

Sustainable State Procurements and Business in Georgia

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The present paper shows the importance of sustainable state procurement in economic development of countries, including Georgia, emphasizing that access to investments and international financial resources is still a significant barrier for SMEs (small and medium enterprises) on the way of sustainable state procurement. The paper gives the analysis of qualitatively new challenges of state procurement for SMEs during Covid-19 pandemic, such as the limited access to the procurement market, scarce investment resources, insufficient use of modern technologies, lack of information about procurement, poor knowledge, little access to e-tenders, lack of e-platforms, etc. The paper offers types and mechanisms of support of local SMEs during the state procurement. According to the study the sustainability of state procurement should be assessed in terms of its socioeconomic and environmental impacts. the economic efficiency indicator evaluates the degree to which the environment supporting SMEs improved and the amount of foreign investments made in private sector. The social efficiency indicator should show how much the state procurement improved employment, working conditions, labor standards and ethical behavior of civil servants, suppliers and contractors, while the environmental impact should be evaluated by looking at the performance of supply chains, use of renewable energy, degree of natural resource protection in small and medium businesses. © 2022 Bull. Georg. Natl. Acad. Sci.

state procurement, SMEs, procurement challenges

Recent approaches of economic development used at the national and international levels are not sustainable. It is true that poverty decreased in many countries of the world, but it entailed increased environmental costs. The demand for resources increased owing to the world population growth. These and other unsustainable development activities, both in developing and developed markets, entailed a number of negative processes

and violated the balance between society and economic development.

Sustainable state procurement is the means to ensure that the balance between society and economic development is maintained. Its primary goal is to achieve the best possible balance between the economic, social, and environmental determinants of sustainable development.

State procurement transactions frequently overlook the negative consequences of socio-economic impacts on the environment, instead focusing on increased production and market diversification, as well as gaining economic benefits through cost reduction. Most of these processes are realized by disregarding the principles of ecologically sustainable development, without taking into account “green” sustainable consumption practices and modeling in favor of the general public.

Access to investments remains a significant barrier for SMEs on the way of sustainable state procurements, while access to international financial resources is even more challenging for small businesses. The preference of the Georgian banks for the centralized credit system makes obtaining loans for this type of enterprises, particularly in the regions, rather challenging. Alternative, non-banking loans and financing mechanisms are similarly limited for SMEs; leasing and factoring are used improperly, venture capital environment is underdeveloped, and legislative initiatives concerning investment funds are ambiguous and meager.

Implementing sustainable state procurements using the principles of transparency and accountability, developing the models of sustainable production and consumption and closing market gaps for green investments in small and medium business environment allow efficient implementation of national economy development strategies, while positive results are expected, particularly in the development of small and medium businesses.

The goal of the study was to develop recommendations to create opportunities for SMEs in Georgia by identifying the challenges of sustainable state procurement and investment environment.

Study Methods

The study used many theoretical-methodological research tools, including problem-specific bibliographic study. Analysis, synthesis, selection, induction and other methods were used to identify

similarities and differences between the views of different researchers, experts and business representatives.

Various reports, databases and websites of appropriate national and international organizations, data from Ministries of an economic profile in Georgia and National Statistics Office were used in the research process.

Challenges of Sustainable State Procurement

During the pandemic SMEs faced entirely new challenges suffering most from the production decline parameters. It is sufficient to note that the SME turnover rate decreased by 10% in 2020 compared to the previous year, as did the share of export and import in total volume. In 2020, the share of goods exports of Georgia accounted for 29.3% of total turnover and goods imports was 70.7% (https://www.geostat.ge/media/39340/External-Merchandise-Trade-2020_publication-2021.pdf).

As for large businesses, it is true that the growth rate could not be maintained, but the production values did not show any decline either. This period was marked by a different trend in investments. The said indicator began to fall in 2018; however, it is interesting that the same trend was not identified for the enterprises of different sizes. Notably, large businesses have a consistent high share of total investment volume, while SMEs continue to face challenges [1].

