

Monographic research is dedicated to the study of the challenges and prospects of the financial and banking sectors of Georgia in the modern global world. The results of the research are presented in two parts (17 chapters).

In the first part – “Challenges and Perspectives of the Financial Sector of Georgia” - the following 11 chapters are presented: Methodical support for sustainable financing in Georgia; Legislative and methodological support of the local budget process in Georgia; Challenges of Dollarization in Georgia and Post-Soviet Countries; Challenges of innovative activity in Georgia according to the Global Innovation Index.

Part Two – “Challenges and Perspectives of the Banking Sector of Georgia” - Includes the following 6 chapters: Priorities of Accomplishment Social Responsibility in the Banking Sector of Georgia; Development and prospects of non-bank credit and financial institutions in; Strategic aspects of pre-crisis adaptation of banking organizations in anti-crisis management; Involvement of the insurance sector in the lending process of the tourism sector; Modern concepts of sales in credit institutions.



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Analysis and evaluation of the financial and banking sector of Georgia

Challenges and Perspectives of the Financial-Banking Sector of Georgia in the modern global world



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Rati Burdiashvili
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Cover image: www.ingimage.com

Publisher:

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120 High Road, East Finchley, London, N2 9ED, United Kingdom
Str. Armeneasca 28/1, office 1, Chisinau MD-2012, Republic of Moldova,
Europe

Printed at: see last page

ISBN: 978-620-5-49378-6

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**Georgian Technical University
Faculty of Business Technology
Department of Finance and Banking Technology**

Collective Monograph (Volume II)



**ANALYSIS AND EVALUATION OF THE
FINANCIAL AND BANKING SECTOR OF
GEORGIA**

**Challenges and Perspectives of the Financial-Banking Sector of
Georgia in the modern global world**



APRIL 24, 2024
Georgian Technical University
Tbilisi, 0160, Georgia

This monographic research was conducted by the staff of the Department of Finance and Banking Technology of Technical University of Georgia. Monographic research is dedicated to the study of the challenges and prospects of the financial and banking sectors of Georgia in the modern global world. The results of the research are presented in two parts (17 chapters).

In the first part – “Challenges and Perspectives of the Financial Sector of Georgia” - the following 11 chapters are presented: Methodical support for sustainable financing in Georgia; The problem of timely and full-value financing of regional infrastructure projects; Financial activity of non-profit organizations in Georgia; Legislative and methodological support of the local budget process in Georgia; Financial investments - a contributing factor to economic growth; Challenges of Dollarization in Georgia and Post-Soviet Countries; Human capital problem and socially responsible management of insurance companies; Psychological challenges in pre-school children and problems related to the financial resources necessary for their elimination and interpretational issues; Financial incentives for Georgian farmers to enter the EU market (On the example of Gori municipality); Financial problems and challenges in agriculture (on the example of the Kakheti region); Challenges of innovative activity in Georgia according to the Global Innovation Index.

Part Two – “Challenges and Perspectives of the Banking Sector of Georgia” - Includes the following 6 chapters: Priorities of Accomplishment Social Responsibility in the Banking Sector of Georgia; Development and prospects of non-bank credit and financial institutions in; Strategic aspects of pre-crisis adaptation of banking organizations in anti-crisis management; Discussion of the problem of improving the supervision of modern commercial banks by the National Bank of Georgia; Involvement of the insurance sector in the lending process of the tourism sector; Modern concepts of sales in credit institutions.

The book is designed for a wide range of readers: for scientific and practical figures, professors and students of higher education institutions. It will be useful for employees of the country's legislative and executive bodies, for all those interested in the problem of financial and banking.

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PART I. CHALLENGES AND PERSPECTIVES OF THE FINANCIAL SECTOR OF GEORGIA

I.1. Methodical support for sustainable financing in Georgia

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Abstract. In the scientific article, on the basis of newest literal sources and actual materials there are studied such important question of theory of finances and financial policy as methodic provision of sustainable financing in Georgia.

There are examined global tendencies in direction of sustainable financing. In connection to this, sustainable financing is presented as unity of two important parts: (1) leading finances to such projects which would support sustainable and inclusive growth; (2) improvement of financial stability in the process of decision making by taking into consideration environmental, social and managerial factors.

There is investigated course of support of sustainable financing in Georgia, besides, there is documented that National Bank of Georgia supports strengthening of the role of financial sector in sustainable development of the country and develops green, social and sustainable financing frame for this purpose.

There are analyzed actions planned by National Bank of Georgia for development of sustainable development- guideline of sustainable development including four basic directions: (1) improving of consciousness and qualification; (2) flows of sustainable

financing; (3) ESG risk management; (4) transparency and market discipline. Besides, there is made a conclusion on the necessity of creation of working group of sustainable development by the National Bank for successful realization of sustainable development guideline and provision of timely inclusion of interested parties in this process.

Keywords: sustainable financing, physical risk, transition risk, market failure, financial supervision, green credit, green obligation, long term cost, obligatory care.

1. Introduction

various countries worldwide, in order to support sustainable development, developed UN Agenda for Sustainable Development at UNO summit of 2015 [1]. In the same year there was achieved Paris Agreement on Climate Change [2]. All the mentioned became basis of new beginning for sustainable development. UN agenda of 2030 unifies 17 basic aims, which, from their own part, serve to creation of such future that is aimed to stability, healthy environment, inclusive, sustainable and equal society and economy.

Paris Agreement that was signed in 2015 by 195 countries is the first initiative unifies by many countries under one general purpose. And the latter supposes making of some ambitious steps serving to the growth of sustainability toward climate change and reduction of global warming up to 2°C. By signing these initiatives countries selected such way of development which will not meet requirements of nowadays generation on account of interests of future generation [3].

Georgia is participator of both initiatives. Georgian government realizes a range of actions for achievement of sustainable development purposes (SDGs) selected by consideration of national circumstances and thus makes its own contribution in provision of global sustainable development.

According to the requirement of Paris Agreement, Georgia has made national level contribution in United Nations Framework Convention on Climate Change (UNFCCC), what means taking of

such measures which will reduce emission of greenhouse gases and processes that negatively affect environment. These international obligations comply with the national policy of the country and social-economical development strategy of Georgia “Georgia 2020” [4].

Challenges of sustainable development faced by our country need urgent response in order to suit public policy to new reality. And this all requires conduction of such reforms which will provide support of mobilization of financial resources for green, stable and inclusive economic growth.

Important role in this process is imposed on financial system, because one of the essential factors for sustainable development is sustainable financing. This is necessary condition for achievement of more sustainable economic growth, provision of stability of financial system and supporting of transparency and long-term vision in economy.

2. Research results and discussion

According to EU Commission, “sustainable financing” unifies two important components: (1) leading of finances to such projects which will support sustainable and inclusive growth; and (2) improvement of financial stability in the process of making of investment decision, by taking into consideration environment protection¹, social²andmanagerial³factors [5].

¹Environment protection factors include softening of climate changing and adaptation, aspects of environment pollution, conservation of natural resources, protection of eco system and other environment protection issues and related risks.

²Social factors concern such questions as inequality, inclusivity, labor relationships, human rights protection, provision of social health and welfare, strengthening of rights of women and girls, reduction of poverty and investments in humancapital.

³Proper management that includes management structures, relationships of collaborators and payment policy is necessary condition for provision

Climate change is current factor, which is also characterized by long-term risks and correspondingly, needs strict political intervention. Therefore, it is distinguished among other environment protection problems. Although, climate change is also connected to other environment protection and social issues. Correspondingly, detailed study of risks connected to climate change creates A basis for analysis of other environmental and social risks.

It is already generally confessed that problem connected to sustainability can become a source of financial risks. These risks are created by two basic channels: physical damage caused by climate change; and structural changes needed for moving to low emission economy [6]. Physical and transiency risks affect macroeconomic environment and can cause important financial losses.

Physical risk is considered to be acute when it is caused by events connected to weather and climate, such as drought, flood, windstorm and increasing of sea level; physical risk is chronic if it is caused by stage-by-stage changes such as global warming. Source of physical risk can be direct consequence of above described events, such as, for example, damage to property or decrease of productivity. Although, it can also be indirect consequence of such subsequent event as breaking of supply chain. In case of realization of physical risks they will be followed by important financial damage which can affect as at micro so at larger systemic level.

Influence of physical risks on financial instrument can be direct. Example of this will be reduction of cost of assets and pawn [7], increased insurance losses [8] or delays of business operations [9]. In case if losses are insured the damage will be reflected directly on insurance companies, and in case of non-insurance the whole load will be beared by internal economies, corporations and state.

of consideration of social and environment protection issues in decision making process.

Transiency risk is such financial risk which can occur after realization of changes needed for moving to low emission economy. In result of changes of environment protection policy, technologies and market moods there can be reevaluated such assets as stocks, obligations, derivatives and other forms of capital existed in the economy. It is still unclear at what rates reevaluation will be made, but it can greatly influence on financial stability and sustainability of financial institutes.

Evaluation and study of influence of physical and transiency risks over financial stability and individual financial institutes is responsibility of central banks and financial supervision. More central banks and financial supervisors make concrete steps for overcoming these challenges in developed and developing countries. Within the last four years quantity of actions and policy conducted for support of green and sustainable financing significantly increased [10].

Except of argument of financial risk, UN Environment program focuses attention on more two arguments why central banks shall response to challenges of sustainable development [11]:

→ *Market failure*- availability of bank credits to harmful for environment businesses can be considered as failure of credit market. Environmental regulations and carbon pricing are priority policies for correction of the mentioned failure of the market. Although in case of absence of environmental policy and its non-effective execution, it is wishful for central banks to support creation and distribution of credit within the frameworks of their authorities. Although, different form of market failure is “non-existed markets” – situation, when effective, free market, which provides “pareto” effective distribution of resources, does not exist. In this case, central banks can play certain role in formation of “non-existed” segment of the market for supporting development of green financing, for example, such as green obligations market.

→ *Role of central bank, as of reliable and authorized institute, especially in developing countries.* In general, provision of issues connected to environment protection in the analytical frame is an obligation of all central banks or financial supervisor. Although, role of central banks and financial supervisors are more important in developing countries where environmental regulations are being executed comparatively weakly. In developing countries central banks and financial supervisors belong to advanced and authorized public institutions. Even more, within frameworks of supervision of financial sector they can pay proper attention to the risks connected to environmental social issues, what will be reflected on private investment solutions. Even more, central banks, by the use of expertise of financial markets and international contacts can support conduction in financial sector of reforms corresponding to the best international practice.

In many countries central banks and financial supervisors as well as financial institutes study these risks more deeply. Although, because of insufficiently developed tools and methodologies a lot of challenges exist. For example, availability and quality of services are limited, taxonomy and explanations are still at development stage and process of transformation into information, needed for evaluation of financial risk of theoretical knowledge shall be still improved. Correspondingly, successful switching to sustainable development requires simultaneous realization of a range of subsequent and suitable actions.

Georgian National Bank supports strengthening of the role of financial sector in sustainable development of the country and for this purpose develops the frame of green, social and sustainable financing. This frame means consideration of social and environmental issues by participators of financial sector and capital market and management of related risks, and this is important as for financial stability so for sustainable development of the economy. National Bank makes concrete steps for support of sustainable development.

The first step from this standpoint was membership in Sustainable Banking Network, SBN⁴ in September 2017. From this time National Bank actively works with various international organizations such as SBN, International Financial Corporation (IFC), Organization of Economic Cooperation and Development for development of sustainable financing frame in Georgia. For the purpose of improvement of consciousness about sustainable financing, the National Bank of Georgia by cooperation with private sector has translated into Georgian language the principles of green, social and sustainable development obligations of International Capital Markets Association, which were published on the website of ICMA [12].

On September 26, 2018 the National Bank, together with IFC/SBN has hosted working meeting of sustainable financing. At the working meeting there were participating experts of IFC, representatives of SBN member countries and central banks of region. The meeting was also attended by representatives of the ministries of Economy and Sustainable Development, Finances, Environment Protection and Agriculture, presidents/ executive directors of financial institutes and other interested parties.

At the working meeting participators examined existed challenges of sustainable financing, possibilities of development of social and green obligations market and green credit and significance of disclosure of environmental issues. Special attention was focused on the role of financial supervision, existed regulatory experiences and initiatives. After discussions and consultations conducted within frameworks of working meeting the National Bank has decided to create guidance of sustainable financing.

⁴ „SBN“ is voluntary union of central banks, banking supervisor and associations from 36 developed countries which aims to supporting of sustainable development of financial market. For additional information please refer to the following link: www.ifc.org/sbn

Guidance on sustainable development for Georgia was created in result of cooperation with IFC/SBN. This is based on the best international practice and complies with EU Commission Action Plan [13]. For the following four years the guidance is an action plan of development of sustainable financing.

Sustainable Financing Guidance is the list of actions planned by the National Bank of Georgia for development of sustainable financing. Guidance unifies all those possible changes which are planned for realization in direction of sustainable financing by the National Bank for the next three – four years. Main purpose of the guidance is creation of reliable, predicted and stable regulator frame which will prepare the market for switching to the sustainable financing. By conduction of subsequent and suitable actions and by giving of time for adaptation the Guidance supports consideration of issues of sustainable development in decision making process.

Sustainable financing is one of the important supporting factors of sustainable development. Correspondingly, this Guidance is compatible with the plan of sustainable development of the Government. The Guidance examines as problems connected to environment protection such as climate change and air pollution, so social and governing issues. Guidance will be renewed periodically, together with development of the market.

Sustainable financing Guidance includes four basic directions:

- Improvement of consciousness on sustainable financing, development of guiding principles and improvement of market qualification in direction of sustainable financing;
- Supporting the growth of capital flows and investments in sustainable direction for achievement of green and socially inclusive economy;
- Consideration of ESG factors in the frame of financial institutes and corporations risks management and in the process of decision making;

- Increasing of transparency and market discipline by regulation of minimal requirements of disclosure of ESG for financial institutes and corporations.

Improvement of consciousness and qualification: One of the reasons causing low consciousness on sustainable financing in Georgia is only short term analysis of risks and deficiency of information on advantages of sustainable financing. Correspondingly, it is important to improve the consciousness and qualification for solving of this problem.

For implementation of sustainable financing, participators of financial market of Georgia can be guided by various international standards. For the purpose of improvement of consciousness about sustainable financing, the National Bank of Georgia by cooperation with private sector has translated into Georgian language the principles of green, social and sustainable development obligations of International Capital Markets Association, which were published on the website of ICMA⁵. ICMA principles are renewed annually and National Bank plans to make renewed translations constantly available for large society.

Initiation of conduction of workshops, working meetings and trainings, their organization and support are one more means for improvement of consciousness on sustainable financing. On September 26, 2018 the National Bank, by cooperation with SBN/IFC has hosted working meeting on sustainable financing. Within frameworks of this meeting there were examined actual issues of sustainable financing and current challenges and there was made a decision on developing of guidance. And also there is planned to conduct various trainings and working meetings in the future by

⁵ Purpose of publishing of Georgian version is, from the one hand, increasing of awareness about sustainable financing on local market and from the other hand, to show to international investors supporting of sustainable financing from the part of National Bank.

cooperation with international organizations. This will assist not only to improvement of consciousness but will enable National Bank to consider more characteristics of Georgian market during planning of future steps in direction of development of sustainable financing.

