*European Journal of Sustainable Development* (2025), **14**, 2, 173-192 ISSN: 2239-5938
*Doi: 10.14207/ejsd.2025.v14n2p173*

# Small and Medium-sized enterprises (SMEs) in Georgia: Institutional Challenges and Prospects for EU Market Integration

By Giorgi Katamadze [1], Natela Tsiklashvili[2], Nestan Varshanidze[3]

**ABSTRACT:**
Small and medium-sized enterprises (SMEs) are the most dynamic and expanding business sector globally. They are extensively studied from many perspectives, and their sustainability and prospects vary by nation, and their sustainability and prospects are different in every country. In addition to being major employers, SMEs in Georgia contribute significantly to the state budget. In order to guarantee their sustainability, the state is developing a variety of financial reseources and supporting institutional mechanisms and financing resources to ensure their sustainability, resulting in their rapid development. Although a lot of elements define the successful activities of business entities, the most crucial among them is a favorable economic environment, which includes an excellent international image of the country, a stable political environment, attractive business regulations, the inclusion of a business-supporting component in state programs, and perfect operating of state institutions.
When it comes to improving the business climate and growing small and medium-sized enterprises, Georgia has challenges that are like those of several other countries. It should be mentioned that despite having the greatest number of small and medium-sized enterprises operating, their GDP contribution is still quite small. Georgia became an EU candidate country in 2023. To fulfill the requirements for full membership, the country will have to make significant institutional and regulatory changes. The hypothesis of the paper is following: the regulations for business entities operating within the European Union differ greatly from those in force in Georgia, which may cause challenges to the process of integration of business entities into the European Union economic space.
In 2023, Georgia was accepted as a candidate for the EU. The country will need to implement substantial institutional and regulatory reforms to fulfill the requirements for full membership. It is also important to mention that in order for Georgian business entities to completely integrate into the EU environment, they must also fully understand the considerable differences between Georgian and EU business legislation. This will not be a simple process. The study's objective is to examine the expected difficulties faced by companies doing business in Georgia from the standpoint of EU membership status. These difficulties include those related to standards, certification, organizational structure, financial accounting, and institutional development. The context of considering Georgia's targets to join the European Union, it is essential to study the expected advantages and disadvantages for the business sector and to formulate significant findings and suggestions which can act as an important document for government organizations and the business community to ensure the complete and organized integration of business entities into the EU. The foundations of the research include an analysis of regulations, in-depth interviews, empirical research on business entities, and an examination of official documents. The study carried out by both Georgian and international academics serves as the theoretical foundation for the publication. Keywords: SMEs; EU; Georgia; EU Market Integration; Opportunities.

**Acknowledgement**: The article was written in the frame of the targeted scientific-research project funded by Batumi Shota Rustaveli State University (Georgia), "European Union standards and requirements for small and medium-sized business entities and the possibility of their implementation in Georgia", Decree: N06-01/25, 20.03.2024.

*Keywords: SMEs; EU; Georgia; EU Market Integration; Opportunities.*

[1]PhD, Assistant-professor, Batumi Shota Rustaveli State University, https://orcid.org//0000-0002-2602-6861
[2]PhD, Professor, Batumi Shota Rustaveli State University https://orcid.org//0000-0003-0638-7376
[3]PhD candidate in Business Administration, https://orcid.org/0000-0001-8892-0300

## 1. Introduction

Business - as an important part of the economy, is particularly sensitive to political and economic processes. The state plays a huge role in the development of business entities, just as business entities impact significantly the processes and results of economic development. Small and medium-sized businesses are particularly sensitive to various internal and external factors, and any changes can easily affect their sustainability (Katamadze, G. (2022), (Katamadze, G. (2023).

In recent years, Georgia has implemented significant reforms in various areas, including economic and institutional, aimed at creating a favorable environment for doing business and attracting foreign direct investment, which in turn directly contributes to the country's economic progress and independence. (Katamadze, G. (2024). The effectiveness of complex reforms was ensured by liberalization of the economy, the abolition of bureaucratic mechanisms, the reduction of the tax burden on business entities, the simplification of customs procedures, the improvement of state services, the continuous fight against corruption, etc.

Just like many other developing countries, Georgia faces many challenges on its way of improving its business environment and developing small and medium-sized enterprises; although small and medium-sized enterprises make the largest share of operating enterprises, their contribution to GDP is still very low.

In 2023, Georgia was granted candidate status of the European Union (https://www.parliament.ge). The great interest and varied opinions of the state, business, and scientific circles in this process led to the formulation of our research hypothesis: the legislation for business entities operation in the EU differ greatly from those in Georgia, potentially delaying the process of complete integration of business entities into the European Union.

The purpose of European business-related regulations is to create a unified market, establish common standards, and increase international competitiveness of European enterprises, which is the foundation of long-term economic growth. The aim of this article is to study, through empirical research, the procedures and expected challenges related to business entities from the perspective of EU membership status: standards, certification, organizational structure, financial accounting, and institutional growth. As Georgia aspires to join the European Union, it is critical to study the expected positive and negative scenarios for the business segment, as well as develop key conclusions and recommendations, that will serve as an important document for state institutions and the business sector to fully and preparedly integrate business entities into the EU.

## 2. Theoretical Background

As the analysis of business processes related to Georgia's integration into the European Union is a relatively new research area with limited existing literature, the main topics discussed in the available studies include increased competition, access to financial resources, effective market adaptation, compliance with standards, and other related challenges.

Despite the scarcity of materials in this area, several significant studies by foreign authors should be noted, such as: Głodowska, A. (2017). Johnson, D., & Turner, C. (2015). Worthington, I., & Britton, C. (2008). Camilleri, M. A. (2020). As well as by Georgian researchers, among them: Papava, V. (2022), Kharaishvili, E., Gechbaia, B., & Goletiani, K. (2024). Abuselidze, G. (2025). Tsiklashvili, N.(2020);

The availability of extensive scientific research plays a crucial role in effectively addressing new markets and challenges. Therefore, we believe that the research questions we have raised will increasingly attract attention and foster active discussion among academic circles and relevant parties. In addition to the aforementioned scientific literature, we analyzed reports (OECD 2021; EBRD 2022) published by international organizations that examine the challenges confronting small and medium-sized enterprises (SMEs) in Georgia.