Thus, SMEs are more vulnerable to crises, with fewer response tools. Central to the search for a solution is the new paradigm – the activation of the role of the state [2]. Implications of foreign direct investments for transition economies were amplified in the context of the Covid-depression. According to the studies, the only way to overcome the severe consequences of Covid-depression is to strengthen the role of the state in the economy [3]. Consequently, identifying the challenges during the crises and development opportunities based on priority needs is critical.

During the pandemic, the development of SMEs was particularly hampered by problems of state procurement, such as limited access to the state procurement market, deterioration of the investment environment, insufficient use of modern technologies, limited procurement information, lack of knowledge, lack of access to e-tenders, lack of appropriate e-platforms, and so on.

The study of the state procurement system in developing countries, where the participation of SMEs in state procurement is low, receives special attention. The researchers used a ranking method to find that the main reason for the insufficient participation of SMEs in state procurement is insufficient transparency of state procurements and disproportionate criteria for admission to tenders [4].

Scholars thoroughly studied the issues caused by unequal procurement conditions for foreign-owned and domestic companies. It may be said that proper procurement systems save organizations up to 25% of total costs; major tenders are subject to political interference, which contradicts the principle of policy administration dichotomy – politicians are primarily responsible for policy development, not policy implementation [5]; the state policy should exert sufficient influence on the international investment market and be able to attract foreign investment resources to the country, which are limited already.

State procurement is seen as a strategic management tool to ensure sustainable growth [6]. Sustainable state procurements for start-ups can be viewed as a motivator for starting a business. Studies of the state procurement market helps identify the kinds of goods and services needed by state institutions, which, consequently, find it easier to correctly set the goals of their activities in desired industry [7, 3,4].

Georgia's state procurement potential is underutilized. In this regard, the experience of various countries should be examined in terms of

synergy of industrial and state procurement policies [8].

Governments can help strengthen local SMEs through procurement. International experience shows that countries allow foreign companies to participate in local state procurements, but preference is given to the companies that manufacture the product locally and/or source the raw materials for products locally.

The state procurement sector in many countries was mostly closed for participation in international tenders; however, as integration of the countries intensified and the principle of competition was declared a priority, this market segment started to liberalize.

Consideration of the principles of circular economy will be critical in the development of SMEs. During the shift to circular economy Green state procurement is necessary to develop. Currently, the potential to shift to circular economy underutilized in state procurement. Green purchases make it possible to obtain ecologically clean products, and it is also important to consider the trends in agribusiness development [9]. Thus, this kind of procurement will contribute significantly to sustainable consumption and production. Green procurement relies on principles of pollution prevention [10].

Green procurement is entirely voluntary. It is, however, an important tool for SMEs in developing international relations and entering markets, as well as a strong incentive for innovation.

SMEs development contributes significantly to achieving the goals of sustainable development, while sustainable state procurement plays an important role in achieving these goals as well as contributing to the improvement of business investment environment in Georgia.

Georgia ranks 56th out of 165 countries in terms of achieving sustainable development goals. However, as the Sustainable Development Report states, the country faces significant challenges in

achieving such goals (<https://idfi.ge/ge/sdg-report-2021-georgia-results>).

Sustainable state procurement helps shape sustainable economy making it possible to develop sustainable demand for goods and services. The government can encourage the development of SMEs by means of preferential tenders. Similarly, state procurement may encourage the development of new green industries in the national economy, and stimulate global demand for high-quality sustainable goods and services.

Sustainable state procurement aids in developing stable domestic markets and attracting foreign direct investments. Three main factors are especially important for foreign investors in making an investment decision: low taxes, labor and investment costs. State procurement also supports the private sector in attracting investments for green and climate-friendly initiatives.

Sustainable state procurement is a powerful tool for local and national governments in achieving social and environmental policy objectives.

