International Scientific Journal ***Innovative Economics and Management***
E-ISSN:2449-2604 *htpp://iem.ge*; *editor@iem.ge*
Vol 12 No2.2025

Giuli Giguashvili
E-mail: giuligiguashvili@gu.edu.ge
Professor, Gori State University
Gori, Georgia
orcid.org/0000-0001-5657-7544
Tamar Makasarashvili
E-mail: tamarmakasarashvili@gu.edu.ge
Professor, Gori State University
Gori, Georgia
orcid.org/0000-0003-0424-1816

MAIN CHALLENGES OF SME DIGITALIZATION POLICY IN GEORGIA

Abstract. *In the modern world, small and medium-sized enterprises (SMEs) form the foundation for economic development, job creation, and production growth. Digitalization of business processes plays a critical role in increasing SMEs' productivity, optimization, efficiency, and market competitiveness. That involves transforming traditional business processes using digital technologies and Createch (integrating creativity and technology). Key challenges in boosting business productivity include decision-making based on artificial intelligence in the digital environment, implementing cloud-based platforms and customer relationship management (CRM) systems, and using e-commerce and digital marketing tools.*
This paper analyzes the challenges of SME digitalization in Georgia. It evaluates the main directions and development strategies of digitalization policy and offers recommendations to overcome existing challenges.

Key words: *Small and Medium Sized Enterprises, Digitalization, Createch, Artificial Intelligence.*

JEL classification: *M1, M21, M38.*

გიული გიგუაშვილი
E-mail: giuligiguashvili@gu.edu.ge
პროფესორი, გორის სახელმწიფო უნივერსიტეტი
გორი, საქართველო
orcid.org/0000-0001-5657-7544
თამარ მაკასარაშვილი
E-mail: tamarmakasarashvili@gu.edu.ge
პროფესორი, გორის სახელმწიფო უნივერსიტეტი,
გორი, საქართველო
orcid.org/0000-0003-0424-1816

მცირე და საშუალო ბიზნესის დიგიტალიზაციის პოლიტიკის ძირითადი გამოწვევები საქართველოში

აბსტრაქტი: *თანამედროვე მსოფლიოში მცირე და საშუალო ბიზნესი წარმოადგენს ქვეყნის ეკონომიკის განვითარების, ახალი სამუშაო ადგილების შექმნისა და წარმოების ზრდის საფუძველს. მცირე და საშუალო ბიზნესის პროდუქტიულობის ამაღლების, ოპტიმიზაციის, ეფექტურობისა და საბაზრო კონკურენტუნარიანობის გაზრდის პროცესში განსაკუთრებულ როლს ასრულებს ბიზნეს პროცესების დიგიტალიზაცია - ტრადიციული ბიზნეს პროცესების ტრანსფორმაცია ციფრული ტექნოლოგიების გამოყენებით და „კრეიტექი“ - ტექნოლოგიებისა და კრეატიულობის ინტეგრირება. ბიზნესის ციფრულ გარემოში ხელოვნურ ინტელექტზე დაფუძნებული გადაწყვეტილებების მიღება, ღრუბლოვან ტექნოლოგიებზე დაფუძნებული პლატფო-რმების და მომხმარებელთა ურთიერთობების მართვის სისტემების (CRM) დანერგვა, ასევე ელექტრონული კომერციისა და ციფრული მარკეტინგის ინსტრუმენტების გამოყენება ბიზნესის პროდუქტიულობის ზრდის მთავარ გამოწვევებს წარმოადგენს.*

ნაშრომში გაანალიზებულია მცირე და საშუალო ბიზნესის დიგიტალიზაციის გამოწვევები საქართველოში. შეფასებულია დიგიტალიზაციის პოლიტიკის ძირითადი მიმართულებები, განვითარების სტრატეგიები და წარმოდგენილია რეკომენდაციები არსებული გამოწვევების დასაძლევად.