## 3. Methods

We split the research aims into two stages, namely: in the first stage, we studies the research-related theoretical basis and European regulations on business entities and compared them with Georgian legislation and standards; while the second part of the research included an empirical study of business entities operating in Georgia through in-depth interviews, to identify their ability to adapt and integrate with the European regulations. Dictated by the specifics of the proposed research, we used a complex methodology of analysis, which included:

Component analysis - evaluating the impact of factors on the business and predicting changes based on components (e.g. segment, organizational structure, business location, etc.);

Statistical analysis - analyzing the dynamics, trends and tendencies of business sector, studying official data obtained from the state organizations and international organizations, their classification and benchmark analysis.

Comparative method – examining the institutional structure of small and medium-sized business entities operating in Georgia and the European Union member countries and detecting major disparities in organizational and legal systems. The same method was applied to compare the fiscal policies of the European Union and Georgia, in particular, taxes related to business entities.

The novelty of the research is in exploring the potential for Georgian business entities to integrate into the European Union by employing a mixed-methods approach. Specifically, it combines a comparative analysis of regulations and standards with an empirical assessment of companies. The research aims to evaluate their capacity for seamless adaptation to European regulations without delay. It is important to note that scientific research employing this methodology and addressing these objectives is relatively rare. The study focus - EU standards and requirements for small and medium-sized enterprises (SMEs) - is highly relevant not only for business entities, but also for government institutions involved in the entrepreneurial sector, academic circles, and international organizations with an interest in export-oriented policies.

## 4. Results

Since the signing of the Association Agreement in 2014 (matsne.gov.ge) Georgian business entities have been required to meet specific standards to export goods to the EU market, with phased milestones established for compliance. EU integration necessitates broad transformations across social, political, and economic domains, significantly impacting business operations. This transition presents both challenges and opportunities for enterprises, requiring substantial adaptation. This issue is particularly crucial for the state, as small and medium-sized enterprises make up a major share of national budget revenues and serve as the primary employers in the country. As of 2023 data, only 10.8% (www.geostat.ge) Georgia's total exports were directed to the European Union countries. Planned reforms will further enhance the quality of Georgian products globally - one key requirement being the continuity of supply – contributing to export diversification and overall economic growth. Assessing their capacity to adapt and successfully navigate this transition is the central focus of our research.

Many reforms are being implemented in Georgia, and both public and commercial institutions are working hard to comply with international norms and criteria. State institutions make general political or fiscal decisions that are in line with the country's growth and strategic goals. As a result, the state consciously supports and encourages the priority business areas in terms of the nation's overall development and the state's unified political strategy, including the start of legislative initiatives to make cooperatives operational. The government hopes to promote and support agriculture and rural development through the tax incentives for cooperatives; by making it easier to register LLCs, the most adaptable and desirable organizational-legal form of business, the number of LLCs rose, and their annual contributions to the national budget are significant; individual entrepreneurs and natural persons were given the chance to register as or change their status into a "simple" business by establishing the organizational-legal forms of micro and small business entities in the legislation - this simplified business administration, reduced the cost of accounting services and taxes, and increased their incomes. Ultimately, this directly contributes to the well-being of the population, which is the goal of state policy (Abuselidze & Katamadze, 2018). To foster a business-friendly environment and draw in direct foreign investments, Georgia has recently enacted major reforms in a number of areas, including the institutional and economic ones. These reforms also aim to promote different forms of tourism, which will ultimately contribute to the nation's economic independence and growth (Katamadze 2024). In relation to the business sector, it is necessary to show caution in relation to giving a liberal character to the taxation of small and medium-sized businesses (special taxation regimes). As a member of the World Trade Organization (WTO), Georgia actively pursues economic integration and free trade agreements with a number of countries. It has signed free trade agreements with China, Turkey, the European Union, and other countries, ensuring improved business access to markets and fostering international trade. Additionally, it established Enterprise Georgia and the National Investment Agency (GNIA).

### 4.1 Business Trends (2014–2024)

Over the past decade, Georgia's business environment has shown steady growth, reflecting the country's economic development and regulatory improvements. The number of registered organizations and business entities has increased significantly, surpassing one million by 2024. However, while new businesses continue to emerge, the number of active organizations remains notably lower, suggesting challenges in long-term business sustainability.

**Table 1:** Business Register-Declared data of enterprises (1 February 2025)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of registered organizations by year - total cumulative, thousand | 566.8 | 592.5 | 629.9 | 675.3 | 719.3 | 762.7 | 799.8 | 845.5 | 914.4 | 979.7 | 1044.4 |
| of which: number of active organzations, thousand | 133.8 | 163.8 | 166.3 | 164.2 | 164.3 | 173.4 | 173.1 | 183.2 | 212.8 | 237.2 | 288 |
| Number of registered business entities by year - total cumulative, thousand | 538.8 | 562.8 | 597.4 | 640.3 | 683.1 | 725.2 | 761 | 805.5 | 873.4 | 937.5 | 1001.3 |
| of which: number of active business entities, thousand | 127.5 | 157.4 | 159.8 | 157.7 | 157.8 | 166.9 | 166.8 | 176.8 | 206.4 | 230.7 | 281 |
| Number of newly registered organizations by year, thousand | 46.5 | 45.3 | 47.8 | 52.2 | 51.2 | 50.3 | 41.1 | 52.1 | 78.5 | 75.8 | 75.5 |
| of which: Number of newly registered business entities, thousand | 44.9 | 43.4 | 44.9 | 49.5 | 49.8 | 49 | 39.9 | 50.8 | 77.5 | 74.7 | 74.4 |

*Source: https://www.geostat.ge/en/modules/categories/64/business-register*

Over the past decade, the number of registered organizations and business entities has steadily increased. In 2014, there were 566.8 thousand registered organizations, and by 2024, this number had grown to 1,044.4 thousand. However, not all of organizations remain active. While there were 133.8 thousand active organizations in 2014, this figure rose to 288.0 thousand by 2024, showing gradual but consistent growth in operational businesses. A similar trend is observed among business entities. The total number of registered business entities grew from 538.8 thousand in 2014 to over 1 million in 2024. The number of active business entities also increased, reaching 281.0 thousand in 2024. New business registrations have varied over the years. The highest number of new organizations was recorded in 2022, with 78.5 thousand new registrations, followed by a slight decline in subsequent years. The number of newly registered business entities followed a similar pattern, peaking in 2022 at 77.5 thousand, before decreasing slightly in 2023 and 2024. Business registrations have increased significantly over the past decade, crossing the one-million mark in 2024. The number of active organizations and business entities has also grown, though at a slower pace compared to total registrations. The peak in new registrations in 2022, followed by a decline, may indicate economic fluctuations or regulatory impacts on business formation.