Flows of sustainable financing: Sustainable financing plays an important role in sustainable development. For making the capital flows compatible with aims of sustainable development and climate change, it is important to explain the term “sustainable”. Definition of what type of investments / credits are qualified as “sustainable” will help market participators to better make their activities compatible with sustainable development. Taxonomy compatible to international interpretations will support growth of international investments. Compliance of taxonomy with local requirements will assist the local institutes with making of their own contribution in achievement of purposes of sustainable development of Georgia. Therefore, National Bank plans to introduce taxonomy of sustainable financing compatible to international practice and corresponding to the taxonomy of EU. This can include interpretations of green credit, green, social and sustainable development obligations and other products of sustainable financing.

One more important document development of which the National Bank is planning is Guidance on Sustainable Financing. This document will unify all existed interpretations of sustainable financing products, among them on green, social and sustainable obligations and green credit; guidance of issuance of green obligations; reviews ESG risk management requirements; and summarizes consideration of ESG issues in the Corporate Management Code, together with corresponding principles of reporting and information disclosure.

ESG risk management: ESG risk management means consideration of ESG risks during issuance of loans, in order to avoid or reduce financial losses, reputation risks or damages to humans or environment caused by projects financed by banks. Increase number of markes recognizes the risk of climate changing as separate factor

which affects condition of debtor and lender. In the recent decade there is realized approaching of ESG risks management standards used by public and private financial institutions. These international standards include IFC standards: IFC's Performance Standards, [14], Equator Principles [15] and guidance on risk management of European Bank for Reconstruction and Development [16].

ESG risk management is one of the main components of the guidance on sustainable financing. National Bank has already begun working in direction of consideration of ESG factors in the Corporate Management Code of capital markets and commercial banks. According to the Corporate Management Code, ESG shall be part of the company strategy, and inclusion of ESG risks shall be realized in the risks management system. Besides, Corporate Management Code provides reporting and disclosure of ESG issues. All of the mentioned provides adequate evaluation and consideration of sustainability risks by the companies. At initial stage, in the Corporate Management Code for capital market ESG part will be based on "do and explain" principle, what will prepare the market for stricter requirements of disclosure of information on issues of sustainable development. There shall be mentioned that for commercial banks it is already mandatory to disclose information on ESG issues.

The next step is development of technical guideline on ESG risks management and tools. ESG risks management guideline will be compatible to the best international practice, which, as a rule, requires estimation of due diligence of environmental and social issues, study of ESG risks containing credits and continuation of supervision over ESG risks after crediting. Definition, estimation and management of social and environmental risks during making of decision about the credit are still new for banks and other financial institutes. Correspondingly, in order financial institutes could provide ESG risks, inclusion and guiding by National Bank is very important.

Transparency and market discipline: Transparency is one of the important parts of sustainable financing development. Corporate

Management Code regulates requirements for commercial banks and capital markets regarding ESG reporting and information disclosure, what will make markets more oriented on environment protection. National Bank of Georgia, by cooperation with Economical Cooperation and Development Organization, is working on principles of reporting and information disclosure for financial institutes. These principles is based on such international standards of disclosure of information on sustainable development issues as: Sustainability Accounting Standards Board, SASB, Task Force on Climate-related Financial Disclosures, TCFD, UN Principles for Responsible Investment, PRI, Reporting Frame 2018, Global Reporting Initiative, GRI.

3. Conclusion

And finally, as conclusion there shall be noted that successful realization of sustainable financing guidance requires close cooperation and coordination between various interested parties. For successful realization of action plan and provision of timely inclusion of interested parts into this process the National Bank shall necessarily create working group of sustainable financing. Group members shall be representatives of corresponding ministries and other public institutions, financial institutes and other interested parties working in this direction. Working group will meet regularly in order its members could share ideas, inform each other about novelties on current events in the sphere of sustainable financing and examine role and responsibility of each of them in realization of plans defined by guidance.

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I.2. The problem of timely and full-value financing of regional infrastructure projects

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Abstract. The article mentions that timely and full-value financing of the infrastructure sector is an integral condition for the effective development of the state's economic system. The main mechanisms of financial support of infrastructure projects and infrastructure entities are characterized. Prospective public-private partnership schemes for investing in infrastructure projects in the financial sector are proposed.

Keywords: Infrastructure, Financial Infrastructure, Financial Potential, Public-Private Partnership.

1. Introduction

Modernization and expansion of the infrastructure of countries and regions, conditioned by the objective processes of the development of society, the increase and differentiation of the volumes of industrial production, the strengthening of international cooperation and the internationalization of business, form the basis for the successful development of any state. The growing needs of society in energy resources, the needs for fast and optimal movement of people and cargo in relation to the country and the world, the need for

access to precious resources and the timely utilization of waste, the provision of high-speed, reliable and safe channels of communication, as well as the needs in medical services, education and security, as a whole, the elements of the infrastructure new development needs and tasks will be brought forward. Designing and creating infrastructure facilities is one of the key obligations of the state and is included in the priority directions of the state policy.

The high level of importance for the state and society as a whole is determined by the essence and specificity of infrastructure elements. For any country, including Georgia, it is especially important to consider the regional factor when building infrastructure, which is determined in advance by certain differences in the availability and provision of resources, natural, economic, social and other conditions of farming. Users of the same infrastructure object simultaneously become different social and business groups, moreover, often one element cannot exist without the other, which implies the need to consolidate sectoral and regional plans in relation to the creation, development and further operation of infrastructure objects at the state level.

According to the opinion of a number of scientists, the realities of Georgia require the improvement of strategic management procedures in the field of infrastructural arrangement of regions. In the research materials on the role of strategic management in the development of the innovative infrastructure of the region, it is noted that "it is impossible to realize the concept of long-term socio-economic development of the country without considering the role and location of the features of the regions, the level of development of the innovative economy in the region, the differentiation of production, the problems related to the development of the innovative infrastructure, and understanding the management situation." Thus, the financial support of infrastructure development (it is difficult to finance such projects only at the expense of budgetary funds), the construction of effective schemes of capital investments, the provision

of quick and effective schemes of settlements, the issues of interaction between the government and business in this area do not lose their relevance.

The financial system, its volume and infrastructure characterize the financial potential of the economic system, which, in turn, determines the possibilities of financing the infrastructural complex. Financial and investment infrastructure institutions traditionally include:

- Commercial banks: universal, specialized (investment, innovative, mortgage and others);
- Non-bank credit and financial institutions: credit unions, credit cooperatives, mutual credit societies, insurance societies, financial companies, non-state pension funds;
- Investment institutions (investment companies and funds, stock exchanges, financial brokers, dealers, investment consultants and others).

The financial system at any level of the economy itself is a set of its key links and their interrelationships. From this point of view, the financial potential and infrastructure of the economic system cannot be considered only from the standpoint of centralized and decentralized finance. According to general opinion, financial potential includes the following sub-potentials: budget, financial and credit sphere, population (households), enterprises and organizations. It should also be noted that the formation of this or that sub-potential is highly dependent on others, which is explained by the existence of complex relationships within the financial system. So, for example, temporary free financial funds of family farms are most often invested in the financial and credit sector and transformed into the assets of financial and credit institutions (use of funds raised in time deposits in active operations). Financial resources of enterprises and organizations can be used in the same way. In addition, within the financial and credit sector itself, a large volume of meeting needs and obligations is formed between financial organizations (in the banking

sector, on the basis of multiplication, the possibility of multiplying cash funds, from approximately 5 to 20 times). Based on this, a complex structure of financial flows occurring in the financial system is formed, which, according to their essence, do not form financial potential, but are only distributed within the financial system (although the issuance of each credit also means the emission of a new monetary mass).

The most important indicators that give a general idea of the state of development of the financial system are as follows: absolute indicators of the volume of assets of financial institutions, indicators of the structure and maturity of assets, the volume of mutual needs between the sectors of the financial system, indicators of the ratio of development to macroeconomic indicators. Along with the aforementioned, it is necessary to divide the given indicators when characterizing the banking and non-banking areas, as well as when distinguishing the characteristic indicators of the financial architecture. Under the financial architecture - is understood "the historically formed ratio of the demand for financial services and the level of development of the financial market, under which the following components in a systemic relationship are considered: financial infrastructure (exchanges, registrars, depositories, clearing and settlement organizations), market operators (banks, brokers, dealers, company managers, insurance agents), institutional institutions (bond, investment and non-state pension funds), financial instruments (shares, bonds, promissory notes, etc.) and their elements, as well as state regulatory bodies and self-regulatory organizations of financial market participants".

The particularities of the established financial architecture, in their essence, express the extent to which the financial system is able to meet the needs of the real sector in financing its activities. The excess of these or those institutions in the economic system leads to the excess of their characteristic investment and use methods of financial instruments. Thus, the financial potential of the agricultural

system can be estimated according to the following scheme (**Figure 1**).

		Financial potential of the agricultural system	
Budgetary constituents			Non-budgetary constituents
Financial potential of agricultural entities		The potential and level of development of the financial system	Financial potential of private farms
		Financial architecture	
Commercial banks			Non-banking institutions

Figure 1. Structure of the financial potential of the agricultural system

By projecting this scheme to the regional level, on the one hand, the assets of regional financial organizations represent potential sources of financing, which can be located both inside and outside the economic system. On the other hand, financial intermediaries as an investment object can attract financial resources both for the internal system and for external economic agents. In this case, the financial and intermediary sector acts as a channel for receiving external investments, focused on the realization of the existing investment potential, including in the infrastructure sector.

To date, the theory and practice of development and implementation of infrastructural projects testify to the high efficiency of the use of various schemes of public-private potential. The essence

of these schemes will be reduced to the consistent participation of state bodies of the executive power and private business representatives at various stages of the implementation of infrastructure projects, such as: construction, development, ownership, use, lease, leasing, transfer.

2. Research results and discussion

In our opinion, in order to realize the strategic goals of the development of the economy of Georgia, it is necessary to activate the activities of non-banking financial organizations in the specific field. We offer a systematic approach to the implementation of state investments in investment funds. The essence of this approach lies in the construction of a system of interconnected funds, which will give us the opportunity to combine various stages of investment in large (mega) infrastructure projects into a single chain. Realizable infrastructure projects are invested in the initial stage by direct investment funds with participation rights in the authorized capital. During the successful development of the project, the direct investment fund continues to finance until its stability in the market and then sells its rights on the exchange or non-exchange market to other participants of the project, external organizations or other investment funds, for example, sector funds, stocks, bonds and other funds. The participation of the state will be taken into account only at the stage of formation of the direct investment fund, and at the later stages it is advisable to invite other qualified investors both inside and outside the country. Thus, the proposed investment scheme can be imagined as follows (**Figure 2**).

				State (Sovereign funds and development institutions)		Population
Project 1						
Project 2						Other funds

Project 3		Selection of projects		Direct investment funds		Project participants
Project 4						Other investors
Project 5	—					
				Non-state qualified investors (including the corporate sector)		

Figure 2. System of state participation in investment projects (compiled by the authors)

An important condition for the successful functioning of this system is the organization in relation to exit from the funds and their transformation at the initial stages, as well as the limitation of stock market turnover of shares. It should be noted that the selection of projects is carried out primarily by the state executive authorities, so that the set of projects corresponds to the strategic development plans and objectives of the country or region. Then, through the public presentation of the selected projects, the non-state qualified investors are selected.

In order to determine the types of funds used for state investments, we propose to structure them according to the criterion of long-term implementation of investments and compliance with the strategic goals of development, as well as based on the criterion of investor qualification (**Figure 3**).

	Collective investments:		
	Individual investors (population):		Qualified investors:
	Stock fund		Fund of funds

	Bond fund		Commodity Market Fund
	Mixed funds		Hedge funds
	Index funds		Real estate fund
	Monetary funds		Mortgage funds
	Commodity market funds		Venture funds
	Real estate funds		Direct investment funds
	Mortgage funds		Sectoral funds

Figure 3. Types of collective investment funds (compiled by the authors)

There is an opinion of the authors regarding the possibility of using the reserve fund for the financing of infrastructure projects in the near future, which emphasizes the relevance of the proposed investment scheme. In fact, the Law "On Investment Funds" allows the entire segment of closed funds to be attributed to medium and long-term investment objects, but the specifics of individual types of these funds do not provide for their long-term financing. So, for example, credit funds, commodity market funds, hedge funds, real estate development and rental funds cannot be clearly assigned to long-term funds, as the given criteria are highly dependent on the strategy of the managed company.

3. Conclusion

Considering the above, it is possible to make the following short conclusion:

- ▶ It is considered appropriate to separate the following funds from the professional segment: venture and direct investment funds, mortgage funds and real estate construction funds, which can be used as an investment object when financing with the resources of sovereign funds and development institutions.

- ▶ It is suggested that in the mutual fund investment system, placement of non-state private pension fund funds can be used as one of the directions. Infrastructure funds usually take the form of a private equity fund, which can lead to a conflict of interest, as in this form of fund organization, a private pension fund is focused on long-term investment, while other investors are focused on shorter investment periods. The mentioned incompatibility can be eliminated through the direct participation of the private pension fund in direct investment funds.
- ▶ It is indicated that along with the discussed aspects of the development of mechanisms for financial assurance of infrastructural transformations, appropriate development of the financial infrastructure itself is necessary, including exchanges, registrars and depositories, clearing and settlement organizations, which are dedicated to ensuring effective functioning and interaction within the financial system.
- ▶ It is mentioned that the development of financial infrastructure tools should become an essential condition of the country's infrastructure policy. The development and interaction of the components of the common infrastructure, such as logistics and information-analytical centers, terminal-warehouse complexes, port areas, etc., depend a lot on how fully and timely the financing of the complex of infrastructure projects is carried out, how well the payment system functions.

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I.3. Financial activity of non-profit organizations in Georgia

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Abstract. The main motive for the activities of non-profit organizations is to satisfy public needs that the public sector is often unwilling or unable to fully satisfy. Non-profit organizations play an important role in both the social and economic life of the country. Therefore, we considered it necessary to study the activities of non-profit organizations in Georgia, their financial relations and conduct a statistical analysis.

There is a shortage of information about non-profit organizations in Georgian educational and economic literature; their financial activities are rarely studied, except in isolated cases.

As a theoretical basis for the study, we took the experience of domestic and foreign countries, views, theories and proposals of economists and practitioners.

Keywords: non-profit organization, civil society organization, grant, regulation, charitable activity.

1. Introduction

The basic laws that regulate activities of organizations of civil society are the following: Georgian Constitution, Law of Georgia

„Civil Code of Georgia“ (July, 1997; essential changes were made in 2006), Law of Georgia „Tax Code of Georgia“ (September, 2010) and Law of Georgia „About Grants“ (June, 1996), Organic Law of Georgia „About Activity Prevention of Public Unions and their Prohibition“ (November, 1997).

Georgian constitution guarantees the personal right to establish or become member of civil organization. Only court has right to suspend or prohibit activities of civil unions and the particular cases are defined in Georgian organic law „About Suspension and Prohibition of Activities of Civil Unions“ (November, 1997). Civil code defines legal and structural forms of civil organizations and procedures of registration. Several cases related to registration of certain types of civil organizations are regulated with the special laws.

The basic legislative framework for formation, registration and operation of civil organizations is Law of Georgia „Civil Code of Georgia“. In 2006, code was significantly changed and supplemented. Afterwards, regulations of registration and management of civil organizations were essentially changed. According to Civil Code of Georgia, organizations, that perform non-profit activities, are called non-profit organizations and they aren't categorized as unions and funds, as it has been before changes.

