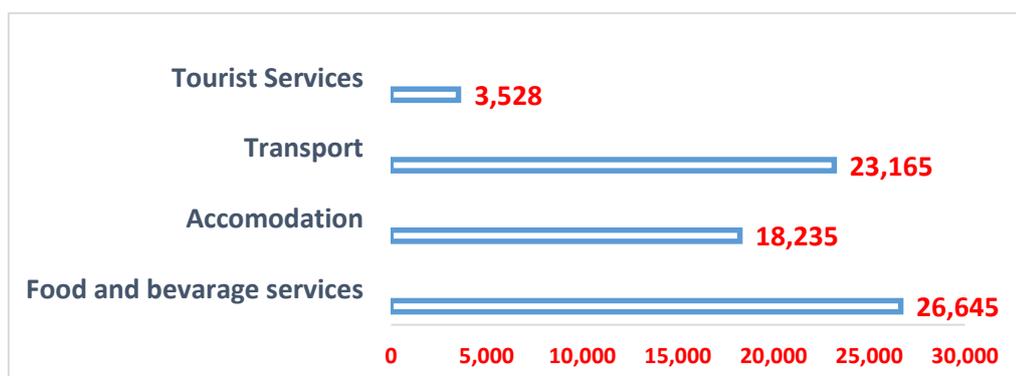
Figure 3.1: Number of employees in accommodation and food service sector



Source: National statistics office of Georgia

According to the data of 2018, a number of employed people in transportation services comprised 23,165, which is 32% of the total employees. The graph 3.2 shows the distribution of employees, according to the types of economic activities.

Figure 3.2: distribution of employees by types of economic activities



Source: Georgian National Tourism Administration

⁴ www.geostat.ge

It's obvious, that tourism destinations are dominated by small and medium-sized enterprises. Herewith, from this perspective regions have a significant potential in terms of development. At the local level mentioned enterprises can play the role of accelerator, because small and medium size enterprises are offering wide range of product, such as transportation, travel services, accommodation and etc.

3.2 Problematic areas in tourism related businesses and regional development

Development of the tourism industry in the long-term dynamics impossible without qualified labor forces (Watson J. 2010). It should be noted, that lack of qualified staff constitutes a significant challenge for the small and medium enterprises operating in the regions of Georgia. One of the hindering factors of tourism business development is the low qualification of staff on the labor market. Obviously, the competitiveness of the industry in the long term period depends on the employee skills and qualifications. A number of research carried out in the different countries confirms the positive correlation between human capital, economic growth and industry productivity (Javier M. et al., 2003).

Special attention is paid to the aspects of labor force development in the social-economic development strategy 2020 of the Government of Georgia. Where it's highlighted the role and significance of workforces adapted to the labor market requirements. Which is recognized as an important precondition for the country's sustainable development and inclusive economic growth ⁵.

Tourism industry is distinguished with rapid changes, that requires the use of appropriate retraining and reskilling tools. Initiatives and ambitious programs of public investment directly will influence to the employability of the individuals. In this regard, having of the professional training system is vital in order to transfer the knowledge to the relevant target groups. In recent years, significant changes have been made in Georgia, in terms of professional education, through this prism tourism and hospitality industry is recognized as one of the leading economic activity in the country (Khokhobaia&Arghutashvili, 2014).

Furthermore, availability of the financial recourses should to be considered as a critically important factor for small and medium size enterprises. Accesses to financial recourses are vital for the business subjects, actuality of this issue increases in case of small and medium size business entities. Tourism is a labor-intensive industry, correspondingly majority of the business subjects are small and medium size enterprises. It's essential for those companies to provide credits and grants program. On the one hand, for this is responsible governmental bodies and on the other hand, financial institutions operating in the country. For this purpose, it is recommended to create a strong platform for private-public cooperation. For instance, in a number of countries so called „soft loans” programs with favorable interest rates have been implemented successfully, for the renewal and development of small and medium enterprises.

Some Part of the business subjects working in the tourism industry are distinguished by seasonal activity, so that individual approaches are recommended to such a business subject. Particular attention should to be paid to the entrepreneurs working in the regions, who perform

⁵ www.mrdi.gov.ge

significant functions in terms of job creation (Arghutashvili&Gogochuri, 2019). One of the hindering factors in the development of small and medium business in Georgia is high interest rates, which entails entrepreneurs to be a heavy burden, and in most cases their activities end up in bankruptcy.

To improve the existing situation more efforts are required from the state in order to focus on the practical schemes, such as co-financing of interest rates, warranty systems, collateral assistance etc. It is also possible to implement in practice innovative financial mechanisms, which should be adapted to the Georgian reality (OECD, 2012). From this point of view it's an interesting exploring the experience of Turkey, where implementing the liberal tax policy, long term tax exemption resulted accelerating the economic activities and rapid development of the tourism industry.

With the internal financial resources special attention should to be paid to the attraction of the foreign direct investment. For this, it is necessary to create healthy investment and business environment in the country. Considering the specific characteristics, the attractive sectors are transport and communications, agriculture, energy and tourism. Despite the fact, that there is a liberal investment environment with low bureaucratic barriers, which is reflected in reduced taxes, simplified licenses and permits, there are a number of problems that need to be solved for achieving more productive results (Khokhobaia, 2015).

In terms of attracting investments, Georgia should objectively assess the processes and challenges in the global and regional economy. Obviously, geographical location and climate conditions of the country determines the favorable environment in the tourism industry for investments. Tourism can have a positive impact to the adjacent sectors of the economy, which empowers local supply chain in the regional system. Due to the potential of the regions of Georgia: resorts, cultural heritage, natural resources, traditions and etc. There are all possibilities and prerequisites to position the country as a successful tourist destination worldwide. For this purpose, it is necessary to work with the state and private sector.