The structure of Georgia's business sector reflects the country's diverse economic landscape. As of 2025, over 1 million registered entities operate across various industries, though only about a quarter remain active. The largest share of businesses is in wholesale and retail trade, followed by manufacturing, transportation, and construction. Meanwhile, sectors like agriculture and finance have fewer active entities.

As of January 2025, in Georgia approximately 1,044,519 registered entities, with 284,347 active. Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles: The largest sector, comprising 217,635 registered entities, of which 87,341 are active. Manufacturing: 51,821 registered entities, with 19,715 active. Transportation and Storage: 47,596 registered entities, with 27,632 active. Information and Communication: 37,974 registered entities, with 27,551 active. Construction: 44,073 registered entities, with 22,506 active. Accommodation and Food Service Activities: 29,867 registered entities, with 12,019 active. Professional, Scientific, and Technical Activities: 26,556 registered entities, with 13,386 active. Real Estate Activities: 14,449 registered entities, with 8,454 active. Agriculture, Forestry, and Fishing: 11,692 registered entities, with 3,860 active. Human Health and Social Work Activities: 7,511 registered entities, with 3,747 active. Arts, Entertainment, and Recreation: 7,586 registered entities, with 3,625 active. Financial and Insurance Activities: 5,742 registered entities, with 1,787 active. Administrative and Support Service Activities: 16,626 registered entities, with 8,245 active. Education: 11,960 registered entities, with 7,125 active. Other Service Activities: 24,414 registered entities, with 6,491 active. Mining and Quarrying: 2,298 registered entities, with 757 active. Electricity, Gas, Steam, and Air Conditioning Supply: 544 registered entities, with 240 active. Water Supply; Sewerage, Waste Management, and Remediation Activities: 979 registered entities, with 292 active. Public Administration and Defense; Compulsory Social Security: 1,606 registered entities, with 435 active. Activities of Extraterritorial Organizations: 97 registered entities, with 11 active. Activity Unknown: 483,492 registered entities, with 29,128 active. (https://www.geostat.ge)

In 2024, Georgia's economy experienced strong growth, with the country's nominal GDP reaching 91.9 billion GEL, reflecting a 13.6% increase compared to the previous year. The real GDP growth rate stood at 9.4%, demonstrating solid economic expansion across various sectors. The GDP deflator, which measures overall price changes, rose by 3.8%, indicating moderate inflationary trends. On a per capita basis, GDP reached 24,871.9 GEL (approximately 9,141.4 USD), a significant increase from 21,769.1 GEL (around 8,284.0 USD) in 2023. This growth suggests rising income levels and improves economic activity nationwide. In parallel with the political and legal procedures surrounding Georgia's integration into the European Union, the issue of economic integration has gained significance, with business entities serving as a crucial component. Based on the research findings, the reasons for business inactivity are various, among them suspension of activities, changing the form of activity, bankruptcy and crisis. The procedure on suspending activities is simpler than cancelling a company's registration, which along with a time limit, is associated with relatively complicated procedures.

The Table N2 below represents components of external trade, as a part of a general picture of economic processes:

**Table 2:** External Merchandise Trade Million USD

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024* |
|---|---|---|---|---|---|---|
| External Trade Turnover | 13315.0 | 11389.4 | 14341.1 | 19130.8 | 21690.0 | 23435.3 |
| Export (FOB) | 3797.0 | 3340.7 | 4242.5 | 5582.4 | 6086.4 | 6560.4 |
| Import (CIF) | 9518.0 | 8048.7 | 10098.6 | 13548.4 | 15603.6 | 16874.9 |
| Trade Balance | -5720.9 | -4708.0 | -5856.1 | -7965.9 | -9517.2 | -10314.5 |
| Domestic export (Export excluding re-export) | 2316.6 | 2399.5 | 3,117.6 | 3678.0 | 2762.8 | 3007.1 |

**Preliminary data.*

*Source: https://www.geostat.ge/en/modules/categories/765/external-merchandise-trade*

The external trade turnover demonstrates a consistent upward trend over the period analyzed, except for a sharp decline in 2020. Starting at 13,315.0 million in 2019, it fell to 11,389.4 million in 2020, likely due to the global disruptions caused by the COVID-19 pandemic. From 2021 onwards, trade turnover rebounded significantly, reaching a projected 23,435.3 million in 2024, nearly doubling its 2019 value. Exports (FOB) followed a similar trend, with a dip in 2020 to 3,340.7 million from 3,797.0 million in 2019, and a strong recovery starting in 2021. By 2024, exports are projected to reach 6,560.4 million, reflecting a growth of approximately 73% compared to 2019. Notably, domestic exports (exports excluding re-exports) show fluctuation. After steady growth from 2,316.6 million in 2019 to 3,678.0 million in 2022, they experienced a sharp drop to 2,762.8 million in 2023 before recovering slightly in 2024. This inconsistency may indicate challenges in domestic production capacities or changing market dynamics for locally produced goods. Imports (CIF) mirror the overall trade pattern, with a decline in 2020 to 8,048.7 million but recovering sharply to reach a projected 16,874.9 million in 2024. Imports consistently outpace exports, contributing to a persistent trade deficit.

The trade balance remains negative throughout the period, reflecting higher imports compared to exports. The deficit widened significantly from -5,720.9 million in 2019 to a projected -10,314.5 million in 2024. This suggests increased dependence on imported goods, which may raise concerns about long-term sustainability.

The 2020 decrease of imports, exports, and trade turnover emphasizes how disruptive the pandemic was. The quick recovery after 2020 highlights how robust trade activity is, as well as an effect of the worldwide economic recovery or revisions to regulations.

In 2023, Georgia experienced a noticeable decline in domestic exports, which can be attributed to several factors. A major cause was the drop in global demand, driven by the economic slowdown that has impacted industries and economies worldwide. This global situation has made it increasingly difficult for Georgia to maintain its export levels.

The region has also been affected by political instability and geopolitical tensions, which have created uncertainty and discouraged trade and investment. These challenges have hit the region especially hard, slowing down economic progress and trade activities.

On top of that, logistical delays have posed significant obstacles. Disruptions in supply chains and inefficiencies in transportation have made timely deliveries challenging. Another important factor is exchange rate fluctuations, which have made it harder for exporters to stay competitive in international markets and plan effectively.