2. Research results and discussion

Non-profit organizations aren't oriented on profit and perform non-profit activities. However, they have right to perform additional commercial activities and corresponding profit should be spent on realization of goals of non-profit organizations. Distribution of such profit among founders, members, donors and leadership of organization is prohibited.

Founder of non-profit organization may be natural or legal person. Besides, one person may found organization as well.

Tax inspection registers non-profit organization according to location of this person (according to old regulations, the same function

was performed by court and justice ministry). Registration includes state, as well as tax registration.

The new version of Code includes interesting article. According to this article, non-profit organization may sell its property, if such operation supports activities of non-commercial organization, supports its development or serves charity aims.

According to general rule, after liquidation of non-profit organization, founders determine authorized persons for remaining property. If such persons don't exist, then remaining property is transmitted to one or several non-profit organizations that have the same or similar goals. If such non-profit organizations also don't exist or it is impossible to disclose them, then remaining property may be transmitted to state.

State control of non-profit organization implies decision about suspension or prohibition of activities of such person. The court makes decision in the cases defined in Organic Law of Georgia „About Activity Suspension of Public Unions and their Prohibition“. According to this law, court may suspend activities of Public Unions for maximum of 3 months, if such activities become oriented on profit. Court may also prohibit activities of Public Unions, if their aim is subversion or violent disruption of constitutional order, infringement of country's sovereignty, infringement of territorial unity, propaganda of war or violence, causing national, regional, religious or social tension, formation or plan of formation of armed groups, continuation of activities after court's decision to suspend them.

Law of Georgia „About Grants“ forms legislative foundation for special regime of taxation of incomes from grants. Logically, such norms should be part of tax code, but reason for existence of independent law is historic development. In 1996, when this law was passed, tax concessions were regulated with independent laws and such regulations weren't always part of tax code. Afterwards, when the first tax code was developed, grant exemptions became part of the code and other regulations remained under control of independent law.

Donor and grantee sign the written contract that includes information about aim and amount of grant, the particular usage of received funds, terms of adoption of funds and basic requirements of donor towards grantee. One specification of grant is its purposefulness, i.e. it is used to achieve goal that is useful for society. Purpose of grant may be changed with donor's consent and it may be used not for initial goals.

Existence of non-profit organization doesn't automatically imply any type of tax exemption. Tax exemption of non-profit organizations is related to their activities and sources of income. If such persons perform economic activities, then common tax regime is applied and corresponding incomes are taxed as usual. If non-profit organizations have incomes from non-economic activities (for instance, grant, donation, membership fees), then such incomes are exempted from certain kind of taxes.

Tax code includes one important tool for stimulation of charity, particularly 186th article states that enterprise may deduce expenses spent on charitable organizations from gross income, but this amount shouldn't be more than 8% of funds that remained after deductions stipulated in tax code. Also it should be noted that usage of above-mentioned concession is related to status of charitable organization. Reception of this status requires corresponding procedures and implies additional obligations and responsibilities. To receive status of charitable organization, the following conditions should be fulfilled:

- organization should be founded for charitable activities;
- organization should be registered according to law;
- organization should have at least one year experience of charitable activities.

According to Tax Code of Georgia, charitable activity means giving help to persons, who need it, directly or by means of third person voluntarily and selflessly.

The Code also considers charity as performing useful activities for society in the fields, such as human rights protection, environment protection, development of democracy and civil society, culture, education, science, art, physical education and amateur sport, health care and social protection.

Tax inspection grants status of charitable organization according to location (tax registration) of organization. As soon as organization gets the corresponding status, it has additional obligations. Charitable organization is obliged to publish annual report and financial documentation (balance of profits and losses) in periodic press and guarantee accessibility of such documentation for every interested party.

Status of charitable organization is annulled, if requirements of Tax Code of Georgia aren't met or civil (state) registration is suspended. Ministry of Finance of Georgia annuls the status of charitable organization on the basis of demand of corresponding tax inspection and issues individual legal act. Organization has right to demand recovery of status not earlier than one year after eradication of reason of annulment.

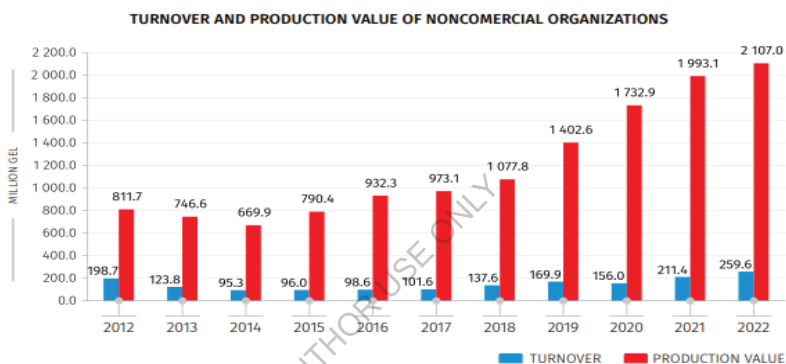
The basic production of non-profit organizations is sold free of charge or with economically insignificant prices. The above-mentioned non-profit organizations are self-financed and accumulate funds from donations and membership fees. Other sources of income are organization's financial and material assets. Non-profit organizations also have right to perform additional commercial activities.

National Statistics Office of Georgia annually studies activities of non-profit organizations (funds, unions, political, religious, charitable and other similar types of organizations).

The study was conducted in 2022 (the information was published on October 3, 2023).

By the declared data of 2022 the turnover from auxiliary activities of non-profit institutions has been amounted 259.6 mil. GEL, which 22.8% higher compared to previous year.

The biggest share in entire structure of turnover belongs to Education (36.7%), Arts, entertainment and recreation (24.2%), Health care and social work (19.6%), Other services (5.7%), Information and communication activities (3.6%) and Construction (3.2%).



Turnover increased about 18.1 times in Agriculture, forestry and fishing, also turnover is increased in the Financial and insurance activities sector (85.7%), Arts, entertainment and recreation sector (78.8%), Transportation and storage sector (62.5%), Construction sector (60.0%), Health care and social work sector (31.7%), Professional, scientific and technical activities sector (16.2%), Accommodation and food service activities sector (8.9%), Education sector (1.8%) and in the Administrative and support service activities sector (1.5%). The production value (of goods and services) of non-profit institutions has been amounted 2 107.0 mil. GEL, which 5.7% higher compared to previous year. The biggest share in entire production value structure belongs to other services (32.7%), health care and social work (27.1%), education (13.4%), arts, entertainment and recreation (12.5%), professional, scientific and technical activities

(4.3%). The number of employees in non-profit organizations in 2022 was 55.2 thousand people, of which 52.9% were women and 47.1% were men. This figure is slightly higher than in 2021.

The biggest share in entire employment structure belongs to Education activities sector (26.4%), Arts, entertainment and recreation (23.7%), Health care and social work (14.5%), Other service activities sector (13.1%), Water supply, sewerage, waste management and remediation activities (11.5%), Professional, scientific and technical activities (5.1%) and the rest of share is distributed on other sectors (5.7%). From the total employed persons 54.1 thousand were hired (of which 53.0% is female). Number of hired persons in 2021 are slightly higher than last year.

3. Conclusion

In our opinion, the legislative environment of non-profit organizations in Georgia is quite liberal and does not significantly hinder the establishment and functioning of civil society organizations. However, as we can see, there are significant challenges in their development. It should be noted here that the existing legislation is still not in line with international standards and established best practices.

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I.4. Legislative and methodological support of the local budget process in Georgia

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Abstract. The scientific article is dedicated to the definition of program budget improvement directions in the self-governing cities of Georgia and the preparation of recommendations related to the relevant legislative and methodological provision.

In this regard, issues related to the legislative and methodological provision of the budget process have been elaborated and analyzed, and based on the experience gained from the work already done and the recommendations of various international organizations, detailed explanations of program budget improvement issues and methodological guidelines for spending agencies. This will make it easier for them to prepare more detailed planning and reporting instructions for the medium-term plans, expected and achieved outcomes within the program, and performance evaluation indicators.

Keywords: program-oriented budget, result-oriented budget, development planning, Priorities document, Evaluation indicator, Budget revenues, Budget payments.

1. Introduction

The most important reform and step forward to provide the refinement of the budget process and the effective management of the public financial system in Georgia is the transition from a budget system with a traditional organizational structure to a program-

oriented or result-oriented budget. In particular, the program budgeting methodology was approved in 2011, which details the issues related to the program budgeting and reporting process for all sides engaged in the budget process and since 2013 the self-governing unit budget is prepared in a program format, which actually is a budget-oriented approach. This method of financial resource planning aims to support a unified approach to the formation and rational distribution of financial resources for specific programs and projects, concentrating them on solving the most important priority tasks.

Despite the recent changes for improving the program of budgeting methodology, it still needs to be gradually refined with the development of program budgeting. Providing the fact that at this stage there are some significant faults in the preparation of the budget in a program format. In many cases it is not possible to evaluate the effectiveness of the results achieved by budget organizations, this study aims to rely on the experience gained from the work which was already done and given the detailed explanation of issues and methodical guidelines for budget organizations which will make it easier for them to prepare more detailed planning and reporting instructions for the medium-term plans, upcoming and achieved results under the program /sub-program and indicators for assessing these results.

2. Research results and discussion

Initially, in the process of result-oriented budget planning reform, it is important to formulate medium-term strategic and annual action plans by the executives of self-governing cities based on them. The strategic plan defines the priorities, directions and targets that the self-governing cities are planning to achieve in the medium (3-4 years) period.

We consider that the basic direction of the activities of the local self-government body should be the development of a long-term vision for the development of the self-government unit and the strategy of the municipal policy and the implementation of the adopted

strategy. Without strategic planning, limiting the activities of the executive body to operational measures alone will not produce the real results and will lead to a waste of resources. Accordingly, local governments should formulate appropriate policies which will be directly linked to the overall goal in turn and ensure that this goal is achieved in an optimal time, which includes short and medium-term action plans and mobilization of useful resources for the implementation of these plans.

According to the article 54 of the Local Self-Government Code of Georgia established a legal basis for development planning due to the mayor provides "preparation of relevant social-economic development and other programs, strategies and plans within the authority of the municipality, submission and implementation to the city council" [1]. It is a fact that the development strategy of the self-governing unit should be defined the development goals, directions and priorities.

Unfortunately, it should be mentioned that apart from this record, the status of long-term development planning documents, the rules of their preparation, adoption and implementation are not established by the legislation of Georgia. A relatively long-term planning document is a document of municipal priorities, the existence of which is provided for in Article 76 of the Budget Code of Georgia and it is the basis for the budget planning [2].

It is just development planning that provides clear answers to the most actual questions - what, where, when and why it should be implemented. These are the questions that reveal the interests of the local population. The search for answers to these questions is the basis for establishing cooperation between the local population and self-government bodies. It is a kind of an agreement between the population and the self-government bodies to collaborate and take care of the solution of common issues.

Active citizen participation in the development planning and implementation process, on the one side, raises citizens' awareness and

on the other side, strengthens the responsibility and accountability of the self-governing bodies to the population and ensures that documents adopted for development planning must not be remained on paper.

This is supposed to be that the qualitative improvement of information is observed in the priority documents prepared in accordance with the updated methodology. However, the analysis of the given information reveals that the process of developing the expected results and performance evaluation indicators within the programs defined at the budget planning stage is still defined by shortcomings, which in our estimation need to be improved. In particular, some of the expected final and intermediate results of the programs presented in the priority documents of the self-governing cities still do not have targets. Although the updated “Program Budgeting Methodology” sets out the baseline and target indicators separately [3], in some cases the specific goal which should be achieved within the program is not certain and it makes some difficulties to evaluate the effectiveness of the program at the reporting stage.

It should be also mentioned that in the Georgian reality, the development of program / subprogram goals, expected results and evaluation indicators of these results is mainly transferred to the employees of the financial-economic service which in general is a wrong practice. We consider that the process of their preparation should involve direct executors and responsible persons of all structural units, who are thoroughly familiar with the ongoing processes in the agency and should develop program / sub-program goals together, expected results and evaluation indicators to achieve a common goal and further improvement of the program budget. Otherwise it will be the same as it is today - as if we have a software budget, but in reality we do not have it and it is too far from perfection.

Therefore, the medium-term action plan should be provided by a working group consists with the representatives of different

structural units and also, the relevant executing structural unit should be responsible for planning each measure envisaged by the plan and the relevant budgets, and the Financial Service should be in charge of the group. This will help, on the one hand, make the budget planning process of self-governing cities and the management of budget resources transparent, and, on the other hand, provide more detailed information to stakeholders.

The State Audit Office points out these shortcomings in its reports and recommends to the self-governments and the Ministry of Finance of Georgia that due to the significant faults in the process of preparing medium-term plans for self-governing cities, it is necessary to work on refining and improving the methodology, developing steps and instructions, taking into consideration the international experience.

Providing this fact that in practice the budget description, goals and final results are formulated jointly by budget organizations, it is advisable to write a sequence of appropriate steps in the instruction, which encourages to appropriate the process with the medium-term plans of public institutions.

According to the international practice, the starting point in the result-oriented budget planning process is the final results, therefore the first step should be for determining the final results of the programs, which according to the existing methodology, have an impact on the welfare of the general public or target group. The next step is to describe the measures that must be taken under the relevant program of the budget organization to achieve this result. At the last stage, it is necessary to write the interim results required to achieve the final result of the program within the relevant subprograms and the measures to be taken to achieve these intermediate results. In addition, it is desirable to provide the relevant examples illustrating the above process.

In the process of the budget planning, the issue of developing indicators for evaluating the final and intermediate results within the

program / sub-program is also significant, as some of the developed evaluation indicators fail to measure the achieved results and evaluate the effectiveness of the program. This is proved by the priorities documents of the self-governing cities we have already studied.

The analysis shows that in some cases only one type of indicator is used to evaluate the results, while several types of indicators (quantitative, qualitative, efficiency, cost-effectiveness and productivity indicators) need to be developed to fully evaluate the planned results to ensure productivity and considering the principles of economy and efficiency.

The development of final and interim outcome evaluation indicators within the program / subprogram is of particular importance, as the current stage of budget formation is one of the most important issues in the allocation of appropriations, the use of performance evaluation indicators as an argument in budget discussions. There is a various attitude from the side of states on this issue, as evidenced by the best practical examples of international experiences discussed by us in the first chapter.

In the process of the study, we discussed the efforts of the United States, Korea, the United Kingdom and others in discussing the allocation of appropriations for a particular program in the budget decision-making process and the selection of performance evaluation indicators.

According to the analysis of the experience of individual countries has shown that performance appraisal indicators provide an assessment of the effectiveness of measures taken by the state to achieve the results planned and provide incentives for high-impact programs, while providing a basis for reducing allocations for low-impact programs.

Based on a review of program outcomes, an example of best practice is Canada, where a survey was conducted in the 1990s showing that a number of spending agencies' budgets were reduced by

21.5% over the years [4, p.14-15], while in the Netherlands similar procedures were required to reduce costs by 20%.

Due to the conducted research and international experience, we think that at the stage of introduction and improvement of the result-oriented budget, it will be better for the self-governing cities of Georgia, like Korea, Great Britain and the USA, to pay more attention to the implementation of performance indicators in the budget decision-making process. In case of non-compliance with the indicators, the executive bodies should raise the issue of reduction of allocations for inefficient programs for the next year and / or create financial incentives for highly effective programs at the level of the budget organization (additional flexibility in managing funds, maintenance of unallocated allocations, carry over and others).