One of the major challenges of the regions of Georgia is unequal development. There are many problems in this regard, majority of Georgia's population lives in the municipal centers and economically active areas. In this case it is necessary to adequately understand and analyze the reasons of inequality. Which on the one hand, could be depend on the natural and geographical peculiarities of the locations, and on the other hand, to the different levels of social infrastructure, industrial, tourism and agriculture development. It can be said, that strengthening of the tourist activities promotes the local supply chain, which is an important prerequisite in terms of social and economic development. In addition, tourism can stimulate other economic activities and sectors, such as: agriculture, industry and craftsmanship, construction, transportation, education etc.

In order to analyze in depth existing situation at the regional level, it's essential to study and evaluate the strategic development documents. Undoubtedly, Strategic plans represents the vector in terms of long-term development of the regions. The aim of the regional strategy is to promote socio-economic development of the regions, increase the welfare of the population, create job opportunities, establish new market opportunities, enhance sustainable economic development, etc.

In the given documents, in Georgia at the regional level tourism is recognized as the strategically significant direction. Current challenges and unstable environment require in depth analysis of the hindering factors in the regional system. Despite the fact, that strategic development plans consider diverse views in terms of local economic development, it's necessary to specify result-oriented indicators and determine responsible authorities for the action.

The analysis of the strategic development documents shows, that the current problems are often identical to most regions of Georgia. It should be outlined the following factors:

- Low level of human resources development;
- Lack of knowledge of tourism as a business activity;
- Low level of tourism infrastructure development;
- Weak commercialization of cultural and historical monuments;
- Lack of implementation municipal projects supporting tourism development.

According to the outcomes of the recent studies, knowledge of doing business has become a critically important factor, especially for the small and medium size enterprises operating in the regions. As mentioned, SMEs lack the necessary knowledge which should be transferred from public and private organizations. From that point of view, the role of educational institutions and the educational system itself are crucial (Martinez-Roman, Tamayo, Gamero, 2015). It is obvious, that there are other options as well, some practical knowledge which exists in the business society, which should be rationally used for achieving productive results. In this process, involvement of the stakeholders linked to the business system can be considered as a significant factor, in order to leverage the skills of the different partners (Okazaki Etsuko, 2008). The use of transdisciplinary approaches are efficient in this process, which aims to integrate scientific and experiential knowledge, which meets to the conception „science with society” (Khokhobaia, 2018).

From the point of view of knowledge transfer, which constitutes an important accelerator for small and medium enterprises can be considered the association agreement between the European Union and Georgia. The Association Agreement aims to deepen political and economic relations between the EU and Georgia. According to the agreement parties will cooperate in the field of tourism, with the aim of strengthening the development of a competitive and sustainable tourism industry as a generator of economic growth and empowerment, employment and international exchange (Association Agreement, 2014). This agreement is a significant platform for Georgia, it can make significant changes in terms of the regional development. Cooperation will be based on the following principles: respect for the integrity and interests of local communities, particularly in rural areas, bearing in mind local development needs and priorities; the importance of cultural heritage, and positive interaction between tourism and environmental preservation (Gaprindashvili, 2013).

Furthermore, particular issues are determined within the framework of the agreement. For instance, cooperation will focus on the following topics:

- exchange of information, best practices, experience and ‘know-how’; maintenance of partnership between public, private and community interests in order to ensure the sustainable development of tourism;
- promotion and development of tourism flows, products and markets, infrastructure, human resources and institutional structures;

- tourism training and capacity building in order to improve service standards, (Association Agreement, 2014)⁶.

Especially for Georgia cooperation will be useful in terms of developing human resources, developing products and markets, implementing effective policies and improving infrastructure etc. However, it should be noted that it is necessary to use reasonably the capabilities considered within the framework of the agreement. Furthermore, European Union supports Georgia within the framework the Eastern partnership program, which aims to deepen relations between the European Union and six Eastern neighbors, Georgia, Armenia, Azerbaijan, Belarus, Republic of Moldova and Ukraine. EU4Business is a effective platform which provides support to small and medium-sized enterprises, EU4Business provides: access to finance, access to markets, access to knowledge. Mentioned platform in Georgia supported in total 23 project. Between 2009 and 2017, 4 projects have been concluded, while 19 are still ongoing. Up to 10 projects have been established to improve access to finance, 3 to Strengthen policy and regulatory framework, 6 to Improve knowledge base and business skills, and 4 to improve access to markets.

4. Conclusion

Based on the mentioned above it can be said, that for stable development of small and medium size enterprises, it's necessary establishment of the relevant policy on the national and also on the regional level. The outcomes of the research confirms and revealed the main obstacles and problems in small and medium size enterprises in the context of the regional development. It's obvious, that tourism enterprises can impact positively to the local community, it also can be considered as an accelerator of the local development, especially economically depressed areas. It is essential to strengthen working toward transferring the knowledge in tourism, challenging issue is funding, for small and medium enterprises and entrepreneurs it's hard to attract financial resources. Furthermore, biggest obstacle is a lack of qualified human resources, especially in the regions of Georgia. It is expedient for the country effectively use the opportunities considered in association agreement between EU and Georgia and the platform EU4Business, which provides and gives more extensive possibilities for small and medium size enterprises in case of access to finance and markets, access to knowledge.

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⁶ https://eeas.europa.eu/sites/eeas/files/association_agreement.pdf

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