### 4.2 Analysis of Georgian Exports by Country Groups in 2024

An important factor in analyzing the overall dynamics and comparing economic processes is the country's export data, which also provides key insights into the main focus of our research. For clarity, export data is presented by country groups in Figure1 below:

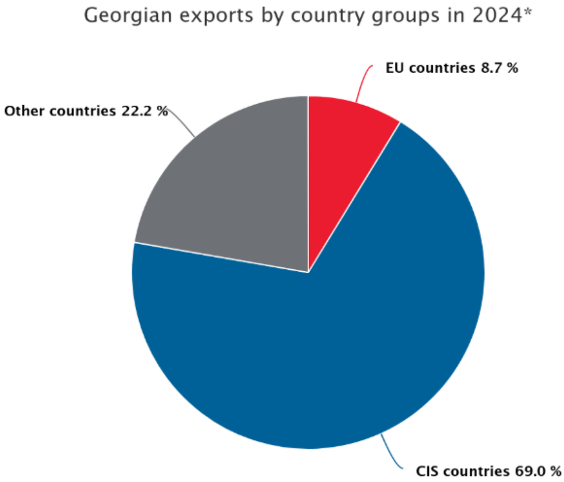


*Figure 1: Georgian exports by country groups in 2024*
*Source: https://www.geostat.ge*

The diagram highlights that 69.0% of Georgia's exports in 2024 are projected to be directed to CIS (Commonwealth of Independent States) countries. This significant proportion underscores Georgia's strong trade ties with neighboring countries within the CIS region, potentially due to geographical proximity, historical connections, and shared economic frameworks. The European Union countries account for only 8.7% of Georgia's exports in 2024. This relatively low percentage may reflect challenges such as meeting EU regulatory standards, competition from other exporters, or limited diversification in Georgia's export portfolio targeting EU markets. It is precisely the differences in standards that currently prevent Georgian business from engaging more actively in business processes with Europe. The remaining 22.2% of exports are categorized as "Other countries," suggesting that Georgia maintains moderate trade relations with countries outside the CIS and EU. This may include exports to Turkey, China, the United States, and other regions. The heavy reliance on CIS countries for exports poses both opportunities and risks. The ongoing Ukraine-Russia war and potential political or economic instability within the region could influence trade flows. The very low share of exports to Europe is the main indicator that strongly justifies the need for further in-depth research. During the interviews with companies, the main concerns expressed were the need to increase trade agreements, ensure high product quality, gain extensive experience in business continuity, improve product promotion/PR in European markets. These factors are crucial for achieving success in the European market, reducing dependence on CIS countries, and diversifying market reach. The context of different countries, this is illustrated as shown in Figure2.

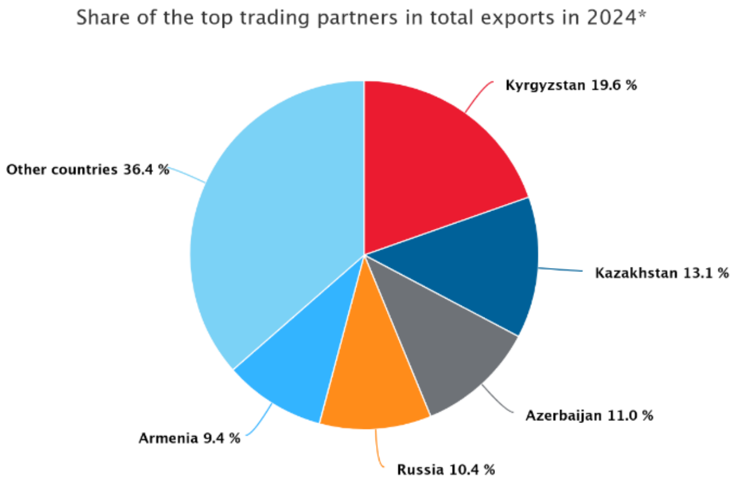


*Figure 2: Share of the top trading partners in total exports in 2024*
*Source: https://www.geostat.ge/en/modules/categories/637/export*

In this context, identifying export products becomes crucial. The situation is particularly interesting, with mixed products taking the lead at 45.9%, followed by automobile exports at 37%. These figures primarily reflect re-export data, as no automobiles are currently produced in Georgia. Additionally, while the share of wine and alcoholic beverages in total exports stands at 8.6%, it is important to note that this volume has been increasing annually, as shown in the Figure 3.

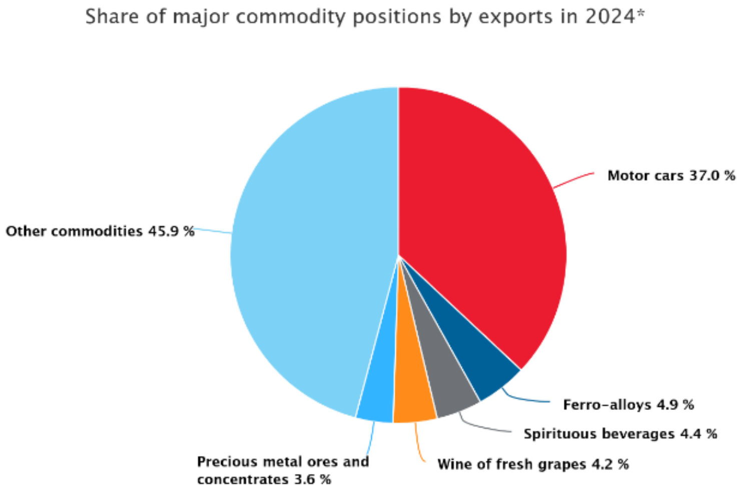


*Figure 3: Share of Major commodity positions by exports in 2024*
*Source: https://www.geostat.ge/en/modules/categories/637/export*

We have identified three main products to visualize the growth dynamics, which is represented in the Figure 4 below.

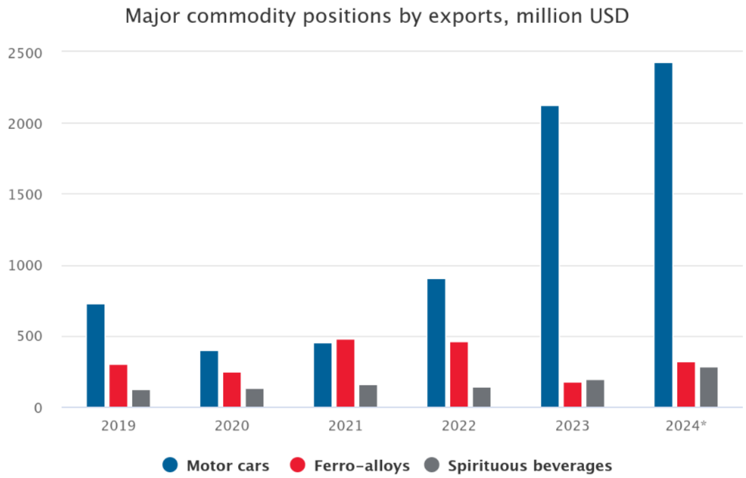


*Figure 4: Share of Major commodity positions by exports, million USD*
*Source: https://www.geostat.ge/en/modules/categories/637/export*

Through trade-related reforms, the DCFTA brings Georgia and the EU closer together economically. The World Trade Organization's principles are its basis. It offers wide-ranging exchanged access to trade in services and cancels all import taxes on goods. Based on Eurostat: Georgia's principal trading partner is the EU. The EU contributes to 20.9% of its trade, with Turkey (13.8%) and Russia (11.1%) following closely behind. With a volume of almost €4.36 billion in 2023, commerce between the EU and Georgia makes about 0.1% of all trade.