საკვანძო სიტყვები: *მცირე და საშუალო ბიზნესი, დიგიტალიზაცია, კრეიტექი, ხელოვნური ინტელექტი.*

JEL კლასიფიკაცია: *M1, M21, M38.*

Introduction. The modern world is actively engaged in a digital revolution. The Internet of Things (IoT), cloud technologies, artificial intelligence, advanced robotics, and blockchain technologies are examples of the driving forces behind this revolution. Business digitalization, primarily based on competition, is gaining increasing importance in the civilized world. Companies use digital technologies to create new digital services and business models, enhance strategies and management, and support change (Makasarashvili et al, 2024). The success of SMEs depends on their ability to adopt advanced technologies. The strategic integration of advanced technologies and management principles with artificial intelligence (AI) and quantum computing (QC) technologies enables SMEs to adapt to new environments, implement, use, and develop innovations, and succeed in the digital era (AbuShanab,2024)

Research confirms that digitally advanced companies exhibit higher productivity, faster growth rates, and lower employee turnover (Baldwin et al, 2018). The digitalization of SMEs has also become a key part of the agenda in EU countries. According to the objectives in the main strategic document "Path to the Digital Decade," by 2030, at least 90% of SMEs in EU member states should reach a basic level of digital development.

Research objective and methodology. This study aims to analyze the digitalization process of SMEs in Georgia, assess the economic effectiveness of digital transformation, and develop recommendations to address current challenges. For an in-depth analysis of the SME digitalization process, statistical data, scholarly works by Georgian and foreign researchers, economic policy documents, and national strategies were examined.

Literature review. Developed countries play a significant role in implementing economically effective digital transformation. They ensure support for research into the latest technologies. Monitoring the digital competitiveness of EU member states and analyzing relevant indicators on Europe's digital performance are conducted through the Digital Economy and Society Index (DESI). The European

Commission has been monitoring Member States' digital progress through the Digital Economy and Society Index (DESI) reports since 2014. As of 2023, and in line with the Digital Decade Policy Programme 2030, DESI is now integrated into the State of the Digital Decade report and used to monitor progress towards the digital targets (DESI, 2014-2023).

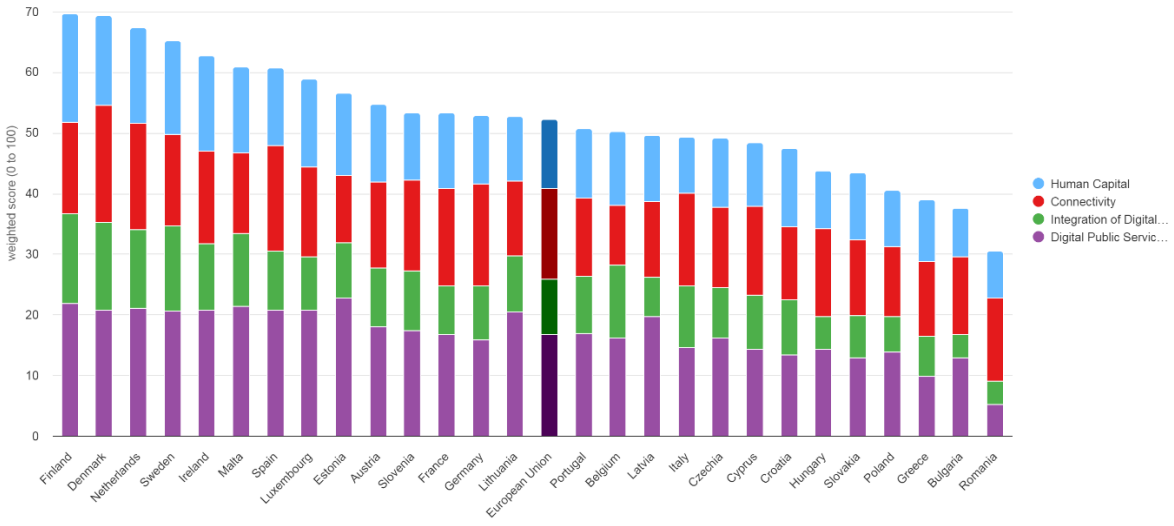
The Digital Economy and Society Index (DESI) is a composite index summarising relevant indicators of Europe's digital performance. It tracks the evolution of EU Member States across four primary dimensions: Human capital, Connectivity, Integration of digital technology, and Digital public services (DESI, 2022).