In our point of view, the system of program evaluation indicators is especially important against the background that the budget organizations of self-governing cities often do not develop target indicators for program results and evaluation indicators, as well as the probability of error and 29 possible risks, which reduces the stakeholder stage, awareness of the parties about the success / failure of the program. Admittedly, in the budget execution report of the self-governing cities, the existence of an established system for data collection, processing and storage is important to ensure the completeness, accuracy and reliability of the information provided within the framework of the program budget.

It should also be noted that the monitoring mechanism for the implementation of programs during the budget year will be able to achieve the goals set within the programs, as continuous monitoring helps to identify timely obstacles to the implementation process and allows the program implementer to take timely and adequate action.

In our point of view, program performance monitoring is a management tool that enables us to periodically evaluate and / or measure the extent to which an organization achieves the goals and outcomes set by its programs and sub-programs. Proper definition of

indicators is of great importance for monitoring programs and evaluation at a later stage. When making a plan, it is essential to identify and specify any potential data quality issues. Also, it should be determined in advance how the collected data will be analyzed.

Admittedly, the role of regular, comprehensive and objective monitoring in the context of progress-oriented budget planning is growing, as the preparation of short- and medium-term plans is based on the results of previous research. Execution and financial control related to the use of budget allocations are carried out taking into account the main tasks and functions of the self-governing unit and taking into account the public importance of the final results. Based on the monitoring results, the quantity and quality of budget services are evaluated, on the basis of which decisions related to the allocation of budget funds are made.

When using result-oriented budget planning tools, it is also important to evaluate the social consequences or the changes in a society that have been caused by the work done by them. It is very necessary to develop systems of social outcome indicators and organize monitoring. Such systems of indicators should include not only the indicators that define the direct results of the work, but also the qualitative characteristics of the services provided, as well as the opinion of the service recipients about the performance.

To improve the monitoring of budget expenditure efficiency at the level of self-governing cities the following actions are necessary:

- Establish indicators and target values for each municipal program, municipal service / work contract, comprehensive municipal development plan. These should include indicators that directly reflect the attitude of service recipients towards the activities of budget organizations;
- Ensure that goals, objectives, performance indicators and key areas of activity are aligned with the social and economic development programs of self-governing cities;

- Defining the format and content of the unified database of efficiency indicators and budget expenditure effectiveness. The unified database should include head-to-head results indicators, final (social-economic) results indicators, results of population surveys on the quality of services, service cost indicators, etc.;
- Defining the format of data collection of the monitoring system. A summary table of monitoring results should be compiled which should include planned results, indicative indicators, intermediate and final results, reasons for non-implementation of planned results and measures taken;
- Define procedures for informing the public about the monitoring results.

One of the most crucial issues in the budget drafting process is forecasting budget revenues and payments. Despite many attempts by the state government in Georgia over a long period of time, it has not been possible to improve the mechanism for calculating budget revenues and expenditure forecasts, which would significantly improve the budget process in self-governing cities.

Comparing with the pre-reform and post-reform situations of financial decentralization of self-governing units, it is clear that self-governing cities are financially dependent on the central government. Therefore, in order to increase local budget revenues, the executive and representative bodies of the self-governing cities should work on introducing new sources of revenue which is necessary and possible in the current conditions.

According to the conducted research and analysis, the following recommendations have been proposed for revenue growth in self-governing cities:

1. Legislative initiative, which deals with the addition of different types of fees (tax and tourist fees) in the laws of Georgia - "On the Basics of the Fee System", "On Local Fees" and "In the Budget Code of Georgia", in particular:

- Fees for taxis should be set in the first stage in self-governing cities, and then in municipalities. It is necessary to determine the taxable income for each car with a minimum of 10 GEL or a maximum of 30 GEL per month. If we assume about 10,000 cars per month, which is quite real, it will be possible to earn an additional minimum of 1.2 million GEL and a maximum of 3.6 million GEL per year;

- Setting a touristic fee. According to the National Tourism Agency, up to 3.5 million tourists enter Georgia every year (24 hours and more in Georgia). If we take the minimum price of 1 GEL per tourist (regardless of the number of days), the additional income is up to 3.5 million GEL, and if the average is set at 4 GEL, it is an additional 14 million GEL, which will significantly encourage self-governments to provide more public needs and implement the infrastructure and other projects.

2. Amendments to the normative acts of self-governing cities which refer to the property tax rates of individuals with incomes over 100,000 GEL. According to the current legislation, the representative bodies of the self-governing unit determine the property tax rates within the scope approved by the Tax Code. As a result of the analysis of the relevant acts adopted by the representative bodies of the self-governing cities, it was found that the property tax rate set by the representative bodies for individuals with an income of more than GEL 100,000 is 0.8% (according to the Tax Code, the maximum rate is 1%). If we increase the rate according to the self-governing cities by 0.2% (property of individuals should be taxed at the maximum rate of 1%), it will be possible to receive additional income. Thus, for example, according to the State Treasury, in 2019, property taxes paid by individuals in self-governing units amounted to 45.8 million GEL (including 22.8 million GEL in 5 self-governing cities). If we assume that the amount paid by individuals with an income of more than 100,000 GEL will be on average 20% - 30%, it will be from an additional 0.9 million GEL to 1.4 million GEL only in the case of self-governing cities, and at least 1.8 million GEL for municipalities as a

whole. GEL and will bring a maximum income of 2.7 million GEL, which, naturally, will be different according to the self-governments. Of course, Tbilisi (43%) will be in a better position, as a large part of the property tax is gathered here.

Also, with the regard to property taxes, it is necessary to change the practice of determining the value of property. Under current law, the person filing the return is entitled to determine the value of the property when filling out the return, on the basis of which the tax authorities calculate the 31 amount of tax. We believe that property should be valued not by the taxpayer, but due to the market prices, which can be considered as one of the sources of additional revenue in the budget.

3. The most significant attention should be paid to the instructions for equalization transfer calculations. Under current law, the Minister of Finance has the authority to approve a clearing transfer calculation instruction [5]. This means that the Minister of Finance can, within the framework of the instruction approved by him, by introducing the various coefficients that should be used in the formula and change their volumes, have a significant impact on the volume of equalization transfers. Consequently, one of the main problems of equitable distribution of the transfer remains the limited legislative regulation of its calculation rule.

We consider that one of the most important tasks of the state government is to pursue an effective transfer policy in the country, which should ensure a fair distribution of competition, competition and competition of financial resources between individual regions. However, this principle should not lead to the issuance of an equal amount of trans-color to all self-governing units.

Due to the current reality, the equalization transfer formula should be regularly revised to calculate trans-color based on objective criteria, as equalization systems aim to balance different revenue bases and different local government spending needs, rather than local

government resources. Therefore, a completely transparent and well-structured formula is essential.

Along with the fair calculation of equalization transfers, the mobilization of other revenues remains a serious problem, although in 2019, compared to 2018, other revenues (as a result of legislative changes) increased by GEL 48.3 million (25%), the downward trend in other revenues starting in 2018 hasn't changed mainly. Compared to 2019, other revenues in 2018 decreased by 6% (13.6 million GEL). Therefore, the local government should thoroughly analyze the reasons for the continuing trend of declining other revenues and outline specific ways to increase them.

Incorrect forecasting of budget revenues and payments is also caused by the fact that over the years it has become a tradition for the representative body, after the approval of the budget, to change it, which has become systematic and a self-governing budget is corrected several times during the budget year. As well as adjusting the planned indicators of the expenditure part, in the direction of increasing or decreasing their individual items. In particular, if we consider the frequency of changes in the budgets of the self-governing cities of Georgia during the last 3 years, we note that in 2017- 2019 the budgets of individual self-governing cities were adjusted several times during the budget year, in some cases even twice a month [6].

In our point of view, frequent changes in the approved budget during the budget year indicate faults in the forecast of budget indicators. In addition, the scale of allocations between programs / sub-programs within the budget priority of self-governing cities during the budget year and the frequency of these changes are also noteworthy.

Despite the fact that self-governing cities meet the limits set by the Budget Code, in some cases, they carry out the reverse process of redistribution of allocations. In particular, there is a refund for the programs / sub-programs from which the assignments were transferred during the year.

In order to regulate this issue, it is necessary for budget organizations to pay additional attention to the issue of allocation of budget funds between programs / sub-programs during the year and to take into consideration the experience of previous years in the budget planning process.

One of the most important issues in the process of preparing a draft budget is the selection of budget calculation methods, for which we consider it necessary to select and use the most effective methods of calculating budget revenues and expenditures. The method is considered to be the combined version of the automatic and direct evaluation method, and in budget planning, along with 32 the development of an effective mechanism for calculating revenues and payments, considerable attention should be paid to the optimal option between the budget revenues and taxes of self-governing cities.

According to the analysis of the dynamics of the past years, one of the major problems related to the management of budget funds is the tendency of large-scale spending of unspent payments at the end of the fiscal year in self-governing cities, which is a clear example of inefficient management of budget resources. The large expenditure of appropriations at the end of the budget year indicates problems during the budget planning and execution phase, although in some cases they might be related to objective circumstances.

These shortcomings are also indicated by the fact that budget organizations at this time are focused on the use of appropriations and not on achieving results. However, the accelerated expenditure of budget funds is basically related to the wrongly established approach by the budget organization in terms of economic and efficient management of budget funds. Therefore, in order to avoid these processes, it is necessary to develop and implement a mechanism that will facilitate the equal use of funds by the budget organizations of the self-governing cities in the future, taking into account the international best practice.

Accelerated use of the funds by the end of the year in self-governing cities may also be related to the so-called "Spend or lose the principle." Budget organizations perceive these funds as "lost" resources and try to exhaust them as much as possible. This is evidenced by the trend of budget spending in the 2017-2019 budget execution reports by quarter, the scale of spending in the 4th quarter is always higher than in previous quarters. Thus, for example, in the 4th quarter of 2019, 30% of total payments were spent Reached, and in 2017 - 29%).

At this point, the active efforts of the State Audit Office and the developed recommendations on the accelerated pace of payments in December and the resulting risks in the reports on the implementation of state and local budget, as well as in publications and best practice manuals [7; 8; 26].

At the end of the budget year, in order to avoid accelerated spending of budget funds and uneconomical use, we consider it expedient to introduce a fiscal rule at the level of budget organizations, which implies a quantitative limit on the amount to be spent in December. In particular, the Cap of the amount to be spent in December should not exceed 150% of the average use of 11 months of the current year, which will allow the budget organizations to use the available resources more planned and evenly until the end of the fiscal year. In addition, the following issues should be taken into account in the development and implementation of the fiscal rule:

- Add a new article in the regulatory part of the budget resolution, which defines fiscal constraints for budget organizations;
- he article should contain information about the measures that will be taken in case of noncompliance with the rule during the next budget year. For example, those budget organizations that violate the established rule will reduce funding for the following year from 5% to 10%.

When planning the budget, the optimal distribution of the financial resources mobilized in the draft budget between the separate

branches and directions in the self-governing cities is still a challenge, which aims at the rational and effective use of the limited financial resources.

In this case, it is advisable to allocate budget revenues by the budget organizations of the self-governing cities according to certain priorities, as well as proper planning leads to the full realization of the existing potential and the full realization of the existing potential.

It is depended on all other decisions and actions of a governing nature of the determination and prioritization. When setting priorities, one can maintain the existing direction of development (inertial strategy), change all existing priorities (innovative strategy) or choose a mid-level model in which both types of strategies are presented in different proportions. Priorities are the main directions of development, which should be reflected in all the fields of municipal management.

It is just due to the development priorities that are defined the tasks, the implementation of which should ensure the realization of the set goal. To carry out this task, specific program activities (municipal programs) will be developed, which should be reflected in the priority document (medium-term action plans), which will allow us to plan a multi-year budget.

According to the program budget methodology, "the program is a set of measures to be achieved to achieve the objectives of the budget, grouped according to similar content and implemented in the long run to achieve one final result" [9]. Because the program is used to achieve the global, long-term goals, it consists of sub-programs that serve the achievement of short-term goals and contribute to the successful implementation of the overall program. Consequently, the failure to address certain issues that arise in the sub programming and planning process threatens the implementation of the entire program. Therefore, great importance is attached to making wellanalyzed decisions in the budget planning process and perfecting the planning process.

If we pay attention to the international experience, the program budgeting for each program should present the importance of the existence of each program, the main essence and the main purpose for which the program is funded in the medium term for significant spending agencies.

Also, each program that the budget organization implements should be presented in the form of all the activities / tasks that are needed to achieve the goals of the program. When drafting programs, budget organizations should be guided by the indicative funding thresholds set for them in the priority document at the time of drafting the plan, and if there is a need to attract additional funding to finance the activities, they should be mentioned separately.

The Program Budget Methodology of the Budget Code of Georgia describes at the level of state and autonomous republic budgets the obligation to submit the program budget appendix (programs / sub-programs defined by the budget, their expected results and performance evaluation indicators) to the relevant representative body, but nothing is self-evident. If we take into consideration the international experience and best practice in this field, in order to improve the program budget in self-governing cities, the attached materials of the draft budget defined by the Budget Code of Georgia, like the budgets of the state and the Autonomous Republic budgets, the information should be added in details.

The information in the program budget appendix should include all programs funding, a list of program activities with appropriate calendar deadlines, as well as the expected final outcome of each program and indicators for evaluating this result and expected interim results of implementing sub-programs under the programs. Municipal services responsible for the implementation of the program / sub-program and its progress report, determination of baseline and target indicators, probability of error probability, etc.

Therefore, we have worked the optimal form of the program budget annex and we think that when submitting the draft budget to

the representative body, along with the attached materials, submitting the program budget annex in this form will significantly facilitate, on the one hand, the budget planning process of self-governing cities. Transparency in the management of budgetary resources and increasing the accountability of project implementing agencies not only to the representative and executive bodies, but also to the public in self-governing cities and 34 municipalities as a whole, and on the other hand, provides more detailed information to stakeholders that is one of the advantages of results-oriented budgeting.

Shortcomings in the process of budget planning and execution of self-governing cities are indicated by the existence of programs and sub-programs with a low utilization tendency during the reporting period. It is necessary to note the fact that in the planning process the programs / subprograms are pre-evaluated in order to know what benefits the self-governing unit should expect as a result of their implementation and whether it should be expected at all. This will help to improve and refine the planning process, which is an important prerequisite for effective public finance management.

Besides this one, after completing each phase of the implementation process, it is advisable to evaluate the program / sub-program, how well it has achieved its goal, what results it has achieved and whether the results were worth funding for this program. Development of a sub-program, which was characterized by inefficiency and inefficiency, and it should not be allowed to include larger allocations in the same programs / sub-programs for the next year's budget.

According to the Budget Code, funds are allocated from the reserve fund of the local selfgovernment unit's budget to finance unpredictable payments and this regulation provides for the financing of payments that are not subject to budgetary circumstances. However, according to the existing practice, it is high time to apply for funds to finance the payments, which in case of proper planning could be

considered in the appropriations of the respective budget organizations.