The total value of EU exports to Georgia in 2023 was €3.6 billion, up 11.9% from the year before. Transport equipment, machinery and appliances, and mineral materials are the main exports. Textiles, chemicals, and mineral products are the main imports from Georgia to the EU. In 2023, the EU bought commodities worth €752 million from Georgia; during 2022, imports had decreased by 27.5%. (https://policy.trade.ec.europa.eu).

According to the research conducted by the OECD (2021) Georgia has made progress in harmonizing its business regulations with EU standards, while significant gaps remain in areas such as financial reporting, taxation, and business registration processes. https://www.oecd.org/en/publications/fostering-business-development-and-digitalisation-in-georgia_c6e27d8a-en/full-report.html. Studies by the European Bank for Reconstruction and Development (EBRD, 2022) highlight that Georgia's business climate, though improving, has not yet attained the institutional stability of EU economies. https://www.ebrd.com/news/2021/ebrd-adopts-new-country-strategy-for-georgia.html. According to the World Bank (2022) that Georgian SMEs face difficulties due to regulatory inconsistencies, limited access to finance, and insufficient state-backed support mechanisms. The World Bank has identified financing gaps as a significant issue for SMEs, especially in developing countries like Georgia. www.worldbank.org; documents.worldbank.org.

### 4.3 Fiscal Policy and SMEs

Fiscal policy influences business performance and export growth. Taxes represent a crucial component of fiscal policy, exerting significant influence on business expenditures, investment patterns, and the expansion of small and medium-sized enterprises (SMEs). The tax regimes of Georgia and the European Union (EU) exhibit considerable divergence, shaped by their distinct economic structures and political frameworks. Georgia's tax policy, often characterized by relatively low rates and favorable conditions for SMEs, aims to stimulate entrepreneurship and foreign investment. In contrast, the EU's tax system, influenced by a more integrated economic model and diverse member state interests, enforces harmonized VAT regulations and varying corporate tax rates.

Small enterprises in Georgia that engage in the export of goods to European Union (EU) countries are typically exempt from the obligation to remit Value Added Tax (VAT) on these transactions. This exemption is enshrined in Georgian tax law, which stipulates that export activities are generally excluded from VAT, thus facilitating international trade. The Georgian VAT framework incorporates provisions that specifically relieve export transactions from VAT obligations, thereby promoting cross-border commerce and enhancing the competitiveness of Georgian businesses in the EU market.

According to the Tax Code of Georgia, a person who is engaged in economic activity in Georgia or carries out import, export, re-export or temporary import of goods and if the amount of VAT taxable in these operations (i.e. value added) exceeds 100,000 GEL during the last 12 months, is automatically considered a VAT payer and is obliged to register. The VAT rate is 18%. https://matsne.gov.ge

Each EU member state is obliged and responsible for the correct and fair implementation and application of the VAT directives developed by the European Commission on its territory. The average standard VAT rate within the European Union (EU) currently stands at 21.8%, which is approximately seven percentage points above the minimum standard VAT rate stipulated by EU regulations. The revised SME Special Scheme introduces a dual-threshold system designed to streamline VAT obligations for small businesses within the EU. The domestic threshold allows member states to set a VAT exemption limit for small enterprises up to €85,000, without requiring formal approval from the European Commission. Additionally, a cross-border threshold of €100,000 applies to VAT-exempt sales within other EU countries. https://op.europa.eu

This updated framework aims to reduce administrative burdens for small enterprises engaged in cross-border trade while ensuring greater uniformity across the EU VAT system. Under the current framework, businesses lacking a registered headquarters in a specific EU member state are not eligible for VAT exemptions. However, the upcoming regulatory changes will permit small enterprises established in one EU member state to qualify for VAT exemptions if their turnover within that state falls below the national threshold. Additionally, their total annual turnover across the entire EU must not exceed €100,000. These revisions aim to enhance tax compliance efficiency and facilitate cross-

border operations for small businesses operating within the EU's Single Market. https://taxmen.eu. The European Union establishes a minimum value-added tax (VAT) rate of 15%, while allowing member states the flexibility to apply rates above this threshold. VAT rates across member states exhibit variation, with rates ranging from 17% to 27%. https://taxsummaries.pwc.com/quick-charts/value-added-tax-vat-rates
Figure 5 and Table 3 provide a comparative analysis of the current situation in Georgia and EU member states, specifically examining prevailing VAT rates and associated exemptions.