Georgia has a small, but open market and it benefits from international trade, tourism and transportation, the areas among others affected by Covid-19 pandemic. Consequently, creating an appealing business environment, investing in various sectors and strengthening state financial management became topical issues. Despite the atypical crisis positive trends in the Unified Electronic System of State Procurement were observed with a number of contracted tenders increasing from 71% to 74%. In 2020, 2,652 new suppliers were registered in the State Procurement System. The proportion of suppliers registered in the system is approximately 25% of all active economic subjects registered in the country.

Every year, the State Procurement System has up to 3,000 new business subjects, and the mean participation ratio of SMEs in each tender is increasing, but is still low. The biggest challenges are low tender participation, lack of competence

and open tenders with negative result accounting for an average of 26% [4].

Managing investment processes is critical to running a successful business. In this regard, state procurement should ensure that companies budgets are spent efficiently in receiving high-quality products and services. As a result, investment management is critical in developing the effective state procurement strategy.

Improving state procurement systems maximizes investment returns and promotes economic growth.

The sustainable state procurement system in Georgia is still being formed and faces a number of challenges. By identifying inconsistencies and eliminating gaps, it is possible to improve it, and to develop efficient evaluation indicators of a sustainable procurement system.

Traditional methods of increasing gross domestic product (GDP), income, or employment no longer involve depleting resources or polluting the environment. Balance must be established between resource extraction and economic growth. Sound state procurement must provide the balance, thereby saving natural resources for future generations.

In 2020, the total volume of state procurement was 10.4% of GDP what is insufficient to ensure that the goals of sustainable economic development are met.

State procurement can be used to not only stimulate the development of SMEs, but also to solve many environmental problems. Based on the foregoing, it is critical for Georgia to employ green state procurement mechanisms. Innovative products and technologies must be introduced to encourage green investments, one of which should be the development of the concept of sustainable state procurement. This will be an important tool for the development of a green economy while also increasing the share of state procurement in GDP and contributing to overall economic growth.

Sustainable state procurement should be evaluated in terms of economic, social and environmental impacts.

The first step in assessing the economic efficiency with relevant index should be to determine the extent to which the environment supporting SMEs improved and amount of foreign investment made, including in private sector.

As for social efficiency, the evaluation should determine how much procurement improved living and employment standards, working conditions, labor standards, as well as the ethical behavior of civil servants, suppliers and contractors.

Environmental impact should be measured through the operation of sustainable supply chains in small and medium-sized businesses, the use of renewable energy sources, the level of natural resource protection and so on.

Thus, sustainable state procurement significantly influences the development of SMEs. Consequently, challenges in this area are essential to identify. The latter may vary depending on the firm's size, field of activity, organizational structure, and other factors. Notably, public sector procurement differs from private sector procurement, but still, both face significant challenges.

Based on bibliographic research done to identify gaps and inconsistencies in the state procurement market of Georgia, interviews with focus groups of public and private sector representatives and grouping similar materials, several major challenges were identified at SMEs and certain recommendations were developed for them:

- Participation and winning rates of SMEs in state procurement are low, owing primarily to problematic access to investment resources and presentation of bank guarantees when obtaining guarantees. Companies in regions extremely limited access to investment and information resources. It is recommended that transparent e-mechanisms for obtaining bank guarantees be

developed in order to increase the rate of participation in state procurement and improve access to banking resources. It is suggested that guarantees be made electronically, as this will give SMEs an easier access to banking resources.

- SMEs are limited in controlling procurement processes via e-platforms. Due to the lack of online e-procurement portals, SMEs are unable to compete with large corporations, which are equipped with thorough databases for procurement transactions. Improving the mechanisms to engage SMEs in the centralized procurement platform based on modern technologies, as well as facilitating the procurement procedures through system optimization will significantly improve the participation of SMEs in the process of state procurement. Sustainable state procurement can be achieved by applying novel approaches and modern digital technologies.
- Lack of funds and less access to investment makes it extremely difficult for small and medium-sized companies to participate in state procurement, and their share in green procurement is quite low. Today, small and medium-sized businesses find it most difficult to make green investments. One important opportunity for overcoming market problems is to stimulate demand for investment and the development of state procurement mechanisms in this direction. To increase the level of participation of SMEs in state procurement processes, particularly municipal enterprises, it is advisable for the state to provide programs and incentive packages.
- Confidence of SMEs in procurement processes is too low; terms of participation are sometimes unfair and unequal, and the environment is not transparent; timeframes for resolving various complaints differ; there are inconsistencies in the processes and rights of applicants to submit and implement complaints; and the terms of