In terms of studying the best international practice of spending reserves, we discussed the experience of the Czech Republic, Estonia, Slovenia and Hungary. The analysis showed that in the process of perfecting the program budget, it is necessary, on the one hand, for budget organizations to determine the appropriate allocations timely for their activities during the year, in order to avoid funding from the reserve fund. In turn, it is necessary for the Budget Code to establish the following three main principles of spending from reserve funds: (1) In order to eliminate the consequences of force majeure events and not to cover unforeseen expenses, as unforeseen expenses are a general concept and any expenses may be considered here, which the self-governing budget organization of this or that city does not take into account due to its negligence and poor budget planning; (2) In case of urgency, when the delay in response may cause significant damage to the interests or property of the municipality and / or the public; (3) Only as an exception to cover expenses that are really impossible to predict.

3. Conclusion

To draw the conclusion, it can be noted that the large-scale expenditure of unutilized budget expenditures by the end of the year creates the risk of spending budget resources efficiently and inappropriately. Therefore, it is advisable on the part of budgetary bodies to focus on programs with a tendency to slow down, in order to avoid the tendency of large-scale use of budget funds at the end of the year. It is advisable to develop a mechanism gradually that will ensure the regulation of this issue and the creation of effective incentives for efficient and economical spending by self-governing cities. In addition, it is necessary for budget organizations to pay additional attention to the issue of budget allocation between programs / sub-programs during the year and to take into consideration the experience of previous years in the budget planning process. It is also

significant to strengthen internal financial control in self-governing cities in order to introduce mechanisms for proper monitoring and evaluation of programs / sub-programs, which, in turn, will guarantee better budgeting and planning.

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I.5. Financial investments - a contributing factor to economic growth

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Abstract. In the conditions of globalization, investments largely determine the state's economic growth and the population's employment. They are a necessary element of the base on which the economic development of society is based. The problem related to the effective implementation of investments requires serious attention, especially in today's conditions - at the time of consolidation of market relations subjects and property redistribution.

Making investments is a time-consuming process, therefore, for the most efficient use of financial resources, the enterprise formulates its investment policy. It is with the help of the investment policy that the enterprise realizes, foresees the long-term trends of economic development, and adapts to them.

Because investing is focused on the potential for future growth and earnings, there is always some level of risk associated with it. An investment may not generate income or lose value over time. Investing in a company that went bankrupt or a project that could not be implemented is possible.

The viability and growth of any business socio-economic

system significantly depend on a rational investment policy, which is risky and expensive. This means that investments do not exist without costs, it is necessary to make an upfront cost. At the same time, it is impossible to foresee all the circumstances that await the investor in the future, since there is always a danger of risk.

Keywords: Investment, financial investment, investment policy.

1. Main text

Investments are all types of property and intellectual property invested by legal entities and individuals in business objects and other activities to generate income and achieve a positive social effect.

Over time, the term „investment“ was filled with a new meaning and it began to be used in various fields of activity. One of its meanings is the long-term investment of capital in some businesses. In business theories, investment is an activity where a producer buys physical assets, such as shares or technical means of production, and equipment, which will help the business to become profitable in the long run.

Investment refers to any type of investment, starting from the financial resources of the largest banks and ending with the speculation of commodity values.

In general, any action taken with the hope of increasing future income can also be considered an investment. The future is uncertain and investment should be done wisely to avoid a financial crisis.

Investment is a process of interaction between two or more parties. When a person buys goods as an investment, the goal is not to consume the goods, but to use them to create wealth in the future.

Investing is always about investing capital today - time, effort, money, or an asset - in the hope of a greater return in the future. For example, an investor may buy a cash asset now with the hope that the asset will provide income in the future or sell at a higher price later.

An investment is usually a long-term commitment, where it may take several years to pay back the money invested. An investment

is made only after due research and due analysis is done to understand the risks and benefits that may arise.

Economic growth in the country is related to investments. When companies and other entities engage in sound business investment practices, it usually leads to economic growth.

Revealing the features of different types of investments and their classification is of great theoretical and practical importance, as they contribute to the simplification of investment relations and further refinement of investment legislation.

There are different bases for classifying investments and different approaches to this problem. It is necessary to distinguish between the concepts of „investment“ and „capital investment“. While capital expenditures usually involve the creation of new and depreciated fixed assets (buildings, structures, equipment, transportation, etc.), investments also include investments in current assets, various financial instruments, and intellectual property. Therefore, it is more appropriate to consider „capital investments“ as an integral part and form of „investment“.

When investing, it is possible to use own, raised, and borrowed funds in various combinations, which are determined by some internal and external factors.

Investment goals are diverse: purchase of equipment, equipment, and land, construction of production and non-production facilities, purchase of securities, assets, and bonds, raising the level of education, and professional qualification, purchase of a license, a patent for the release of certain types of products or the provision of services, placement of funds in a bank deposit with a certain percentage, recovery of fixed assets and others.

Thus, investment involves using capital today to increase its value over time. Investment requires an investment of capital in the form of time, money, effort, etc. Hoping for a bigger payoff in the future. An investment can refer to any means or mechanism used to generate future income.

Financial investments are one of the types of investments. Financial investments are investments in securities such as stocks, bonds, bank deposits, and other financial instruments that allow us to earn profits or income from financial investments.

Financial investment means putting aside a fixed amount of money and expecting some kind of profit from it within a certain period. Investing in financial assets is carried out as part of the enterprise's investment activities, which include setting investment goals, and developing and implementing an investment program.

Planning plays a crucial role in financial investments. Before starting an investment, careful analysis and a focused approach are necessary, all investment plans available on the market should be studied; The pros and cons of the plan should be discussed in detail; It is necessary to analyze the risk factors before finalizing the plan. Investment should be made in such assets that will give us maximum profit. In financial planning, the competence and professionalism of the manager, who must take care of all investment needs, is of great importance. A good knowledge of stock market composition and instruments is required from the financial manager. A person should read the investment document carefully before investing.

Financial investments can be made in different ways, depending on the investment objects. A loan from a bank is a good example of a financial investment, which, if the business is run effectively and the borrowed funds are used as intended, will bring financial benefits to the entrepreneur. The borrower repays the loan on time and without any problems because his income increases significantly and at the same time he makes a profit.

There are many types of financial investments. Each of them is suitable for a specific task - some for rapid growth of capital, others for its preservation. Any goal of the investor can be achieved by financial investment.

Financial investments of the organization can perform other functions, in addition to making a profit. By investing available funds

in financial instruments, the organization strengthens its influence on the market segment in which it operates. Investing in financial instruments can be considered an effective means of diversifying possible risks, especially when it comes to different types of investments. A financial investment is a business transaction that requires strict accounting. Financial accounting involves the division of all investment operations taking into account their duration. This approach allows us to make predictions regarding the economic effect of financial operations performed over a certain period.

2. Conclusion

In conclusion, it can be said that investment activity is the most important element of any economy. In the conditions of the interconnectedness of the economies of different regions and states, investments in developing and emerging economies can be made at the expense of foreign capital. Capital investments in the development of industry and increasing the efficiency of a specific sector play the role of a powerful lever for raising the standard of living of the population and economic growth. Investment activities can be carried out by both public and private companies and organizations. The investment climate in the state shows its attractiveness for capital. If the financial resources are invested in the country's enterprises to earn income, then the state has a favorable economic development perspective.

Profitable implementation and success of an investment project largely depend on choosing the optimal financing scheme, therefore, the active role of banks and other project financing organizations is very important. Therefore, quality and timely evaluation of investment effectiveness is the most important stage of making investment decisions.

Investments are used in all financial systems of the world. Investments are the provision of capital to a business or government to carry out its activities and generate revenue. At the same time, investors also receive some income from the invested funds, usually

in the form of interest or dividends.

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I.6. Challenges of Dollarization in Georgia and Post-Soviet Countries

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Abstract. The article analyzes the problems of dollarization in Georgia and some post-Soviet countries; It is about what steps are being taken in particular countries to achieve de-dollarization, or how effective these measures are. After all, de-dollarization does not mean a "fight" with the dollar. It is achieved by the stable development of the country's economy (7-8%), inflation targeting, control of the money supply, targeted, correct and effective intervention of the government in the economy.

Keywords: Globalization, dollarization, de-dollarization, invaluation, investment, currency, targeting.

1. Introduction

In the conditions of globalization, currency and financial mechanisms acquire a special role in the development of the world economy, which comes from their international character. Foreign currencies dominate not only the international, but also the domestic market of many countries in settlements. Georgia, like other post-Soviet states, could not escape the use of the US dollar as a means of payment and especially as a means of accumulation.

2. main text

Dollarization is the fact that citizens and economic agents of a country place much higher trust in foreign currency/currencies than in the national ones. The reason that gave rise to this fact is improper development of one's own economy, or rather, even the dynamics of economic development is improper. Countries like Georgia strive to develop their own economy, which is impossible without attracting foreign investments; Due to the minimization of risks, the investor enters with stable foreign currency, the "recipient" of the investment

allows the entry of stable foreign currency. The instability of the national currency is the reason for dollarization, usually a large part of investments come in US dollars (or Euros), because it is the most stable money, in the last two hundred years, for example: according to IMF statistics, up to 59% of the world's foreign exchange reserves are in US dollars, the largest business transactions Part of it happens with its participation - it has universal recognition.

There are countries in the world where the US dollar is officially used in domestic circulation, these are the island states, plus four large states that abandoned their own money, mainly due to chronic inflation: Panama - from 1903; Ecuador-since 2000; Salvador - since 2004; Zimbabwe - since 2009; Since 1939, this has been called the fully/officially dollarized zone in the literature; In addition, there are other zones - the Frank zone; euro zone; Sterling zone, rupee zone, rand zone...

Full dollarization has its advantages: 1) minimization of risks, i.e. the problem of devaluation is solved; 2) operation fees are lowered and guaranteed stability of dollar prices is established; 3) A favorable climate for investments is created in terms of currency.

Disadvantages of full dollarization are: 1) loss of one of the national symbols; 2) the government loses the role of the issuer with corresponding profits; 3) The government cannot implement an independent monetary and credit and currency policy.

There are also so-called Semi-official/officially semi-dollarized countries like Georgia - officially no other currency is in circulation, but individuals and legal entities have the right to have an account in foreign currency, make payments, etc.

The indicator of the country's dollarization (invaluation) criterion is determined by the rate of deposits in banks, that is, the rate of placement of savings between national and foreign currencies, as well as an indicator of which currency foreign economic agents give priority in terms of export-import.

The scientific literature mentions that if more than 30% of deposits are in foreign currency, the country is considered highly dollarized, such as Turkey, Peru, Uruguay and others. The rate of dollarization in neighboring countries is as follows: Russia- more than 18 % (2021), although according to their experts, it may actually be much more, Ukraine-2021-35%, Belarus-2021-62% (76.3% by January 2017). Kazakhstan-30% by 2023, Armenia-51% by 2022, Azerbaijan-45% by 2022, more than 60% by 2021 in Georgia. It should be noted that 5-6 years ago, these indicators were more than 70% of all three, a certain progress can be noticed; The example of Kazakhstan is notable, where by February 2023, compared to last year, dollarization decreased by 8.4% and became 30%. The reason for this was the state program that protects deposits in the national currency, which provides for the charging of compensation (premium) on the deposits of individuals in the national currency, at the expense of the budget; The central bank is doing everything to keep inflation within the target area.

In Ukraine, despite the events of 2014, dollarization by 2021 is only 35%, the reason for this was the inflation target by the National Bank, the flexible exchange rate of the hryvnia, the cheapening of the corresponding credit, and the general reduction of the economy's vulnerability to the crisis. However, the beginning of hostilities worsened the situation.

The example of Uzbekistan is also interesting, there the rate of dollarization was more than 42% in 2021, 37.5% in 2022, and it dropped to 30% by 2023. They achieved this by imposing high interest rates on deposits in national currency.

Table 1

Dollarization ratio of deposits and loans

Years	2016	2017	2018	2019	2020	2021	2022
Deposit Dolarization Ratio	71, 2%	65, 3%	63, 1%	64, 0 %	61, 4%	60, 0 %	56, 1%

(banking sector)							
Loans Dollarization Ratio (banking sector)	65, 4 %	57, 1 %	57, 1 %	55, 4 %	55, 7 %	50, 8 %	45, 0 %

In Georgia, despite the implementation of the dollarization policy by the SEB since 2016, it is less successful, although we can see in the table that we have almost reached the 50% limit in loan deposits. According to the World Bank, dollarization is an important challenge for Georgia, according to them, the problem is the credit risk of uninsured borrowers. High dollarization, in turn, leads to high interest rates on loans in GEL. According to SEB, since April 2021, simultaneously with the tightening of monetary policy, the growth of mortgage loans in foreign currency has increased, and most of them/borrowers/ are unhedged, therefore vulnerable, which threatens the accumulation of systemic risks, which in turn threatens the stability of the real estate market, therefore SEB- Ma lowered the terms of mortgage loans in foreign currency from 15 to 10 years, which will ease the vulnerability and increase the absorption of stress for the borrower with the possibility of long-term loans. All this will contribute to de-dollarization - says the president of the SEB, although extending the loan does not make it cheaper for the payer, on the contrary, it may become more expensive in the end, therefore the SEB's "care" for the borrower's stress is clearly "new".

De-dollarization is a result of macroeconomic stability of the country, and additional regulations are only contributing factors.

All countries are striving for de-dollarization. This term was first used by the Russian economist - Livshitz during the 1998 financial crisis. The Russian government declared a "fight" against the dollar, which means refusing to use the dollar in transactions. They tried to persuade such countries as China, India, Brazil, Iran in this matter. De-dollarization should take place, but we must distinguish

between the "fight" against the dollar and the effort to strengthen the national currency through economic development. The Government of Georgia and the National Bank published a ten-point plan to promote larization in 2016. This is certainly good, but it is only a "facilitator", not the main thing. Good examples of de-dollarization Israel - from 28% in 1990 to 10% in 2000, dollarization in Chile dropped from 19% to 9% for the same period, the same happened in Indonesia... In these countries, they did not declare a fight against the dollar, but the governments worked Economic growth rates, inflation targeting, plus administrative measures (the main focus in Georgia). As a result, the stability of the national currency was achieved, therefore, de-dollarization was also achieved. Economic growth rates in these countries have been over 8% annually for at least ten years continuously.

In order to reduce dollarization to 10-15% in Georgia (5-7% in developed countries), it is necessary to target inflation, reasonable control of the money supply by the Central Bank, budget spending according to the schedule (which was a problem in 2013-2019) and most importantly - the government's correct, targeted economic policy. In the last decade, our economy has been growing by 2-5%, where the covid period and the post-covid period are not considered, and the so-called 2022 year is also not taken into account. "Double-digit" economic growth, which is provoked by Georgia's incorrect positioning in the Russia-Ukraine war. Healthy, at least 8-10% economic growth rates are desirable for at least ten years continuously (similar to Israel or Chile), for this it is necessary to create an environment of economic optimism to attract investments, which means improving political, economic and legal components in the country. This is a very important moment, because a foreigner will come in with foreign currency, then it will be converted, which leads to an increase in the demand for the GEL and its strengthening and stabilization, which is the beginning of the dedolarization.

3. Conclusion

this means that the foreign currency is not "dangerous", but we should hope for it - "dollarization will be achieved" "with over-dollarization", that is, the more foreign currency enters and is injected into the economy, the more demand there will be for the GEL, which will make it stronger and more stable, therefore, confidence in it will also increase, that is, the fact of "natural" de-dollarization will take place. In a word, if the government and the National Bank implement the correct economic and monetary policy in harmony, high economic growth rates will be achieved and we will get the desired result. Again, de-dollarization is achieved by super-dollarization (heavy investments), everything else is secondary.