The results of DESI 2022 show that although most EU member states are progressing in digital transformation, challenges remain in closing gaps related to digital skills, SME digital transformation, and the deployment of advanced 5G networks. An insufficient level of digital skills, in turn, hinders the prospects for future economic growth.

The EU has put on the table significant resources to support digital transformation. EUR 127 billion is dedicated to digital-related reforms and investments in the national Recovery and Resilience Plans. That is an unprecedented opportunity to accelerate digitalization, increase the Union's resilience, and reduce external dependencies with reforms and investments. Member States dedicated, on average, 26% of their Recovery and Resilience Facility (RRF) allocation to the digital transformation, above the compulsory 20% threshold. Member States that invest more than 30% of their RRF allocation to digital are Austria, Germany, Luxembourg, Ireland, and Lithuania (DESI, 2022).

Figure 1

Digital Economy and Society Index (DESI) 2022



Source: https://digital-strategy.ec.europa.eu/en/policies/desi

The U.S. Chamber of Commerce, in its 2024 report, emphasizes the role of Createch technologies, particularly artificial intelligence, in increasing small business productivity. According to the report, 99%

of small businesses use at least one digital technology platform, while 91% actively use artificial intelligence. The report also notes that Createch solutions help small businesses improve their market access and productivity (Jayalath et al, 2025).

Artificial intelligence has become an integral part of business, enabling small businesses to effectively adapt to constantly changing market demands and helping business owners save time and costs (Giguashvili et al, 2024). Artificial intelligence (AI) comes on board as an essential innovative tool for personalization and customizing products to meet specific demands (Khrais, 2020).

The advantages of using AI in business include the ability to rapidly detect patterns in large datasets, fast visualization and analytics, improved product design, and the capability to deliver detailed information. These advantages lead to a new level of service, increased profits, and support business expansion (Soni et al, 2020).

Implementing digital technologies is an effective method for companies to cope with economic crises. Notably, productivity increases 5% to 10% faster in companies that invest in digital solutions such as data-driven analytics (Julakidze et al, 2023).

However, digital transformation brings both opportunities and challenges. The risks associated with implementing digital services are mainly related to information protection and cybersecurity. Developing information security systems and mechanisms for defense against cyberattacks is critically important, but without increasing digital literacy, their effectiveness will be limited (Makasarashvili & Giguashvili, 2024).

Discussion/Results. Establishing a strong position in the modern digital world is necessary to enhance Georgia's economic competitiveness and achieve broader prosperity. As in the rest of the world, companies in Georgia are actively adopting digital technologies to become more competitive, improve customer communication, and increase operational efficiency. Business digitalization is supported by the growing spread of the internet, government-initiated digital projects, and an increasing number of tech-savvy consumers.

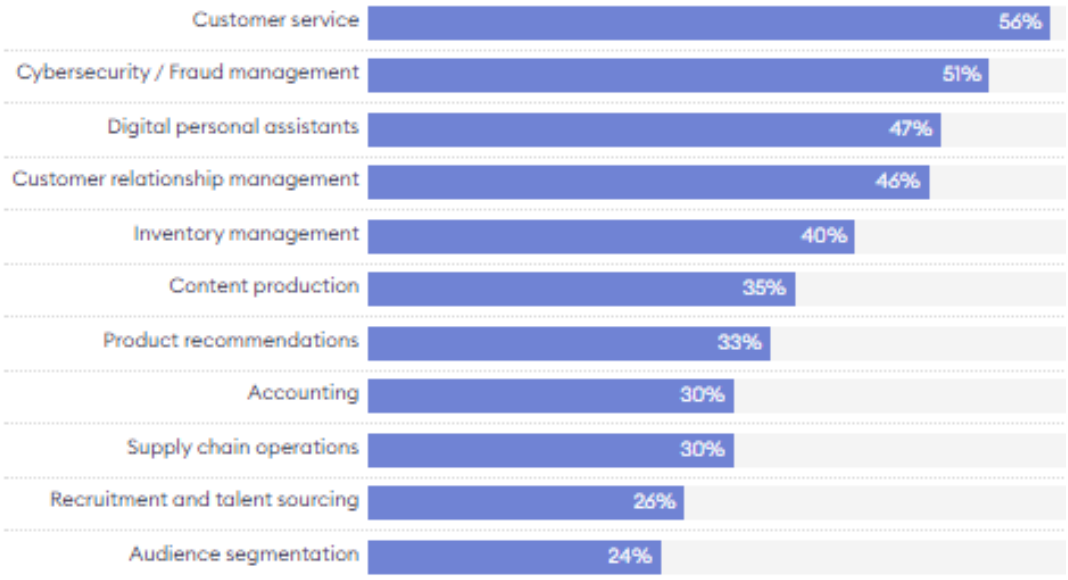
Digitalization plays a particularly significant role in Georgia's economy. According to the World Bank, 38% of companies in Georgia have a declared, clear digital strategy.

