

Assessment of the Effectiveness of Small and Medium-Sized Business Participation in Public Procurement in Georgia

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Abstract. Small and medium-sized businesses are the driving force of the economy in the modern world. This sector is mostly focused on creating new products or services, and companies can quickly adapt to changing market demands. Due to the socially and economically beneficial effects of small and medium-sized businesses, they are an area of strategic interest. The aim of the paper is to determine the impact of public procurement on the development of small and medium-sized businesses. In many countries, the government is the largest purchaser of goods and services. Small and medium-sized businesses play a crucial role in the country's economic development, which is linked to technological progress and the creation of constantly updated and consumer-oriented products. Since the impact of small and medium-sized businesses on the country's economy is crucial, it is necessary that their development and strengthening be a priority of state economic policy. This study employs linear regression analysis method, to assess the impact of the volume of government procurement in Georgia on the turnover of small and medium-sized businesses. The results obtained show that an increase in the total value of contracts concluded within the framework of public procurement will increase the turnover of small and medium-sized businesses. In addition, the correlation coefficient obtained from the analysis indicates a strong relationship between these variables. © 2025 Bull. Georg. Natl. Acad. Sci.

Keywords: small and medium businesses, public procurement, regression model, business turnover

Introduction

Despite many steps forward in Georgia, legislative changes, and improvements in the business environment, small and medium-sized businesses still face many difficulties that hinder their involvement in public procurement.

Over the past decades, rising incomes, market demand, and advanced technologies have enabled

small and medium-sized businesses to strengthen their comparative advantages and overcome the difficulties caused by a lack of resources and limited ability to exploit economies of scale (OECD, 2017). Small and medium-sized businesses stimulate competition, which reduces prices and increases efficiency. Small and medium-sized businesses help large businesses in some areas of

activity. Otherwise, big business will be forced to engage in activities that may not be financially profitable for it.

Public procurement is a set of rules, principles and procedures to ensure efficient, targeted procurement (Arciniegas, 2023). Government procurement affects both domestic and international trade, as the government spends approximately 10-15% of GDP (Ballard, 2012).

Theoretical and Methodological Aspects of the Study

Governments play an important role in times of crisis (Silagadze A. , 2022). Governments often use public procurement to support and encourage local small and medium-sized businesses (Bell & Tayler, 2016). There are more than 23 million small and medium-sized businesses operating in the European Union, accounting for 99% of all businesses (European Union Law, 2023). This sector employs around 100 million people and accounts for more than half of Europe's GDP (European Commission, Internal Market, Industry, Entrepreneurship and SMEs, 2022). Supporting small and medium-sized businesses is important for the region's economic development, sustainability, and prosperity (European Commission, SME regional policies, 2023). The involvement of small and medium-sized businesses in public procurement is one of the most important tools for the development of the sector, achieving economic and social goals (Musanzikwa, 2013). The US and EU procurement policies support small and medium-sized businesses (Kidalov, 2013). Nevertheless, this sector is characterized by low digitalization and ineffective competition (Yape, 2019). Governments in developing countries should invest heavily in e-procurement infrastructure to ensure its use by all sectors (Ahudey, 2020). The Georgian economy has not yet reached the desired scale, and the income level of a large part of the population is still low (Silagadze, 2018). Georgia's economic backwardness is caused by the absence of a legal

and institutional framework for strategic development planning (Jibuti, 2021).

Sustainable public procurement is a powerful tool for local and national governments to achieve social policy goals (Kharashvili & Atanelishvili, 2022). In addition, the United Nations Industrial Development Organization (UNIDO) attributes one of the most important roles to public procurement (Khundadze, 2022). Increased competition makes it possible to obtain higher quality at lower prices, while also using resources efficiently (Afolabi, Ibem, Aduwo, & Tunji-Olayeni, 2020). Public procurement is a complex, multi-level and interdependent system (Mulic & Ulian, 2021). Therefore, sound public procurement policies and practices are essential not only to save money, but also to achieve strategic goals (Chiappinelli, 2015).