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I.7. Human capital problem and socially responsible management of insurance companies

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Abstrac. The article discusses the problem of solving social tasks through market mechanisms and social protection of the weakest strata of the population, where a special place is allocated to the insurance principles of organizational forms of social support. The authors note that in the financial sphere, the process of dominance of insurance companies in the risk management system is constantly ongoing, which contributes to their network interdependence with leasing companies and banks, where the management of the insurance company should become not only innovative, but also socially responsible.

Keywords: Human Capital, Insurance, Intellectual Economy, Modernization, Insurance Company, Risk management, Information Economy, Institutional-network Model, Financial Market.

1. Introduction

In the conditions of the modern market economy in production, in front of capital, the problem of acquiring and using a worker has arisen, whose goals, organization and effectiveness will be set from the outside, and not simply by the workforce of the subject engaged in reproductive work. The volumes of use of highly qualified workforce are beginning to increase at a rapid pace. The expansion of the neoliberal model of the market economy leads to substantial changes in the functioning of various spheres of creative and

reproducing human qualities. Early existence of education, healthcare, culture and other areas requires large capital investments. Their creation and use according to the advantages of public goods is gradually replaced with more and more moderation (as a result of their extensive commercialization and privatization) in the private sphere. Consequently, the reproduction of human qualities is transformed to no small extent into the private business of individuals and firms.

Human capital - represents the fundamental value index of modern society. Its formation in the global economy, by determining the positive dynamics of economic development as a whole, takes into account the significant costs of the individual and the society as a whole. Innovative and creative abilities of people determine the prospects of receiving returns from invested funds and provide the necessary integral economic and social effect.

In the period of globalization, the formation of human capital is possible only on the basis of a unified concept of needs for human qualities. In the basis this concept of V. Ganzen, the method of systematic approach of is implemented. Human capital has the following basic psychological features:

- Vitality and lifestyle as the ability to reproduce and give offspring;
- Working ability and life position as the ability to perform certain work in the required quantity and quality;
- Ability to innovate and worldview as an opportunity to adapt to the introduction of innovations;
- Ability to learn as a quality of being an individual.

It is about human capital that we can discuss the state of the basic psychological characteristics mentioned above. But human capabilities, unlike capital, do not represent some inert potential that requires active human power for its productive use. On the contrary, the human capacity for creative activity, as well as living labor in general, is required as a necessary condition for the productive use of capital.

It is not by chance that its development comes during the period of active development of such areas as - financial market, management and consulting, as well as other areas that A. Buzgalin and A. Kolganov is marked as "distorted sector". In it, mainly social forms, determined by the market system, intangible benefits and cultural values, which determine the harmonious development of a person, are created. Accordingly, according to the opinions of scientists, it is the development of "capital-like" labor that becomes the most massive event.

The peculiarity of the transition from the industrial to the informational way of development, which has been developing in developed countries since the beginning of the 80s of the 20th century as the second wave of scientific and technical development (STD), lies in the fact that the information technology paradigm, covering all sectors and areas of the global economy, changes its internal content, scale and dynamics. In the framework of its development, an information-network model of the financial sector is formed, which is based on computer technologies and telecommunication connections.

The accumulation of human capital is directly related to the accumulation of social capital, as part of the human capital is created through the development of social networks and the exchange of information. It is the information-network structures that determine the transition from material to intellectual economy in the modern economy and lead to global structural change.

Professor A. Auzan is convinced that in order to implement the modernization scenario, the system of institutions needs to be perfected and the process of gradually forming broad public coalitions based on various issues should be launched, and for this, the interests of different groups of the modern society should be analyzed and decided.

In the process of modernization transformation of any economy, it is necessary to create a common system of value indicators and find the points of mutual contact and penetration of the

state, business and society. Only in this case will it be possible to move from the inertial growth model to a new social arrangement and innovative development of the economy.

2. Research results and discussion

The analysis of the works of the mentioned authors makes it possible to distinguish the following characteristic features from the new social arrangement. Replacing labor with knowledge means moving from pure technical expertise to intellectuals. Proponents of the post-industrial theory single out this sign as the main one, predetermining and conditioning all others. Therefore, such definitions as "information capital", "information society", "information economy", "knowledge economy" are not accidental.

The replacement of labor on the basis of the modernization of the knowledge of labor activities formalizes the raising of tasks of specialists' competence, a new level of information provision, the creation of prerequisites for the institutional-network model of the accumulation of intellectual capital and the dissemination of knowledge, information, and experience. As emphasized by T. Sakaiya: "We are entering a new stage of civilization, the driving force of which is the values created by knowledge." The author claimed that under the dominance of intellectual capital, the economy functions precisely on the basis of network exchange of knowledge.

In the conditions of the informational model of financial capital, the basis for the artificial development of managers' personnel and specialists of insurance companies is the knowledge management system, the transformation of the company into a self-learning corporate system, where the informational capital comes out and is used as a competitive resource for market expansion.

In the process of informatization of the financial sphere, the risk management system of insurance companies, which are able to integrate into corporate (branch networks) and inter-firm networks (bancassurance groups), are dominated. In order to study the networks in a complex way and to reveal their adaptive characteristics, it is

necessary to use methodological tools of institutional analysis and economic sociology, as well as synergetic methodologies.

In connection with the spread of network interaction practices based on social capital, the phenomenon of the network model of business development in the information economy is attracting more and more attention. It is social capital, by promoting social sustainability, that increases trust between the state, business and society, and ultimately economic growth. In Georgia, social capital, as social activity, is still insufficiently developed, which is transformed into entrepreneurial activity, activity of economic agents, stock market participants, insurers, etc.

The fundamental difference between Georgian society and Europeans is that the social groups of developed countries are aware of their interests and tasks, delegating to the state. The existence of civil society is necessary to understand the special nature of the mentioned competences. The social activity of individuals is manifested precisely in the level of development of civil society and membership in certain public organizations.

The business should form its position and dialogue with the government, but not in the format of financing this or that project. It should take upon itself the performance of certain functions, and not at all financial obligations in relation to additional provision, which should be financed by the state. The private-state partnership and the process of its institutionalization should be realized as a result of the modernization of the insurance relations system, the use of new tools, the change of the unified social tax, in particular, the return of insurance funds to it.

Modernizing economics pays special attention to studies of the formation of the private-state partnership model in the social sphere and the problems of participation of business communities, state structures and individuals in social networks at the federal, regional and local levels. The practice of interaction of various financial business groups (first of all, insurance institutions) with the

government has a network character in many respects and acquires special importance in the process of forming a socially oriented model of insurance business development. Insurers and the state should build their relations on the basis of the principles of mutual responsibility, partnership and constructive dialogue, where the main goal is to increase the effectiveness of regulation and self-regulation in the market of insurance services to meet the needs of insurers and insurance protection.

The intellectual potential of the management becomes the main factor of the effectiveness and efficiency of the economic system. Its absence or insufficient development, regardless of the volume of funds invested in production equipment and technology, make technical and economic progress practically unattainable. Scientific, economic and organizational-management information included in entrepreneurial consumption determines the sector of innovation development in the financial sector and becomes the personified resources of know-how of banks, insurance companies and integrated business groups.

The regulation system of market institutions of the insurance sector in Georgia is not characterized by sufficiently organized mechanisms and instruments. In the conditions of the trend towards the modernization of management systems, deregulation and debureaucratization of the economy, the financial markets are moving towards the introduction of additional administrative barriers. But a certain deformation on the side of regulation of regulation systems and strengthening of the necessary state control significantly reduces the investment attractiveness of national insurance markets.

"Effective" government is necessary for the formation of market institutions. Under efficiency, in this case, it is understood - the development and creation of mechanisms for the integration of socio-economic advantages, the orientation of society towards goals that can be divided and the possibility of their achievement. Only such effectiveness takes into account certain limitations of their

institutional capabilities in the process of regulating the financial market and is ready to delegate their powers to professional associations that are able to realize them with greater returns in order to form competitive advantages of the national market.

Professional interaction based on the exchange of competences within the framework of network connections provides an opportunity to identify new tools and technologies for the implementation of institutional changes within the framework of the private-public partnership model. This institution has a special importance in the framework of institutional investors of national insurance companies.

In the network interaction system with other insurance, leasing companies and banks, the management of insurance companies should be not only proactive, but also socially responsible. For this purpose, insurance companies create insurance pools and associations. The peculiarity of the formation of the system of network interaction lies in the transition from strict authoritarian forms of living labor to more flexible ones, which include the expansion of the rights of ordinary workers in the management of production. In addition, we are talking not only about the development of flexible business management systems, but also about the formation of intellectual and informational capital.

Insurance relations in Georgia require certain mechanisms of growth, first of all, in relation to tax regulation of the actions of stimulating economic agents and citizens. Timely modernization of regulatory instruments should ensure the increase in demand for insurance services and create a favorable environment for entrepreneurs and hired workers.

At the same time, socially responsible management of insurance companies is a product of realizing the results of their actions for the sustainable development of the economy. It is here that socio-economic efficiency is achieved through investments in human capital and transformed into intellectual form. In general, the

accumulated human capital of any level by the socio-economic system contributes to the increase of labor productivity and the growth of the well-being of the population.

The activity of insurance companies in itself necessitates the creation of a developed institutional infrastructure not only for insurance, but also for the national financial market. Therefore, it is the obligation of the state, self-regulating associations and government regulatory bodies to create and support the institutional infrastructure of a truly market economy capable of eliminating deep deformations in the market mechanism. Economic policy should promote the growth of new competitive firms, including integrated banking-insurance associations, as well as joint ventures, which will be based on foreign management technologies for risk assessment and management.

The magnitude of transaction costs, in the management of insurance risks, is transformed - into a quantitative indicator - not only of the degree of imperfection of the markets, but also of the costs of the absence of the institution. In addition, the higher the transaction costs, the higher the demand for institutional regulation, which complements and even replaces the market. Therefore, the public offering of institutions can be expressed through the costs equal to its creation and operation. The equilibrium price of the institution will be - costs of collective action or a combination of institutional costs. Their size determines the set of costs included in the field of activity of such an institution.

Investigating the peculiarities of institutional-network interactions can create a more complete paradigm of Georgian business development, to contribute to overcoming the discontinuity between the institutional reforms to be designed at the federal level and the established informal norms and practices hindering the spread of new formal norms in the real risk management system.

The starting point for the corrective impact on social processes that can be implemented within the framework of social

policy is the need for social risk insurance, which takes into account, first of all, the state system of measures in relation to the management of social risks in society. Today, insurance itself is a public institution, which serves as a specific mechanism of social protection of citizens and, by implementing the so-called multiplier effect, has a multifaceted and complex impact on various components of economic and social life.

It is here that the state regulation of insurance activities is related to the realization of labor relations, pension provision, protection of motherhood and filial piety, medical provision, solving problems of employment of such categories of citizens as pensioners, disabled persons, etc. In this sense, social policy is distinguished as the collective management of social risks.

3. Conclusion

At the end, taking into account the above, it is possible to make the following short conclusion:

- ▶ It is indicated that the democratization of economic relations under the conditions of the formation of the institutional-network model of business development (corporate democratization), which is interpreted in social terms as the network interaction of the collective with the administration, occurs in the framework of fractal groups. The socio-economic approach provides for the realization of key social outcomes, which are primarily driven by governance decisions.
- ▶ It is noted that consideration of the social component is based mainly on the spread of qualitative indicators, which include - the level of consumption of material well-being and services, social conflict, surrounding environment, etc. evaluation, and from the economic one - on the quantitative indicators that express the state of the socio-economic system - taking into account the value assessment of possible alternatives for the use of resources, the determination of commensurate costs and the economic effectiveness of the results.

- The specifics of the needs related to ensuring the quality of human life and determining the processes of reducing the standard of living, which are related to economic reforms and the efficiency of public production, have been identified. We are talking about economic security, in the provision of which the main resource is man, because his production and human relations constitute the social sphere of public production.

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I.8. Psychological challenges in pre-school children and problems related to the financial resources necessary for their elimination and interpretational issues

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Abstract. The article is based on the psychological challenges in preschool children in Georgia and the associated concerns in providing the essential financial resources for their elimination. The article displays the current primary challenges that we face in preschool institutions; it thoroughly examines the financial resources parents need to eradicate them and at the same time the assistance the government offers. The paper presents the news from conducted research and recommendations that in the future will undoubtedly assist the parents of a child with psychological challenges in solving the existing financial issues.

Keywords: Interpretation of financial resources, psychological challenges, autistic spectrum

1. Introduction

Preschool age is exceedingly crucial in terms of the child's mental development. This age in a child's life represents the full spectrum of developmental opportunities. In preschool children today, we mostly encounter such psychological disorders as autistic spectrum, logoneurosis, language disorders, behavioral disorders, hyperactivity and dyslalia.

Autism stems from a neurobiological disorder in brain development, which has a profound impact on the establishment of

verbal and non-verbal communication, the formation of social relationships and the mental development of a child. [1]

During the pre-school age, the processes of holistic development of the child, the cultivation of new skills, and the assimilation of fresh knowledge are actively unfolding. One of the integral stages in the development of modern preschool education is socialization. The socialization process for preschool children is the adoption and acquisition of basic skills for interaction among members of society.

Today, it is noteworthy that we encounter quite a significant number of problems of psychological disorders in preschool children, among which the number of children with autistic spectrum and speech problems stands out. To address these challenges, parents face myriads of financial obstacles. Diagnosing autism spectrum and conferring the status involves numerous procedures, which is financially inaccessible for some parents. First, the child undergoes the ADOS test, the observation of the child's behavior, which is carried out by child psychiatrists, psychologists and developmental therapists. As we have mentioned, these programs are fee-based, and it's the parents who have to pay for them. Tbilisi City Hall provides financial support exclusively for individuals with disabilities and for the utilization of the development center, covering only one meeting per week, which is insufficient for children. It should also be emphasized that the funding is allocated only for children under 14 years of age. It should be noted here that for the children who reside in regions and need to use the rehabilitation center, the regions of Georgia, except for Rustavi, cannot provide these services, however if the parent decides to turn to the capital city for rehabilitation, they have to cover all the financial expenses themselves, since Tbilisi City Hall, of course, does not provide financial assistance for the children registered in the regions, and neither does the Ministry of Health of Georgia.

Given these and other factors and circumstances, we decided to study the current financial situation in Georgia, concerning the

psychological state of preschool children; also, we tried to examine the services that preschool institutions offer to children in Tbilisi and the regions, so that their situation can be further improved if the parent does not have the financial means to do so. The research was conducted by us using a pre-developed questionnaire distributed to parents of preschool children, teachers and principals of preschool institutions.

2. Aim of research

The purpose of the research is to investigate psychological challenges in preschool children, to provide a comprehensive overview of the issues of financial provision necessary for diagnosis and rehabilitation. To attain the research objective, we conducted a study, the target audience of which was pre-school education institutions in Tbilisi and the regions; parents of preschool children and rehabilitation centers, too, belong to our target audience. To accomplish the goal of the research, we developed a questionnaire in advance, which of course we introduced to all research participants beforehand and clarified that the research was purely informative and scientific, and anonymity would be protected. The research questions are the following: 1) How often are psychological disorders found in preschool children these days? 2) To what extent is the diagnosis of various neuropsychological conditions in preschool children (emotional areas, behavioral disorders, speech, writing, readiness for school) financially accessible? 3) What preventive measures do preschool institutions take? 4) How accessible is the diagnosis of psychological challenges in preschool children in Georgia, considering parents' financial resources? 5) How affordable is it to provide a rehabilitation center for children with diverse neuropsychological disorders? 6) To what degree are the rehabilitation and the services of a speech therapist and a special teacher offered by pre-school institutions to children of the mentioned age sufficient to resolve the issue?