concluding contracts are unclear, and so on. It is necessary to improve transparency and accessibility within the state procurement system by publicizing all stages of the procurement process, improving access to widely sought information, developing mechanisms consistent with common standards of data publication and international procedures, etc.

- The qualifications of suppliers and buyer expectations within the state procurement system are frequently inconsistent. Problems with this process have negative impact on the development of continuous supply chain and long-term relationships with buyers. It is
- necessary to provide the demanded and real services in accordance with customer expectations. It is desirable to duly inform and train sector representatives regarding procurement procedures used at the international level. In order to engage representatives of SMEs in international state procurements, the state procurement legislation should be elaborated.
- Currently, green investments are hardest to achieve for SMEs. One of the important opportunities to overcome the gaps in the market is the formation of state procurement mechanisms.

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სტატიაში დასაბუთებულია მდგრადი სახელმწიფო შესყიდვების როლი ქვეყნების, მათ შორის, საქართველოს ეკონომიკის განვითარებაში. ხაზგასმულია, რომ მდგრადი სახელმწიფო შესყიდვების განსახორციელებლად მცირე და საშუალო ბიზნესისთვის მნიშვნელოვან ბარიერად რჩება ინვესტიციებსა და საერთაშორისო ფინანსურ რესურსებზე წვდომა. ნაშრომში გაანალიზებულია პანდემიის პერიოდში მცირე და საშუალო ბიზნესში წარმოქმნილი თვისებრივად ახალი გამოწვევები სახელმწიფო შესყიდვების მიმართულებით: შესყიდვების ბაზარზე შეზღუდული წვდომა, მწირი საინვესტიციო რესურსები, თანამედროვე ტექნოლოგიების გამოყენების დაბალი დონე, შესყიდვების შესახებ ინფორმაციის შეზღუდულობა, ცოდნის დაბალი დონე, ელექტრონულ ტენდერებზე ნაკლები წვდომა, ელექტრონული პლატფორმების დეფიციტი და სხვ.; სტატიაში შემოთავაზებულია სახელმწიფო შესყიდვების საშუალებით ადგილობრივი მეწარმეების და/ან ადგილობრივი წარმოების მხარდაჭერის მექანიზმებით ადგილობრივი მცირე და საშუალო კომპანიების გაძლიერების შესაძლებლობები. კვლევის შედეგად მიღებული დასკვნის მიხედვით: მდგრადი სახელმწიფო შესყიდვები სოციალურ-ეკონომიკური და გარემოზე ზემოქმედების ეფექტიანობის თვალსაზრისით უნდა შეფასდეს; ეკონომიკური ეფექტიანობის ინდიკატორით შეფასებისას უნდა განისაზღვროს რამდენად გაუმჯობესდა მცირე და საშუალო ბიზნესის ხელშემწყობი გარემო, რა ოდენობის უცხოური ინვესტიციები განხორციელდა, მათ შორის, კერძო სექტორში; სოციალური ეფექტიანობის კუთხით შეფასებამ უნდა გამოავლინოს სახელმწიფო შესყიდვებმა რამდენად გააუმჯობესა დასაქმების დონე, სამუშაო პირობები, შრომითი სტანდარტები, საჯარო მოხელეების, მომწოდებლებისა და კონტრაქტორების ეთიკური ქცევები; გარემოზე გავლენის ეფექტიანობა საჭიროა შეფასდეს მცირე და საშუალო ბიზნესში მდგრადი მიწოდების ჯაჭვების ფუნქციონირებით, განახლებადი ენერჯის გამოყენების, ბუნებრივი რესურსების დაცულობის დონით.

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Received June, 2022