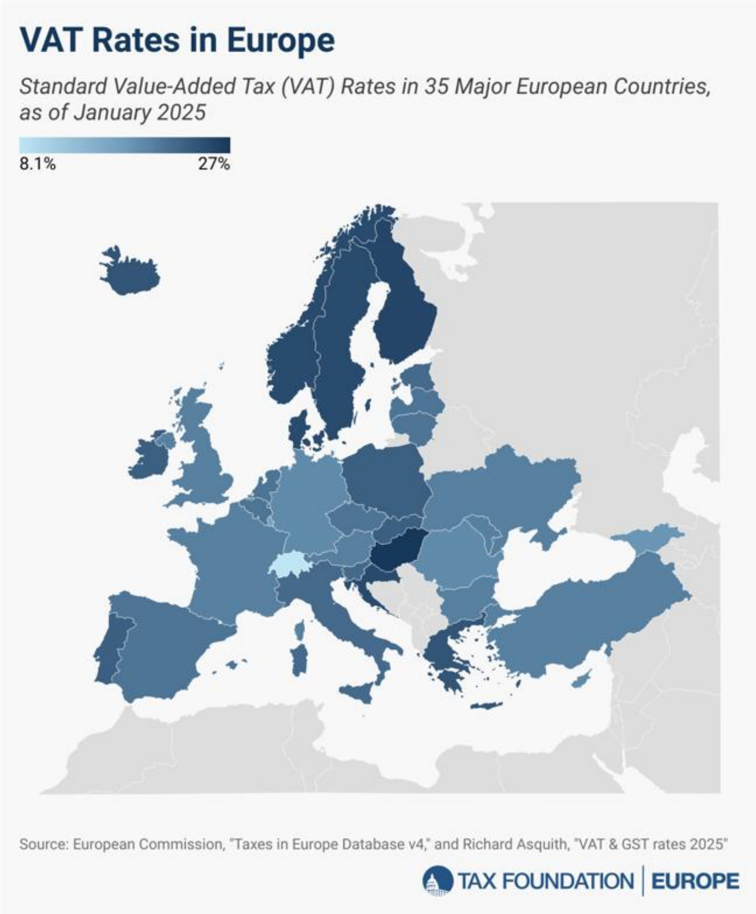


*Figure 5: VAT rates in Europe*
*Source: https://taxfoundation.org/data/all/eu/corporate-income-tax-rates-europe/*

**Table 3:** 2025 VAT Rates in Europe

| **2025 VAT Rates in Europe \| EU VAT Rates by Country** | | | | |
|---|---|---|---|---|
| Country | Super-Reduced Rate (%) | Reduced Rate (%) | Parking Rate (%) | Standard Rate (%) |

| | | | | |
|---|---|---|---|---|
| Austria (AT) | - | 10 / 13 | 13 | 20 |
| Belgium (BE) | - | 6 / 12 | 12 | 21 |
| Bulgaria (BG) | - | 9 | - | 20 |
| Croatia (HR) | - | 5 / 13 | - | 25 |
| Cyprus (CY) | - | 5 / 9 | - | 19 |
| Czech Republic (CZ) | - | 12 | - | 21 |
| Denmark (DK) | - | - | - | 25 |
| Estonia (EE) | - | 9 / 13 | - | 22 |
| Finland (FI) | - | 10 /14 | - | 25.5 |
| France (FR) | 2.1 | 5.5 / 10 | - | 20 |
| Georgia (GE) | - | - | - | 18 |
| Germany (DE) | - | 7 | - | 19 |
| Greece (GR) | - | 6 / 13 | - | 24 |
| Hungary (HU) | - | 5 / 18 | - | 27 |
| Iceland (IS) | - | 11 | - | 24 |
| Ireland (IE) | 4.8 | 9 / 13.5 | 13.5 | 23 |
| Italy (IT) | 4 | 5 / 10 | - | 22 |
| Latvia (LV) | - | 5 / 12 | - | 21 |
| Lithuania (LT) | - | 5 / 9 | - | 21 |
| Luxembourg (LU) | 3 | 8 | 14 | 17 |
| Malta (MT) | - | 5 / 7 | 12 | 18 |
| Moldova (MD) | - | 8 / 12 | - | 20 |
| Netherlands (NL) | - | 9 | - | 21 |
| Norway (NO) | - | 12 / 15 | - | 25 |
| Poland (PL) | - | 5 / 8 | - | 23 |
| Portugal (PT) | - | 6 / 13 | 13 | 23 |
| Romania (RO) | - | 5 / 9 | - | 19 |
| Slovakia (SK) | - | 5 / 19 | - | 23 |
| Slovenia (SI) | - | 5 / 9.5 | - | 22 |
| Spain (ES) | 4 | 10 | - | 21 |
| Sweden (SE) | - | 6 / 12 | - | 25 |
| Switzerland (CH) | | 2.6 / 3.8 | | 8.1 |
| Turkey (TR) | 1 | 10 | - | 20 |
| Ukraine | - | 7 / 14 | - | 20 |
| United Kingdom (GB) | - | 5 | - | 20 |

*Source: https://taxfoundation.org/data/all/eu/corporate-income-tax-rates-europe/*

Georgia follows the Estonian model of corporate income tax, where businesses are only required to pay a 15% tax on distributed profits. Profits that are reinvested within the business are exempt from taxation, thereby incentivizing reinvestment and fostering business expansion. This tax framework provides a significant advantage for small and medium-sized enterprises (SMEs), as it encourages the accumulation of capital for growth and development. In contrast, EU member states adhere to a more conventional corporate income tax (CIT) structure, whereby taxes are levied on profits regardless of whether those profits are distributed. https://matsne.gov.ge/en/document/view/1043717?publication=227.
The European Union establishes a minimum value-added tax (VAT) rate of 15%, while allowing member states the flexibility to apply rates above this threshold. VAT rates across member states exhibit variation, with rates ranging from 17% to 27%. https://taxsummaries.pwc.com; https://taxfoundation.org

**Table 4:** 2025 Corporate Income Tax Rates in Europe

| 2025 Corporate Income Tax Rates in Europe \| Tax Foundation | |
|---|---|
| Country | Combined Statutory Corporate Income Tax Rate |
| Austria (AT) | 23.0% |
| Belgium (BE) | 25.0% |
| Bulgaria (BG) | 10.0% |
| Croatia (HR) | 18.0% |
| Cyprus (CY) | 12.5% |
| Czechia (CZ) | 21.0% |
| Denmark (DK) | 22.0% |
| Estonia (EE) | 22.0% |
| Finland (FI) | 20.0% |
| France (FR) | 25.8% |
| Georgia (GE) | 15.0% |
| Germany (DE) | 29.9% |
| Greece (GR) | 22.0% |
| Hungary (HU) | 9.0% |
| Iceland (IS) | 21.0% |
| Ireland (IE) | 12.5% |
| Italy (IT) | 27.8% |
| Latvia (LV) | 20.0% |
| Lithuania (LT) | 16.0% |
| Luxembourg (LU) | 24.9% |
| Malta (MT) | 35.0% |

| | |
|---|---|
| Netherlands (NL) | 25.8% |
| Norway (NO) | 22.0% |
| Poland (PL) | 19.0% |
| Portugal (PT) | 30.5% |
| Romania (RO) | 16.0% |
| Slovakia (SK) | 21.0% |
| Slovenia (SI) | 22.0% |
| Spain (ES) | 25.0% |
| Sweden (SE) | 20.6% |
| Switzerland (CH) | 19.6% |
| Turkey (TR) | 25.0% |
| United Kingdom (GB) | 25.0% |
| Average | 21.5% |

*Source: https://taxfoundation.org/data/all/eu/corporate-income-tax-rates-europe/*

## 5. Experience of Georgian SMEs in Business Relations with EU countries

In line with the objectives of the study, it was important to assess the extent to which business entities are familiar with international standards, particularly regarding the changes they expect in their activities if Georgia were to integrate into the European Union.