The importance of business digitalization and Createch became especially evident during the COVID-19 pandemic when many businesses began integrating digital technologies into daily operations due to social distancing regulations. That primarily applied to functions of digital sales, marketing, and more. The process has continued and has taken on an irreversible character, with the use of digital technologies in business processes steadily increasing-making operations easier and more efficient (Giorgobiani, 2025).

New forms of digital interaction and information exchange present challenges for small and medium-sized enterprises (SMEs), pushing them toward adopting various digital solutions. Businesses use artificial intelligence (AI) to enhance efficiency, save time, and reduce costs. According to a Forbes Advisor survey, businesses use AI in a wide range of applications. The most popular include customer service, with 56% of respondents using AI. Cybersecurity and fraud management are also significant, recognized by 51% of businesses (Makasarashvili et al, 2024). Other notable uses of AI are customer relationship management (46%), digital personal assistants (47%), inventory management (40%), and content production (35%). Businesses also leverage AI for product recommendations (33%), accounting (30%), supply chain operations (30%), recruitment and talent sourcing (26%) and audience segmentation (24%) (Haan et al, 2023).

Figure 2

Top Ways Business Owners Use Artificial Intelligence



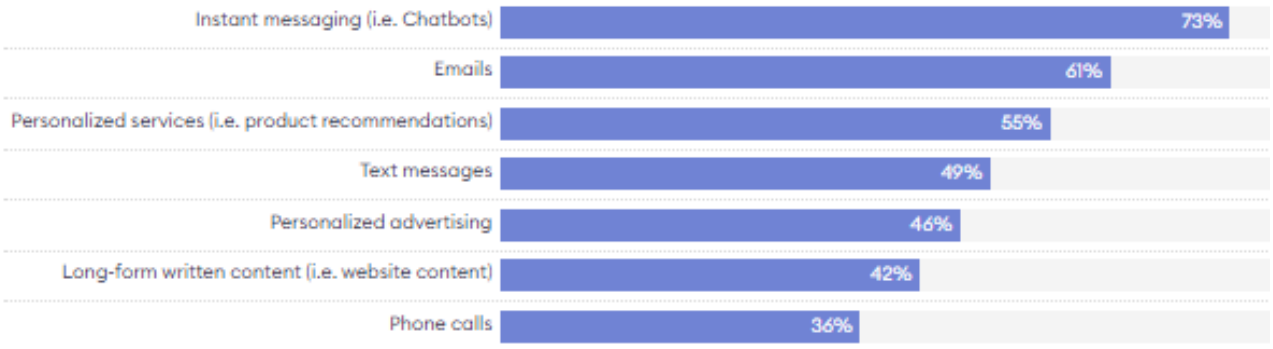
Source: https://www.forbes.com/advisor/business/software/ai-in-business/

According to the Forbes Advisor survey, 73% of businesses use or plan to use AI-powered chatbots for instant messaging. Moreover, 61% of companies use AI to optimize emails, while 55% deploy AI for personalized services, such as product recommendations. [13]

With AI increasingly integrated into diverse customer interaction channels, the overall customer experience is becoming more efficient and personalized.