Neuropsychological challenges in pre-school children are facing the biggest challenge in our country and not only in our country today. In particular, the problem lies in the lack of neuropsychologists in the regions of Georgia, who would aid the population residing in the regions of our country, and it would be possible to detect neuropsychological challenges in preschool children in a timely manner. The problem is also the lack of rehabilitation centers in the regions, which, it must be emphasized, are virtually unavailable to those children who have various neuropsychological disorders. The waiting period for registration at rehabilitation centers is another issue.

The research carried out based on the questions compiled by us answers the most relevant issues, specifically, what steps the government should take to promptly detect neuropsychological disorders in children, as well as to make rehabilitation possible for all preschool children registered in Georgia, since it is timely diagnosis that can put an end to challenges in preschool children.

Our research unveiled that parents encounter significant hurdles and problems in relation to financial issues, both prior to the diagnosis and later throughout the rehabilitation-habilitation process. Accordingly, based on the results of the conducted research and the purpose of our research, the article offers a comprehensive analysis of the financial resources requisite in the case of neuropsychological disorders of preschool children.

3. Materials and Methods

From the array of research methods, we have employed an in-depth interview conducted utilizing a pre-prepared questionnaire, which engaged teachers, principals, and parents of preschool children. We have also leveraged qualitative and quantitative research methods during the research. Research was conducted by us, both in the capital and in institutions of several regions of Georgia. When defining the target audience for conducting the research, we ensured that the parents of preschool children involved in the research were either parents or guardians of children with neuropsychological issues.

Furthermore, during the selection of preschool institutions, we made sure that there was at least one child with psychological issues (autistic), or children with logoneurosis and dyslalia.

Prior to commencing the research, we informed the respondents about the purpose of the research; subsequently, we introduced the questionnaire and tried to get accurate information from them, for which we also utilized oral interviews. The gathered results were processed and presented by us. Additionally, we explained to the respondents that the research was purely scientific in nature and anonymity would be fully protected.

4. Results and discussion

As a result of our research, it was unearthed that the diverse range of existing approaches to the matter of financial resources inevitably raises a few questions. As a result of the research, it was revealed that the diagnosis is made with an individual approach to all children based on their needs. A structured research approach to exploring the "resources" phenomenon and the potential for result replication can be categorized into qualitative and quantitative orientations contingent on the research data acquisition. In the conducted research, the analysis of individual cases proves invaluable, enabling us to place the focus on the study of the inner world of respondents' children and the analysis of the interpretations of intersubjective experiences.

In this case, we employed qualitative analysis of interview responses, texts or pictures of respondents as a research tool. Moreover, the semi-structured phenomenological interview technique, "Life Line", and content analysis of narratives were leveraged to study the resources.

The conducted research unveiled that the issue is quite large-scale, which, of course, is linked to substantial financial expenditures. Obtaining a diagnosis, which is certainly not financed, is not accessible for everyone; the cost of a specialist's consultation with a neuropsychologist and neurologist ranges from 70 GEL to 150 GEL;

the cost of an encephalogram varies from 80 GEL to 150 GEL; and the ADOS test comes with a fee of 150 GEL. Furthermore, it came to light that a range of studies is essential for making a diagnosis, which also ranges from 150 GEL to 200 GEL. Parents emphasize that following the diagnosis, they have to wait for a long time and go through procedures so that, if it becomes necessary, their child is granted the status of a disabled person in order to gain funding, that too is restricted to preschool children registered in Tbilisi; for children registered in the regions, who live in the capital, of course, Tbilisi City Hall does not provide funding, which gives rise to even more difficulties for them. Children registered in the regions, of course, cannot access services in the region as there are no rehabilitation centers available in the regions of Georgia. Only the services of a speech therapist are available, that too on a private basis, and of course it is the parents who cover the costs. A child diagnosed with logoneurosis and dyslalia requires extended rehabilitation, which, of course, often the parent has to pay for, and the average cost of one course is 30 GEL, and according to parents, some children require 70 or more visits to a speech therapist.

The research unveiled the following identified issues:

Ensuring the essential financial resources to support preschool children with neuropsychological problems, which the research reveals that the government lacks;

A shortage of rehabilitation centers, due to which children often have to wait in line for months;

There are practically no rehabilitation centers in the regions of Georgia, and it must be underscored that the children residing in the regions are left without rehabilitation.

The challenge lies in the fact that speech therapist services are exclusively available in preschool education institutions in Tbilisi; though, it's important to note that these speech therapist services in children's institutions come with associated fees. Preschool education institutions employ special teachers, with whom the child spends very

little time during the day, which, of course, according to the parents, is too little for the child to undergo rehabilitation in the preschool education institution. The fact that in reality the cost of a very small rehabilitation-habilitation course is financed by the Tbilisi City Hall also poses a problem, which according to parents and educators is too meager to alleviate the child's condition. According to the statistics of the health and social services of Tbilisi City Hall, if we compare the data of 2020, 2021 and 2022, the funding in terms of money has increased; however, the number of beneficiaries enrolled in the program has also risen. In particular:

Table 1

The number of beneficiaries involved in the program categorized by districts¹ [2].

	2020	2021	2022
Gldani district	191	208	236
Nadzaladevi district	134	168	195
Didubi district	94	112	131
Chugureti district	84	90	96
Isni district	113	146	166
Samgori district	166	195	231
Vaki district	124	178	192
Saburtalo district	267	214	250
Mtatsminda district	40	67	73
Krtsanis district	43	56	67
all:	1256	1434	1637

Table 2

Number of conducted sessions and expenditure amount ² [2]

session type	2020		2021		2022	
	quantity	money	quantity	money	quantity	money
ABA therapy	139 084	2 781 680	231 462	4 629 240	265 091	5 301 820
speech therapy	12 553	251 060	21 224	424 480	23 598	471 960
sensory therapy	4 227	84 540	6 510	130 200	480	9 600
Art therapy	4 596	91 920	6 630	132 600	7 030	140 600
physical therapy	10 163	203 260	17 673	353 460	23 806	476 120
Development of academic skills	9 521	190 420	19 827	396 540	18 727	374 540
occupational therapy	346	6 920	572	11 440	9 312	186 240
all:	180 490	3 609 800	303 898	6 077 960	348 044	6 960 880

The conducted research brought to light that more children of pre-school age require rehabilitation-habilitation than the number of

those financed within the framework of the health and social services program. We possess statistics exclusively for the capital; it must be noted that the regions are left to fate, because if the local district administration provides their financing, it is impossible to receive services on the spot, and accommodating and providing food for the child in the capital is associated with additional expenses, which the majority of parents cannot afford.

5. Conclusion

The research revealed that the problems of preschool children with psychological disorders in our country are quite significant, and their solution requires quite a lot of financial resources, which are mostly unavailable to parents.

It was revealed that speech therapist and special teacher services offered by preschool institutions for children of preschool age are inadequate in solving the problem, and according to the research respondents, the number of rehabilitation centers is small, which further aggravates the problem.

Given the aforementioned issue, we recommend the following:

- The City Service of Health and Social Services should provide financial assistance to even more children with psychological challenges;
- There should be an increase in the number of rehabilitation centers, both in the capital and across the regions;
- Funds should be allocated for diagnosis based on needs.

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I.9. Financial incentives for Georgian farmers to enter the EU market (On the example of Gori municipality)

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Abstract. The article, based on the latest literary sources and rich actual data, has studied an important issue of economic theory and economic practice, such as the challenges and prospects of the EU market for Georgian farmers. The results of the opportunities for farmers living in the Gori district are presented to understand the situation in the area, what experience, information and plans are farmers in the EU market and what are the needs or challenges. There are recommendations that Georgian farmers should use to successfully use the EU market opportunities.

Keywords: EU market, farmer, small business, phytosanitary sector, agricultural cooperative, sanitation, financial benefits.

1. Introduction

The Free Trade Agreement between Georgia and the EU was signed in 2014 and came into force on September 1 of the same year, which is considered an important novelty and economic opportunity for Georgian entrepreneurs. However, for small and medium -sized businesses in Georgia, this has so far caused only minor changes and has not been universal benefits.

According to studies, the reasons of that include the lack of business partners in EU countries, the lack of information and resources among farmers, small quantities and incompliance of production with standards and absence of other capacities necessary

for obtaining certificates required to operate on the EU market (Ramaz & Merab, 2020).

In 2020, the Economic Policy and Research Center (EPRC) conducted a research which involved survey of primary agricultural producers and small processing enterprises in five regions of Georgia, including in Shida Kartli. According to the survey, more than 70% of respondents had no information about preferential export tariffs for Georgia, while around 50% had no information about DCFTA⁶ requirements and standards although beginning in 2023, everyone will have to conform to DCFTA standards in sanitary and phytosanitary sphere, regardless of whether they export their produce or not (Vanishvili & Shanava, 2022).

Given the above said, we deemed it interesting to explore the capacities of farmers of Gori district for the entry of EU market and find out the current situation in the district, the experience, information and plans of farmers concerning the EU market and needs and challenges they face now.

2. Aim of research

The aim of the research was to evaluate capacities of farmers in Gori district to enter the EU market. To achieve the aim of the research, the following questions were formulated for the survey: (1) Have farmers of Gori district exported their products to the EU market or not; (2) What are the barriers faced by farmers in their efforts to export produce to the EU market; (3) Have they undertaken any efforts to establish a cooperative; (4) How and through what means do they sell their products now.

Interviews based on the above questions provide answers to issues such as types of produce most commonly grown by farmers in the city of Gori and the Gori district, experience in exports to EU

⁶ DCFTA - - Deep and Comprehensive Free Trade Area Agreement with the EU - It is an essential part of the Association Agreement (IV Car -Trade and Trade Issues), as it includes an economic integration mechanism with the EU and opens the EU's domestic market for Georgia.

member and non-member countries, a level of awareness of international standards and regulations, including DCFTA, barriers as they see them in the trade with the EU and their recommendations for the improvement of the situations.

3. Materials and Methods

The study used a qualitative research method, in particular, namely, in-depth interviews for which a semi-structured questionnaire was developed. The questionnaire was piloted with one respondent (farmer) and then revised. Potential respondents were selected in the following way: from among non-probability sampling types a purposive sampling method was selected as it best suited the aim of the research.

Respondents of the survey were to meet the following criteria:

(1) Farmers living in the city of Gori and Gori district, who hold at least 5 ha of land; (2) Farmers living in the city of Gori and Gori district, who are not engaged in agriculture.

When selecting respondents and after piloting the questionnaire, we planned visits to farmers and conducted 15 interviews. Before starting an in-depth interview, respondents were informed of the aim and procedures of the survey; they were also informed that the participation in the survey was voluntary and their personal data would be kept confidential and results of the survey would be presented only in a generalized form. Information obtained through interviews was processed by us.

4. Research results and discussion

Answers of 15 surveyed farmers showed that main produce the farmers in the city of Gori and Gori district grow for sale are: apples, black plums, red raspberries, peaches, tomatoes, cucumbers, beans, herbs. With regard to apples and peaches, they named specific species which farmers produce for sale. Among apple species the most frequently named were Golden, Banana, Brotski, Kekhura, Aidaridi, Fuji, Mutso. As regard peaches, the most frequently named species were yellow peach and white clingstone peach.

According to answers of 15 surveyed farmers, majority of them sell produce to resellers in their own villages, some sell their produce to shops and on local market in Gori, several farmers sell produce in other cities, namely in Batumi, Kutaisi and Tbilisi agrarian markets. Only one farmer said that he sold his produce in his village to a foreign reseller, an Azerbaijani citizen.

Various tendencies were seen in terms of exports. A segment of 15 surveyed farmers have never exported their produce, however, some have had such experience. For example, two respondents said that they exported their produce to Russia before 2004. A segment of farmers continues to export its produce to the Russian market. It is noteworthy that those farmers who export products to the Russian market, buy the produce from local farmers to increase the quantity of product as their capacities are not enough for ensuring cost-effectiveness of export. According to interviews, the main export products are apples and peaches.

None of surveyed 15 farmers has any experience of exporting their own produce to the EU market. However, all of them would wish to do so. None of surveyed 15 farmers know a farmer who exports produce to the EU market.

A segment of farmers have never sought information on those assistance programs which would help them enter the EU market. Another segment of farmers sought such programs and even benefitted from them. They specified the following programs: Agroloan, and Plant the Future. Several of the farmers also benefitted from the state grants.

The majority of surveyed farmers has never had experience of establishing a cooperative while a segment of them intends to create a cooperative in the future. Some of the farmers do not deem it necessary and flatly reject the idea of cooperative. Only two farmers gave a positive answer to the question, though in both cases members of cooperatives were friends or relatives and they did not officially

have any duties and responsibilities, conditions and obligations redistributed among them.

Reasons of reluctance to establish cooperatives vary. A segment of farmers think it is difficult to establish and manage a cooperative while the likelihood that it will end in conflict among members is high.

Interviewed farmers named different problems in exporting products to the EU market. Based on their interviews the following three barriers were identified:

Novelty of the market and lack of information: One of the main reasons which hinders the export of produce to the EU market, is lack of information. A segment of farmers think that they lack sufficient information about standards and regulations necessary for the entry to the EU market. In addition, this market is new for the majority of Georgian farmers and therefore, they do not have necessary contacts. For a segment of farmers it is unclear how to find partners on the EU market and how to export their produce to the market of another country and cite a language barrier as a reason of this. It is also difficult for farmers to deal with transportation issues. Besides, lack of free time prevents them from searching more information which would help them export their produce to the EU market. A few farmers think that without the knowledge of a foreign language it is difficult to trust a strange person who knows the language and has contacts on the market of other country, because that person may deceive them.

Low interest of farmers: Yet another barrier named by them was a low interest of farmers since they sell their produce in local stores, supermarkets and agrarian markets and therefore, do not face a necessity to export it to the EU market.

High standards: Interviews also revealed “obsolete”, non-modern product as a barrier. According to them, the majority of farmers grow such products that are not new species, do not produce

high yields, do not meet standards and do not look attractive for the EU market.

Quantity of produce and advantage of large farmers: Farmers with smaller holdings named the quantity of produce as a significant problem. They said that they do not grow that amount of product that would enable them to export it to the EU. According to them, those farmers who produce products in large amounts have more capacity to export them to the EU market. A segment of farmers deem the state involvement necessary to eliminate barriers. According to them, it is important for the country to have large resellers who would buy their products and then export the product to the EU market.

Farmers' expectations and possible solution: The majority of farmers believe that the state must allocate more funds for farmers to purchase new plants and diversify and renew production. The state should also provide them with necessary equipment. A large segment of farmers would like the state to assist them in procuring refrigerator and apportionment machinery; moreover, some farmers named the problem of irrigation system and expressed the wish that the state helped them to eliminate this problem.

Farmers complained about pesticides too; they would like the state to provide them with high quality pesticides. A large segment of farmers named the lack of information and contacts on the EU market as a rather serious problem; they would also like the state to assist them in exporting their produce to the EU market or in finding and establishing contacts. Interestingly, in one of the respondents' view, the state must give money to farmers on the condition that they will cultivate the land and produce yields. If the farmer fails to fulfill the condition, the state must not assist that farmer during 10 years.