The study was conducted through interviews with representatives of small and medium-sized enterprises (SMEs) operating in Georgia. A total of 29 business entities participated in the study, representing a variety of sectors, including trade, manufacturing, distribution, the food industry, and hospitality.

The main questions formulated for the study were as follows:

1. How many years has the company been operating, and is its core activity?
2. Does the business require any special permits, licenses, or other authorization documents in addition to tax registration?
3. In the event of Georgia's accession to the EU, does the business owner have information on the following issues:

- Will any changes be required in the organizational structure or other forms of operation?
- Will it be necessary to obtain a license or other type of authorization? (If so, do you have information on EU regulations related to your business sector?)

4. Does the business export products, and if so, to which countries?
5. Does the business have contacts with the business sectors of EU member states?
6. What changes do you anticipate for Georgian business in general following Georgia's accession to the EU?
7. If the business uses currency transfers abroad, in which currencies and to which countries?

8. On average, how much does the business spend annually on transfer fees?

The purpose of each question was clearly aimed at analyzing the regulation of business processes related to the EU and assessing the business owner's knowledge regarding the operation of their businesses. The results were classified, analyzed, and generalized, with the exception of a few answers that did not align with the opinions of other participants. Therefore, in parallel with the summary of the generalized answers, the different answers are presented in full.

The general findings were as follows:

Most companies had over five years of experience (a criterion we established prior to the study, as we included business entities that had been operating before the pandemic, considering their force majeure experience as relevant to the research). Their annual turnover did not exceed 10 million GEL, and the number of employees was 50.

In-depth interviews conducted within the framework of the study revealed that companies in the manufacturing sector had experience with procedures related to product compliance with EU regulations. In particular, in the food production sector, the BRC (The British Retail Consortium) food safety certificate and the lead content inspection documents were highlighted. Companies also reported instances where individual countries requested only one of these certificates, rather than both, indicating the absence of a single, universal, or unified set of standards in this area. This suggests that each country may request different documents when exporting products.

As for importers, most of the surveyed companies import goods from China. However, they also have products from European countries, which tend to be relatively more expensive. In terms of sales, Chinese goods dominate, primarily due to their lower price, making them more competitive in the market compared to European products.

Most small and medium-sized enterprises view elimination of transfer fees as a significant expected benefit of Georgia's integration into the European Union, as it would substantially reduce their operational costs. Additionally, it is important to note that banks mainly offer preferential terms to large enterprises with high-volume transactions. Therefore, one of the positive results of EU integration for SMEs would be access to the Single Euro Payments Area (SEPA), which enables consumers to quickly, securely, and effectively make cashless euro payments, similar to national payments, to any location inside the European Union and many non-EU nations via credit transfer and direct debit.

Georgia's alignment with EU standards calls for significant reforms, achievable through successful institutional changes and sustainable, multi-stakeholder cooperation. Key emphasis should be placed on collaboration among government institutions, business communities, educational establishments, and industry associations. Such partnerships are vital for addressing challenges effectively and ensuring progress.

The government's role is pivotal, as it is responsible for creating regulatory frameworks and policy initiatives. Open dialogue and cooperation with various stakeholders are essential for implementing reforms successfully. These policies not only contribute to sustainable economic development but also play a key role in establishing a robust business sector.

Higher education and research institutions serve as crucial contributors to knowledge and evidence-based practices. Strengthening their involvement in collaboration with policymakers and the business sector is essential. Additionally, their role in producing skilled talent for employers, while meeting labor market demands, should not be overlooked.

Business associations, representing the private sector, are indispensable for voicing the needs and challenges faced by enterprises, particularly small and medium-sized businesses. Their active participation in discussions with government institutions helps shape business-friendly policies and ensures a competitive, EU-compliant business environment. By fostering public-private partnerships, they can help build a shared vision for Georgia's economic future.

In summary, fostering stronger and more structured collaboration among governmental institutions, academic entities, and business associations is imperative for Georgia's successful integration into the European Union. Such collaboration has the potential to generate synergies that will not only enhance the business environment but also contribute to the development of a more resilient and globally competitive economy.

## 6. Findings of the study and recommendations

The main problematic issues identified include the following:

| **Category** | **Challenges** | **Key Issues** |
|---|---|---|
| **Regulatory Compliance** | Compliance with EU Standards | SMEs struggle to meet product, service, and operational standards required in the EU. |
| **Market Competition** | Competition from experienced EU firms | Local businesses face strong competition from established European companies. |
| **Financial Barriers** | Limited access to financial resources | SMEs lack knowledge of financing options, and banks have strict collateral requirements. |
| **Skills & Knowledge** | Need for employee training & EU awareness | Companies require education on business operations, tax regulations, and compliance. |
| **Technological Limitations** | Outdated production equipment | Many businesses lack modern technology needed to meet EU standards. |
| **Logistics** | Challenges in transportation management | SMEs struggle with organizing efficient delivery methods to different European countries. |
| **Tax System Complexity** | Navigating different tax systems | Companies must adapt to varying tax laws, complicating market entry. |
| **Low Awareness of DCFTA** | Limited knowledge of trade agreements | Many businesses are unfamiliar with the Deep and Comprehensive Free Trade Area (DCFTA) regulations. |
| **Quality Certification** | Difficulty obtaining international certificates | High costs and small-scale production hinder access to EU markets. |

## Recommendations:

For Georgian small and medium-sized businesses (SMEs) to successfully integrate into the European Union market, the right support and resources are required. Based on the study's findings, several key steps can help make this process smoother and more effective, among them:

1. Providing Clear Information and Guidance:
Many SMEs struggle because they don't fully understand European business regulations. To fix this, we need to:

o Raise awareness about the Deep and Comprehensive Free Trade Area (DCFTA) agreement and what it means for Georgian businesses.

o Help companies understand EU tax policies, customs rules, and financial regulations, so they can trade with confidence.

o Educate business owners on how European banks and financial institutions work, making it easier for them to access funding.

2. Training and Skill Development:
Knowledge is key to competing in a new market. That's why it's important to:

o Train SME representatives in international logistics and supply chain management to ensure they can handle exports efficiently.

o Provide guidance on financial planning and risk management, helping businesses make smart, strategic decisions.