Figure 3

Ways AI is Improving the Customer Experience

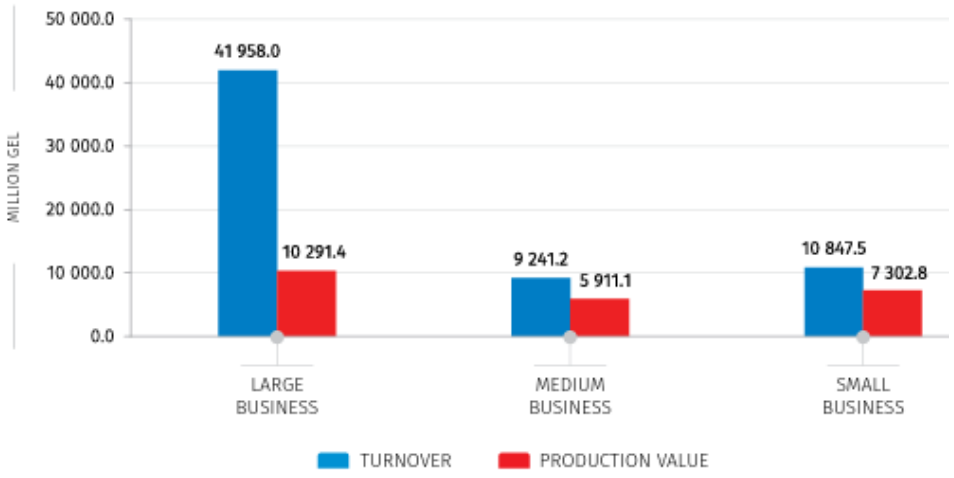


Source: https://www.forbes.com/advisor/business/software/ai-in-business/

Developing small and medium enterprises (SMEs) is a priority for Georgia's economy. Unfortunately, this vulnerable segment of the private sector in the country still has limited access to modern technologies. It is worth noting that SMEs makeup 99.7% of all Georgian enterprises, account for 64% of jobs in the business sector, and contribute 61% of the added value (Ministry of Economy, 2021). In Q4 of 2024, 67.6% of business sector turnover came from large enterprises, 14.9% from medium-sized, and 17.5% from small businesses. Total product output: 43.8% came from large enterprises, 25.1% from medium, and 31.1% from small businesses. Regarding employment, 41.7% were employed in large enterprises, 21.5% in medium, and 36.9% in small businesses. Therefore, supporting and encouraging SME development is a critical and necessary component for the country's progress (geostat.ge, 2025).

Figure 4

BUSINESS SECTOR TURNOVER AND PRODUCTION VALUE BY SIZE OF ENTERPRISES, IV QUARTER, 2024



Source: https://www.geostat.ge

Georgia has the highest indicators in the region for market access and utilization of business development services by SMEs. However, Georgian SMEs mainly operate in low-income sectors like wholesale and retail trade, are not effectively integrated into global value chains, and show low productivity growth (Akhvlediani, 2021).

Through the functioning of SMEs, the population can access goods and services not typically offered by large enterprises, such as household services and small retail. Small businesses serve a vital service role, while large enterprises are, to some extent, dependent on the activities of SMEs (Samchkuashvili et al, 2022).

To support SME development, Georgia has implemented the 2021–2025 strategy, which aims to restore the positive trends that existed before the pandemic and enhance the competitiveness of the SME sector. Several programs and organizations currently operate in Georgia to support SMEs:

1. Enterprise Georgia program under the Ministry of Economy and Sustainable Development;
2. Georgia's Innovation and Technology Agency (GITA) under the same ministry;
3. Business associations supporting SMEs, including:

- The Chamber of Commerce and Industry;

- The Association of Georgian Small and Medium Enterprises;
- The Employers Association.

The priority areas of SME development policy are:

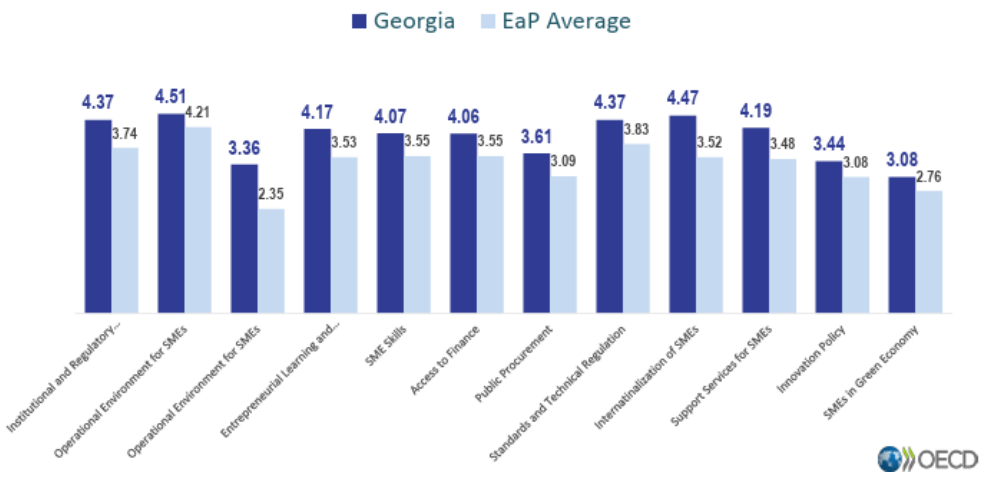
- Refinement of legislation, institutional strengthening, and improvement of the operational environment for SMEs;
- Development of SME skills and promotion of entrepreneurial culture;
- Improved access to finance;
- Promotion of exports, market access, and internationalization of SMEs;
- Support for electronic communications, information technologies, innovation, and R&D for SMEs;
- Promotion of women's entrepreneurship;
- Promotion of the green economy (Strategy 2021-2025).

Further actions for the development of the digital economy and information society are reflected in the "Vision 2030 – Georgia's Development Strategy," including the integration of Georgia's digital market with the EU Digital Single Market, the gradual reduction of international roaming tariffs among Eastern Partnership countries, and the development of e-commerce platforms with EU countries (Vision 2030).

The Organisation for Economic Co-operation and Development (OECD) published the results of the SME Policy Index 2024, according to which Georgia remains the undisputed leader among Eastern Partnership countries (OECD/EBRD, 2023). The SME Policy Index 2024 evaluates the alignment of SME support policies in Eastern Partnership (EaP) countries with the Small Business Act for Europe and best international practices.

Figure 5

SME Policy Index 2024



Source:
https://www.economy.ge/uploads/files/2017/reitingebi/2024/ratings_2023_eng_14_02_2024.pdf

OECD conducts the SME Policy Index evaluation every four years, assessing countries across five key areas: Responsible governance, Entrepreneurial human capital, access to finance, Market Access, Innovation, and business support. In the 2024 review, Georgia scored highest in areas such as Institutional and regulatory framework; Operational environment; Insolvency and second chance; Entrepreneurial education and women's entrepreneurship; SME skills; Access to finance; Public procurement; Standards and technical regulations; SME internationalization; Business support services; Innovation policy.

One of the leading priorities of Georgia's economic policy is developing a knowledge- and innovation-based economy. In the Innovation Policy component of the OECD SME Policy Index 2024, Georgia's score improved to 3.44, up from 3.27 in 2020 (OECD/EBRD, 2023).

It is noteworthy that between 2021 and 2024, through the co-financing grant program and Innovation Grants for Regions initiated by Georgia's Innovation and Technology Agency (GITA), 293 startups were funded (including 82 startups in 2024 alone). Compared to the baseline year, the number of funded startups increased by 79%, providing startups with access to innovative financing opportunities (GITA).

Despite the successful reform of the small and medium-sized enterprise (SME) sector, the low level of digital skills among the population remains a significant challenge, which in turn hampers the digitalization process of SMEs.

To improve the current situation and promote the development of information and communication technology (ICT) skills among the Georgian population, the Georgian Innovation and Technology Agency (GITA) has developed a Digital Economy Skills Development Program. This initiative aims to retrain and certify citizens in the most in-demand digital skills (PMC Research, 2023).

Researchers from the ISET Policy Institute assess the level of digital development of SMEs in Georgia across several aspects: fundamental digital intensity, integration of digital technologies, and e-commerce. The level of fundamental digital intensity in Georgian SMEs is quite low. For instance, only 9% of Georgian SMEs have a fully functional website, compared to 63% in the European Union. The gap is narrower with fixed broadband high-speed internet access, available to 30% of Georgian SMEs versus 48% in the EU (PMC Research, 2023).