Business involvement in public procurement in Georgia is growing. In 2014-2024, 59,475 suppliers were registered in the Unified Electronic System for Public Procurement, including 3,243 business entities in 2024. The total value of contracts signed with Georgian companies in 2024 amounted to 6,192,816,504 GEL (State Procurement Agency, Activity report for 2024, 2025).

Public procurement is an important tool for the development of small and medium-sized businesses. In 2024, the total value of public procurement was 8,142,040,776 GEL, which is approximately 9% of GDP (State Procurement Agency, Activity report for 2021, 2022). Unfortunately, currently there are no statistics in Georgia that reflect the exact involvement of small and medium-sized businesses in government procurement. Creating a favorable environment for small and medium-sized businesses in the field of public procurement will greatly contribute to the development of this sector, given that small and medium-sized businesses contribute to job creation, innovation, and economic growth (Nicholas & Fruhmann, 2014). Small and medium-sized businesses are the backbone of any healthy economy (Crown Commercial Service, 2023).

Small and medium-sized businesses face a number of difficulties in participating in public procurement, which are related to various reasons, including the large volume of the procurement object, insufficient experience, lack of qualifications, and ignorance of the legislation. In addition, there are many obstacles that limit the ability of small and medium-sized businesses to participate in tenders (Suliantoro, Winarno, & Handayani, 2020).

In addition, in some cases, small and medium-sized businesses fail to meet technical and qualification requirements and/or are unable to mobilize documentation and resources within tight deadlines (State Procurement Agency, Methodological guidelines for the promotion of participation of small and medium-sized enterprises in public procurement, 2017). A hindrance to participation in government procurement for some organizations is the subsequent reimbursement of the purchase price.

Procuring entities have a responsibility to conduct public procurement in a competitive, fair, and non-discriminatory manner. These practices provide the organization with the opportunity to achieve financial and qualitative benefits. Public procurement should also provide social benefits to the country (Silva & Scott, 2015). In order for businesses to benefit from participating in electronic tenders, it is necessary not to restrict the interests of private individuals, since in most cases, small and medium-sized businesses do not have the opportunity to participate in large-scale public procurements. Ultimately, it is important that targeted state policies make participation in public procurement as favorable as possible for small and medium-sized businesses.

Methodology

To determine the relationship between the volume of government procurement and the turnover of small and medium-sized businesses, a linear regression analysis method was used using Microsoft Excel. The data required to conduct the study for the years 2015-2024 are given in Table 1.

Table 1. Total value of contracts concluded within the framework of state procurement (billion GEL), turnover of small and medium-sized businesses (million GEL) (State Procurement Agency, Activity report for 2024, 2025) (National Statistical Service of Georgia, 2024)

Years	Small and medium business turnover (million GEL)	Total value of contracts (billion GEL)
2015	9965	3.2
2016	35826	4.02
2017	39539	3.65
2018	43722	4.09
2019	48520	5.33
2020	47654	5.14
2021	52169	5.75
2022	62647	7.4
2023	67988	10.5
2024	72770	8.1

The general form of linear regression is as follows: $y = a_0 + a_1x_1 + a_2x_2 + \dots + a_nx_n$, where x is the factor variable; y is the outcome variable; a is the regression coefficients that determine the importance of the factors; n is the number of factors. Within the framework of the study, y represents the turnover of small and medium-sized businesses (million GEL), and x represents the total value of contracts concluded within the framework of state procurement (billion GEL). By inserting the data, we obtain Table 2.

Table 2. Total value of contracts concluded within the framework of state procurements, expressed in x and y coefficients (billion GEL), turnover of small and medium-sized businesses (million GEL) (State Procurement Agency, Activity report for 2024, 2025) (National Statistical Service of Georgia, 2024)

a	Y	X
1	9965	3.2
2	35826	4.02
3	39539	3.65
4	43722	4.09
5	48520	5.33
6	47654	5.14
7	52169	5.75
8	62647	7.4
9	67988	10.5

10	72770	8.1
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Results

Using the appropriate function in Microsoft Excel, we analyze the results and obtain the following parameters:

Table 3. Results of regression analysis

Regression Statistics	
Multiple R	0.8539
R Square	0.7292
X Variable	7111.78

The value of the obtained coefficient of determination R^2 (R Square) is 0.7292, which means that the turnover of small and medium-sized businesses is closely related to the total value of contracts concluded within the framework of state procurement. It is noteworthy that the closer the R^2 value is to 1, the closer the relationship is, while a value less than 0.5 does not confirm a close relationship between the variables. The value of the coefficient (X Variable 1) 7111.78 is positive, which means that an increase in the total value of contracts concluded within the framework of state procurement will increase the turnover of small and medium-sized businesses. The correlation coefficient (Multiple R) obtained through regression analysis, which determines the density of the relationship between variables, is 0.8539. A correlation coefficient of 0.5 to 1 is considered to indicate a strong relationship between variables. Accordingly, the increase in the total value of contracts

concluded within the framework of public procurement is closely related to the volume of turnover of small and medium-sized businesses. The results obtained demonstrate the significance of public procurement in the development of small and medium-sized businesses.

Conclusion

Given that public procurement is an important tool for supporting the development of small and medium-sized businesses, it is necessary to stimulate active participation in public tenders and improve the processes and procedures that hinder businesses in their interactions with state structures.

Currently, the willingness of small and medium-sized businesses to participate in government procurement is not adequate. The private sector lacks the appropriate knowledge and qualifications. The State Procurement Agency provides free training for procurement personnel in procuring organizations, but the agency does not provide such training for representatives of the private sector. In addition, small and medium-sized businesses have limited administrative resources, which are why there is insufficient time to prepare a tender proposal, especially for non-standard procurements. It is important that procuring organizations do not create additional barriers for small and medium-sized businesses related to large-scale procurement, qualification requirements, and delivery times.

ეკონომიკა

მცირე და საშუალო ბიზნესის სახელმწიფო შესყიდვებში ჩართულობის ეფექტიანობის შეფასება საქართველოში

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მცირე და საშუალო ბიზნესი თანამედროვე მსოფლიოში წარმოადგენს ეკონომიკის მამოძრავებელ ძალას. აღნიშნული სექტორი უმეტესად ფოკუსირებულია ახალი პროდუქტისა თუ მომსახურების შექმნაზე, კომპანიებს კი შეუძლიათ სწრაფად მოერგონ ბაზრის ცვლელად მოთხოვნებს. მცირე და საშუალო ბიზნესი, სოციალურად და ეკონომიკურად მომგებიანი ეფექტებიდან გამომდინარე, სტრატეგიული ინტერესის სფეროა. ნაშრომის მიზანია განისაზღვროს რა გავლენას ახდენს სახელმწიფო შესყიდვები მცირე და საშუალო ბიზნესის განვითარებაზე. მრავალ ქვეყანაში სწორედ მთავრობა გვევლინება საქონლისა და მომსახურების მსხვილ შემსყიდველად. მცირე და საშუალო ბიზნესი უმნიშვნელოვანეს როლს ასრულებს ქვეყნის ეკონომიკურ განვითარებაში, რაც უკავშირდება ტექნოლოგიურ პროგრესს, მუდმივად განახლებად და მომხმარებლებზე მორგებული პროდუქტების შექმნას. ვინაიდან, ქვეყნის ეკონომიკაზე მცირე და საშუალო ბიზნესის გავლენა უმნიშვნელოვანესია, აუცილებელია სახელმწიფო პოლიტიკის პრიორიტეტს სწორედ მისი განვითარება და გაძლიერება წარმოადგენდეს. ნაშრომი ეფუძნება წრფივი რეგრესიული ანალიზის მეთოდს, რომლის საშუალებითაც შეფასებულია საქართველოში სახელმწიფო შესყიდვების მოცულობის გავლენა მცირე და საშუალო ბიზნესის ბრუნვის მოცულობაზე. მიღებული შედეგები ცხადყოფს, რომ სახელმწიფო შესყიდვების ფარგლებში დადებული ხელშეკრულებების ჯამური ღირებულების მატება გაზრდის მცირე და საშუალო ბიზნესის ბრუნვის მოცულობას. ამასთან, ანალიზის შედეგად მიღებული კორელაციის მაჩვენებელი ცვლადებს შორის ძლიერ კავშირზე მიუთითებს.

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