3. Upgrading Technology and Innovation:
To compete in the EU market, Georgian businesses need to modernize. Support should include:

o Helping SMEs upgrade their equipment, technology, and digital tools by offering small grants and low-interest loans.

o Encouraging businesses to adopt automation and innovation, making them more productive and efficient.

4. Meeting European Standards and Certifications:
One of the biggest barriers to entering the EU market is compliance with international standards. To support SMEs, we should:

o Offer expert advice and funding to help businesses meet quality, environmental, and product certification requirements.

o Create programs that guide businesses through the certification process, making it easier for them to qualify for EU trade.

5. Going Digital and Expanding Online:
E-commerce is a game-changer for small businesses. To help SMEs succeed, we should:

o Provide tools and training on building and managing online stores, so businesses can reach European customers directly.

o Support companies in learning about digital marketing and cybersecurity, helping them grow safely in the online marketplace.

6. Keeping Businesses Informed and Involved:
Regulations change frequently, and SMEs need to stay updated. To make this easier, we should:

o Use business associations and government channels to quickly share updates on new EU trade and business rules.

o Create more opportunities for SMEs to have a voice in policymaking, ensuring their concerns are heard when new trade agreements or regulations are developed.

**Acknowledgment**:
*The article was written in frame of the targeted scientific-research project funded by Batumi Shota Rustaveli State University (Georgia), "European Union standards and requirements for small and medium-sized business entities and the possibility of their implementation in Georgia", Decree: N06-01/25, 20.03.2024.*

## References

Abuselidze, g. (2025). The Belt and Road Initiative In China's Promotion of Globalization 2.0 and Achieving Common Sustainable Development Goals. Faculty of Mediterranean Business Studies Tivat, Montenegro, 21(2), 75-89.

Abuselidze, G., & Katamadze, G. (2018). The importance of legal forms of business subject for formation of business environment in Georgia. Kwartalnik Nauk o Przedsiębiorstwie, 49(4), 83-88.

Camilleri, M. A. (2020). European environment policy for the circular economy: Implications for business and industry stakeholders. Sustainable Development, 28(6), 1804-1812.

Consolidated text: Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02015L2366-20151223;

Głodowska, A. (2017). Business environment and economic growth in the European union countries: what can Be explained for the convergence? Entrepreneurial Business and Economics Review, 5(4), 189-204.

Johnson, D., & Turner, C. (2015). European business. Routledge.

Katamadze, G. (2022). Business Entity's Preventive-Anti-Crisis Strategy Model and Possibilities of Its Implementation in Georgia. Economics Ecology Socium, 6(2), 38-45.

Katamadze, G. (2023). Small and medium-sized enterprises in Georgia: classification and the legal basis for their regulation. Innovative economics and management, 10(2), 98-115.

Katamadze, G. (2024). The Crisis of Small and Medium Business Subjects and Its Prevention in the Post-pandemic Period in Georgia.

Katamadze, G. (2024). The impact of financial policy on the sustainable development of business entities in post-pandemic Georgia. European Journal of Sustainable Development, 13(3), 344-344.

Katamadze, G., & Tsiklashvili, N. (2024). Crisis as an opportunity of accelerated development for the business entities. The USV Annals of Economics and Public Administration, 23(2 (38)), 87-93.

Katamadze, G., Bolkvadze, M., & Tavdgiridze, L. (2025). Economic Awareness in Early Childhood Education: The Basis for Success. European Journal of Sustainable Development, 14(1), 215-215.

Katamadze, G., Petrova, M., & Tsiklashvili, N. (2024). Formation Of The Post-Pandemic Business Environment In Georgia: Challenges And Predictions. Business Management, 2, 59-75.

Kharaishvili, E., Gechbaia, B., & Goletiani, K. (2024). Transportation: challenges and opportunities for developing sustainable food markets (the case of georgia). Baltic Journal of Economic Studies, 10(4), 10-15.

Kharaishvili, E., Gechbaia, B., Tsiklashvili, N., & Katamadze, G. (2024). Digital transformation of the agricultural sector and its impact on productivity in Georgia. In BIO Web of Conferences (Vol. 114, p. 01002). EDP Sciences.

Papava, V. Sanctionomics and the main directions of changes in the architecture of the world economy during the confrontational globalization, 2022.

Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (Text with EEA relevance), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R0751;

Regulation (EU) 2021/1230 of the European Parliament and of the Council of 14 July 2021 on cross-border payments in the Union (codification) (Text with EEA relevance), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1230&qid=1689244300028;

Tsiklashvili, Natela, and Tamila Turmanidze. "Human development index in Georgia and challenges of sustainable development." ECONOMIC SCIENCE FOR RURAL DEVELOPMENT 2020 (2020): 266.

Worthington, I., & Britton, C. (2008). The business environment. Pearson. documents.worldbank.org

https://dcfta.gov.ge/ge/dcfta-for-businness?id=47

https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099435012022237049/p17548605921fd062093cb077bd2d45cd13

https://eu4georgia.eu/sme-growth-and-innovation-in-georgia/

https://link.springer.com/chapter/10.1007/978-3-031-45601-5_6

https://matsne.gov.ge

https://matsne.gov.ge/en/document/view/1043717https://matsne.gov.ge/ka/document/view/1043717?publication=227

https://matsne.gov.ge/ka/document/view/2496959?publication=0

https://op.europa.eu

https://op.europa.eu/en/publication-detail/-/publication/2e04c67e-ac84-11ef-acb1-01aa75ed71a1/language-en

https://policy.trade.ec.europa.eu

https://taxfoundation.org/data/all/eu/corporate-income-tax-rates-europe/

https://taxmen.eu

https://taxmen.eu/2024/10/21/eu-vat-changes-for-small-enterprises-in-2025/

https://taxsummaries.pwc.com/quick-charts/value-added-tax-vat-rates

https://trade.ec.europa.eu/access-to-markets/en/home#my-trade-assistant

https://www.ebrd.com/news/2021/ebrd-adopts-new-country-strategy-for-georgia.html.

https://www.geostat.ge/en/modules/categories/637/export

https://www.geostat.ge/en/modules/categories/765/external-merchandise-trade

https://www.oecd.org/en/publications/fostering-business-development-and-digitalisation-in-georgia_c6e27d8a-en/full-report.html.

https://www.smeunited.eu/admin/storage/smeunited/20241010-barometer24h2-final.pdf

https://www.worldbank.org/en/news/feature/2023/10/02/digital-payments-in-georgia-bolstering-the-regulatory-environment-and-developing-infrastructure-for-an-inclusive-future;

www.worldbank.org;