The implementation of e-commerce models by enterprises in the country remains very limited. Only 2% of Georgian SMEs sell goods or services online, compared to 19% in the EU. This result is driven by various institutional, policy, and financial challenges: on the one hand, Georgian SMEs wishing to engage in online sales. On the other hand, Georgian consumers considering online purchases often face risks related to personal data protection.

Georgia significantly lags behind the EU average across all main aspects of digital integration. For example, only 4% of Georgian SMEs use two or more social media platforms, such as social networks, business blogs or microblogs, multimedia content-sharing websites, and wiki-based knowledge-sharing tools, compared to 28% in the EU.

The 2023 PMC study by the ISET Policy Institute confirms that the digital adoption rate among Georgian SMEs is quite low. The main challenges to digitalization include a lack of ICT skills, limited access to financial resources, and insufficient knowledge among SMEs about available digital technologies and their benefits (PMC Research, 2023).To improve this reality, Georgia's Broadband Infrastructure Development Strategy and its 2020–2025 Implementation Plan aims to ensure 4G broadband mobile internet coverage in 99% of the country, 1 Gbps internet access for all institutional units, and fast broadband internet access for every household. (Strategy 2020-2025).

Importantly, work has been completed on Georgia's National Strategy for the Development of the Digital Economy and Information Society for 2025–2030 with its 2025–2027 Action Plan (Strategy 2025-2030). These documents define the future vision and strategies for addressing challenges regarding developing the digital economy and society. Key areas include broadband digital connectivity, digital services and reliable infrastructure, digital entrepreneurship, digital transformation and innovation in enterprises, digital financial services, digital skills development, digital inclusion, and creating an enabling environment for digital economy development. The strategy emphasizes support for SMEs in the regions of Georgia to learn and adopt digital technologies through digitalization training and consulting services, encouraging public-private sector collaboration through various mechanisms.

Conclusion. Thus, small and medium-sized businesses constitute a vital sector of the Georgian economy and represent the most widespread, dynamic, and flexible form of economic activity. The digitalization and integration of SMEs into the Createch (creative + technology) sector is essential for the sustainable development of Georgia's economy. The development of digital entrepreneurship and innovation and the facilitation of the digital transformation of enterprises are key national priorities.

To accelerate the digitalization of businesses and achieve the desired results, state support for SMEs undergoing digital transformation must be strengthened. That includes the development of digitalization support programs, the organization of training and consultation services, improving access to e-commerce platforms, enabling outsourcing opportunities for private sector involvement in public digital services, establishing research centers focused on cutting-edge digital and Createch technologies with appropriately skilled personnel, and enhancing access to financing, global markets, and integration into the digital economy for SMEs.

REFERENCES

Makasarashvili, T., Giguashvili, G., Khorguashvili, T., & Orjonikidze, N. (2024). BUSINESS DIGITAL TRANSFORMATION TRENDS IN THE ECOSYSTEM OF GEORGIA. *Grail of Science,* (38), 64–69. https://doi.org/10.36074/grail-of-science.12.04.2024.009

AbuShanab, R. (2024). Advancing Economic Recovery with Artificial Intelligence, Quantum Computing Technologies, and Strategic Management in Small Businesses. *Journal of Artificial Intelligence General Science (JAIGS)*, 5(1), 327–338. https://doi.org/10.60087/jaigs.v5i1.201

Baldwin & Jesca Bax, (2018). How to Unlock Europe's digital growth potential. https://www.ey.com/en_gl/foreign-direct-investment-surveys/unlock-europe-digital-growth-potential

The Digital Economy and Society Index (DESI). https://digital-strategy.ec.europa.eu/en/policies/desi

Digital Economy and Society Index (until 2022). https://digital-decade-desi.digital-strategy.ec.europa.eu/datasets/desi-2022/charts

Jayalath, R., Arachchige, M. J. (2025). DIGITALIZATION AND CREATECH Createch Solutions for Small Business Organizations for Productivity. DOI: 10.13140/RG.2.2.26058.89288.

Giguashvili, G. (2024). OPPORTUNITIES OF USING ARTIFICIAL INTELLIGENCE IN SMALL AND MEDIUM-SIZED BUSINESSES. *Grail of Science,* (40), 63–69. https://doi.org/10.36074/grail-of-science.07.06.2024.006

Khrais, L. T. (2020). Role of Artificial Intelligence in Shaping Consumer Demand in E-Commerce. *Future Internet*, 12(12), 226. https://doi.org/10.3390/fi12120226

Soni, N.; Sharma, E.K.; Singh, N.; Kapoor, A. (2020). Artificial Intelligence in Business: From Research and Innovation to Market Deployment. *Procedia Computer Science*, 167, 2200–2210. https://doi.org/10.1016/j.procs.2020.03.272

Julakidze, M., Lortkipanidze, M., Papava, G. (2023). A Snapshot of SME digitalization in Georgia. https://iset-pi.ge/ka/publications/policy-briefs/3318-a-snapshot-of-sme-digitalization-in-georgia

Makasarashvili, T., & Giguashvili, G. (2024). PECULIARITIES AND THREATS OF INTRODUCING DIGITAL GOVERNMENT IN GEORGIA. *Grail of Science,* (41), 130–135. https://doi.org/10.36074/grail-of-science.05.07.2024.017

Giorgobiani, Kh. (2025). Digital Transformation for Non-Technical Leaders Driving Success Without a Tech Background. https://forbes.ge/rogor-vmarthoth-tsarmateba-tsiphruli-transphormatsiis-gzith-mashinats-ki-thu-teqnologiebshi-ver-verkvevith/

Katherine Haan, Rob Watts (2023). How Businesses Are Using Artificial Intelligence In 2024. https://www.forbes.com/advisor/business/software/ai-in-business/

Ministry of Economy and Sustainable Development of Georgia (2021). Final Evaluation of the 2016–2020 Strategy for the Development of Small and Medium Enterprises in Georgia. https://www.economy.ge/uploads/files/2017/ek__politika/sme_strategy/sme_strategy_2016_2020_evaluation_geo.pdf.

National Statistics Office of Georgia (2025). https://www.geostat.ge/media/68907/საწარმოთა-საქმიანობის-შედეგები---%282024-წლის-IV-კვარტალი%29.pdf

Tinatin Akhvlediani, "20 Deliverables for 2020 Set by the EU and Georgia: Is the Georgian Economy Stronger Today?" Policy Document #20, Georgian Institute of Politics, 2021. https://gip.ge/wp-content/uploads/2021/09/პოლიტიკის-დოკუმენტი20_Akhvlediani_GEO.pdf

Samchkuashvili, N., Dudauri, T. (2022). Small and Medium Business in Georgia: Problems and Key Directions for Development. SCIENTIFIC JOURNAL OF GEORGIAN NATIONAL UNIVERSITY SEU. *SEU & SCIENCE*, N 13 2022. 16-26. https://cc.seu.edu.ge/custom-files/1730378890_7.pdf

Small and Medium Entrepreneurship Development Strategy of Georgia 2021-2025 https://www.economy.ge/uploads/files/2017/ek__politika/sme_strategy/sme_development_strategy_2021_2025_.pdf

Development Strategy of Georgia - Vision 2030. https://www.gov.ge/index.php?lang_id=-&sec_id=428&info_id=85680

OECD/EBRD (2023), *SME Policy Index: Eastern Partner Countries 2024: Building Resilience in Challenging Times*, SME Policy Index, OECD Publishing, Paris, https://doi.org/10.1787/3197420e-en.

Georgia's Innovation and Technology Agency (GITA). https://gita.gov.ge/

PMC Research & ISET-PI (2023). Sector and Value Chain Analytics. The Second Analytical Report. https://iset-pi.ge/storage/media/other/2023-05-30/1265dce0-fee4-11ed-a731-2107a4466997.pdf

Georgia approves broadband development strategy 2020-2025. https://www.gov.ge/files/545_74851_576141_60.pdf

National Strategy for the Development of the Digital Economy and Information Society 2025-2030. https://www.economy.ge/uploads/files/2017/communications_information_and_modern_technologies/2024/strategy/dts_final.pdf