5. Conclusion

The survey revealed that a large segment of farmers living in the city of Gori and the Gori district, sell their product on site to resellers, while another segment supply their produce to the city of Gori and other cities of Georgia. Despite the available potential, none

of the surveyed farmersexports their own produce to the EU market at this stage; nor do they know a farmer who has succeeded in securing its place on the EU market. The only foreign market which they now use is the Russian market. It is also noteworthy that only one farmer out of 15 has an international certificate.

Proceeding from the all above said, it is recommended:

- ⇐ To raise the level of awareness of farmers about DCFTA; if this is achieved, farmers will have more possibilities and motivation to export their products to the EU market. The survey showed that one of main barriers to export of produce is the ignorance of the necessary procedures. Moreover, farmers do not know what in particular the EU market can offer them (stability, more possibilities of development, market diversity, large financial gains, etc.);
- ⇐ To assist farmers in finding partners on the EU market to establish contacts and sell their produce to EU countries; the survey showed that the farmers participating in the survey have never had any experience of communicating with European partners. They noted that if they had contacted natural or legal persons in EU countries to cooperate with that would have raised their interest towards exports to that market.

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I.10. Financial problems and challenges in agriculture (on the example of the Kakheti region)

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Abstract. The presented article is based on the most recent data on the financial problems in the regions of Georgia, in particular in the Kakheti region, published literary sources, based on which the financial problems that exist today in the direction of agriculture are studied. The article presents the possibilities of the Kakheti region and its population, plans for the region's population, and the problematic issues that the locals see in the future. The paper also presents recommendations, which if provided, local residents will maintain financial stability and be able to solve their financial problems.

Keywords: Financial problems, agriculture, Financial stability

1. Introduction

The agricultural industry's development level determines the well-being of a country's population. Food structure, social living conditions, per capita income, and consumption of goods and services depend on it. Therefore, identifying risks and problems, finding solutions, and identifying growth points in the agro-industrial sector is a priority task of the state policy.

According to the data of the National Statistical Service of Georgia, As of January 1, 2023, the population of Georgia is 3,736.4 thousand people. According to the forecast of the world urbanization prospects of the United Nations, the share of the population living in rural areas in Georgia will decrease to 27 by 2050. [1].

The global geopolitical changes that occurred in the second half of the 1990s led to the complete collapse of production and economic relations and the complete destruction of industry, as well as a significant reduction in the volume of production and degradation of

fertile soils, which are not new from the list of problems facing the state.

In addition to other negative factors, the slow rate of development of the agricultural complex is also affected by the increase in inflation, the ineffective system of state financing, and the increase in the value of credit resources, as well as the decrease in the purchasing power of consumers of agricultural products.

Based on these and other important circumstances, we considered it important to study the financial problems in agriculture and the factors causing them, for which we selected the Kakheti region. The research was conducted by interviewing local residents using a pre-designed questionnaire.

2. Aim of research

The goal of the research is to study the financial problems and challenges in the field of agriculture in the Kakheti region. To achieve the goal of the research, we developed a questionnaire in advance, the target audience of which was local residents. 1) whether the population of the region has the financial capacity to cultivate the arable beds they own; 2) whether the use of state-owned equipment is available for locals, taking into account financial benefits; 3) Can they cultivate the fields by themselves without the help of workers? 4) Is it possible to sell the harvested crop on the spot and 5) Is the income received from the sale of the harvested crop sufficient to support the family and cover the financial resources spent on obtaining the crop or not?

The low level of development of the agricultural sector is connected with currently unresolved problems in its structure, namely: Low level of market infrastructure development, which makes it difficult for producers to access financial, information, and material resources; the financial instability of the industry is manifested in the lack of support and investment;

Dependence on imports - mainly goods, not finished goods.

The interviews and research conducted through the questionnaire prepared by us answer our questions, a very relevant issue, namely, how much the population living in the Kakheti region can cultivate the arable crops they own, from which the financial resources obtained as a result of the sale of the harvest will be sufficient to cover the expenses incurred by the locals for harvesting, as well as whether the locals will be able to provide for their families financially without other incomes.

As a result of the research, the financial problems that the locals face in their daily lives have been highlighted.

3. Materials and Methods

Among the research methods, we used in-depth interviews with local residents, a qualitative research method, for which, as we have already mentioned, we developed a questionnaire in advance. The respondents were selected purposefully, those residents who are small farmers, that is, engaged in family farming. In particular, we selected the residents of Signaghi district, who mainly cultivate grain crops on agricultural fields and engage in viticulture. Due to the relevance to the purpose of our research, we tried to study the issues of their financial security through interviews. The respondents involved in the research had to meet the requirements set by us, which included owning at least 1 hectare of land on which they grow cereal crops and 1 hectare of vineyard, to determine the compatibility of the money spent and the income received.

Before starting the research, we informed the respondents about the research's purpose before introducing the questionnaire and conducting oral interviews to obtain accurate information. The obtained results were processed and presented by us.

4. Results and discussion

After interviewing local residents, we discovered that their main source of income comes from wheat crops, and they have to support themselves and their families with financial sources from viticulture and sunflower plantations. Also, during the interviews, they

mentioned that the amount of harvested crops has been significantly reduced in recent years due to the weather climate and natural processes (hail), which has negatively affected their finances.

Our research revealed that compared to previous years, it is now more expensive for the locals to grow crops, and it is also more challenging to sell the harvest. The price of the crop is lower compared to previous years. In contrast, the price of our country's wheat in the local market is 0.45 white, while the average price of wheat imported from other countries ranges from 1 to 1.5 GEL.

As a result of the conducted research, it was revealed that the local people have little financial ability to cultivate the arable crops they own, since the expenses incurred are much higher than the financial resources obtained from the already realized harvest, to prove which several local people have decoded the data of the last years in detail, how much it costs to cultivate one hectare to the farmer and how much financial resources he receives from the realized crop.

Table 1

Economic analysis of wheat maintenance and cultivation as of 2021

Name of works	unit	Unit price (in GEL)	Total amount (GEL)
soil cleaning	1 Hectare	40	40
Soil plowing	1 Hectare	115	115
Cultivation	1 Hectare	135	135
Application of fertilizer minerals	1 Hectare	Kg. 0.8	240
The cost of transport rent for applying fertilizer	1 Hectare	30	30
Purchase of seed material	1 Hectare	1 Kg. 1 Lari	250 Lari
Sowing cost	1 Hectare	35	35
Anti-rodent drug	1 Hectare	15	45

Filing a tribute	1 Hectare	0.8	250+15=265	
application of herbicides	1 Hectare	1 liter12 L	12+25 (technique)=37	
harvest	1 Hectare	90	90	
Transportation	1 Hectare	30	30	
Unforeseen expenses	1 Hectare		200	
total cost	1 Hectare/Lari		1512	
Received products				
grain	A ton	4.0	1 Kg. the price =0.7	2800 Lari
Net income in GEL			1288 Lari	

In the process of interviewing, the respondents gave the data of the last three years as an example, Table N1 presents an example of 2021, while the price of wheat was 0.7 white and the price of fuel was lower than in 2023. , that it is very rarely possible to harvest 4 tons of wheat on 1 hectare of land due to the weather climate, and emphasized the fact that already in 2023, growing wheat on their arable land was associated with very high financial costs and based on the current market price (0.42 White) is financially unprofitable for them.

During the research, it was revealed that the locals rarely use the so-called cheap agro credit, since the credit interest is unacceptable for them, a total of 3-4 respondents from the surveyed locals apply for agro insurance.

As a result of the survey of the locals, various financial problems in agriculture were identified, among which it should be noted:

Less informing the population about cheap agro loans, they think that they do not have enough information about existing loans, and they are less informed if at the end of the year, the local harvest is left and the crop is destroyed as a result of hail, therefore it will be unable to pay, what benefits will it enjoy in such a case;

Fewer financial interests of local people in arable land. The locals mentioned that they are less interested in harvesting because they believe that it is financially unprofitable, due to the price, and they also note that sometimes the costs already exceed the income, and therefore, due to financial problems, they have to work with large farmers and growers daily.

Regarding the problem of selling of the obtained harvest, locals also mentioned that the sale of the obtained harvest is a problem since the products are sold on the spot, the so-called Reseller who only wants high-quality products. As a result of the research, it was revealed that there are cases when the cereal crop (wheat) is often mixed with weeds, making it difficult to sell.

In Georgia, the fact that the investment attractiveness of the agro-industrial complex is naturally low compared to other sectors of the economy can be seen as a problem. This is associated with a high level of risk. According to studies carried out in 2019-2023, the volume of inflow of resources into the industry accounted for only 3.5% of the total fixed capital investments in the country's economy [2].

In addition to a lack of investment, the industry suffers from accumulated decapitalization, unsatisfactory levels of production insurance, and instability in raw materials, agricultural products, and food markets.

The conducted research revealed that the financial development of the agricultural complex is impossible without the modernization of three main areas, i.e. industries that develop and create means of production, direct agriculture, and the processing and sale of the obtained products. It is also crucial to introduce innovative technologies and ensure the inflow of investments.

Locals believe that the development of a strategic model for the agricultural region's growth will help solve problems and bring positive changes to the agro-industrial complex.

5. Conclusion

The conducted research showed that there are significant financial problems in Georgia's regions, particularly in the Kakheti region. The study revealed that carrying out agricultural work costs the locals much more financially than the income obtained from the harvest. Additionally, interviewed locals reported a difficult socio-economic situation in the region and they face financial troubles since they still need the income from the arable land in the village to cultivate it again next year.

Based on the problematic issue we discussed above, it is recommended that:

- The state should provide financial assistance to small farmers and rural residents for the cultivation of seedbeds;
- Determining the proper market price will ensure that peasants living in the village can provide financial support for their families from the obtained harvest. This will prevent them from moving to big cities or emigrating.

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I.11. Challenges of innovative activity in Georgia according to the Global Innovation Index

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Abstract. The article, based on the global innovation index, discusses the dynamics of the ratings of Georgia and Eastern Partnership countries in recent years. The main point is about the importance of innovation in terms of competitiveness; on the factors that prevent its processing and especially its implementation in the mentioned countries; Also, what prevents an innovative person from entering Georgia and generally, who is he? At the end of the article, the authors' recommendations are given on what is needed to attract and implement innovations, to bring innovative people to Georgia.

Keywords: innovation, competitiveness, homo innovaticus, innovative society, index, rating.

1. Introduction

the modern economy based on globalization is information-network and innovation competition or hyper-competition. Innovation research and implementation process is fast, flexible in a constantly changing market and it is the basis of economic growth and leadership. In general, the competitiveness of the country, in addition to innovations, is determined by political and economic stability, the state of institutions, infrastructure, the state of the justice system, the qualifications of the workforce, as well as intellectual capital, the quality of management, etc., which is a prerequisite for economic development and growth.

The main goal of the article is to show the state of Georgia in terms of innovative activities in relation to the Eastern Partnership of Europe (Azerbaijan, Armenia, Moldova, Ukraine, Belarus) and other post-Soviet countries (Lithuania, Latvia, Estonia, Russia). The Global Innovation Index is used for comparison, which shows the diversity of aspects. Each component is a kind of indicator, and their improvement should contribute to the attraction of investments and economic growth in the country in general (in the long term).

2. Main text

In 2016, Georgia adopted the Law "On Innovations". The main goal of the law is to create a favorable climate for innovations necessary for the country's economic development, to promote the import of foreign innovations and technologies, to promote the export of Georgian innovations, and ultimately to increase the competitiveness of the country.

The Georgia Innovation and Technology Agency (GITA) has existed since 2014 under the Ministry of Economy and Sustainable Development of Georgia, but its lack of financial resources limits the functioning of this agency. Since 2016, GITA's funding has been in the range of \$10 million. Despite this, the agency tries to promote research, start-ups, commercialization of innovations, etc. For example: in 2014-21, 56 thousand beneficiaries were financed, in addition, 641 startups received grants to date ... innovative activities are reflected in the global innovation index.

Table 1

Global innovation index in post-Soviet countries 2018-2022

Index	2018	2019	2020	2021	2022
Estonia	24 th - 50,5	24 th - 50	25 th - 48, 3	21 st - 49, 9	18 th -50,2
Lithuania	40 th - 41, 2	38 th - 41, 5	40 th -39,2	39 th -39,9	39 th - 37, 3
Latvia	34 th - 43, 2	34 th - 43, 2	36 th - 41, 1	38 th - 40,1	41 st - 36, 5
Ukraine	43 rd -38, 5	47 th - 37, 4	45 th - 36, 3	49 th - 35, 6	57 th - 31
Armenia	68 th - 32, 8	64 th - 34, 0	61 st - 32, 6	69 th - 31, 4	80 th - 26, 6
Georgia	59 th - 35, 0	48 th - 37, 0	63 rd - 31, 8	63 rd - 32, 4	74 th - 27, 9
Azerbaijan	82 nd - 30, 2	84 th - 30,2	82 nd - 27, 2	80 th - 28, 4	93 rd - 21, 5

Moldova	48 th - 37, 6	58 th – 35, 5	59 th – 33, 0	64 th - 32, 3	56 th – 31, 1
Belarus	86 th - 29, 35	72 nd - 32, 07	64 th - 31, 3	62 nd – 32, 6	77 th – 27, 5
Russia	46 th – 37, 9	46 th – 37, 6	47 th – 35, 6	45 th – 36, 6	47 th – 34, 3

Our best position in years was in 2019, as shown in the table, when we moved up 11 places from 59th to 48th, and our position was close to Ukraine, which ranked 47th, and Russia, which ranked 46th. In 2020, the situation worsened and we fell back by 15 steps - to the 63rd place. This is not the fault of the pandemic, as the 2020 data is based on data from 2019, up to March 2020, when the pandemic was just beginning. The second reason is - as you can see from the table, the results of other countries have changed a little, even Belarus moved up by 8 steps, Armenia - by 3 steps, but this was due to the weakening of the ratings of other countries, the rationale for this is that both countries lost points (31 out of 32 .3; and from 34 to 31.4), but they moved up. Georgia also lost positions compared to the previous year - from 37 to 31.8. The problem is that several components were at a low level (the situation did not improve in 2021 and 2022):

- ⇒ Cluster development level-113th position;
- ⇒ Logistics Opportunities-111th place;
- ⇒ Partnership-104th position of universities and private sector;
- ⇒ Information technologies and organizational models -101st places;
- ⇒ Business-funded surveys and development-92nd position;
- ⇒ High-tech production-90th position
- ⇒ University rating-77th;
- ⇒ PISA rating in the question, mathematics and natural sciences-70th position;
- ⇒ Global companies, R&D companies-42nd position.

The situation worsened after 2020. In 2021 and 2022 it was mainly caused by a pandemic (the pandemic hurt other countries as shown in the ranking). In addition, internal political instability has also affected the results of Georgia. There are also major problems in the education system, despite the fact that the government spends more

than a billion GEL (2020 - 1.4 billion) on education in the country. Georgia has taken one of the lowest points with logistics opportunities and ranks - 111th place. The research cooperation between universities and private businesses is at a very low level, and global companies are poorly represented. This last point has a negative characteristic of Georgia's business environment.

For several years, in a number of Eastern European countries such as Georgia, Armenia, Moldova and Belarus, there was an unstable political, legal and macroeconomic environment in general. The situation is much better and more stable in Azerbaijan and Russia (in the case of Russia's Ukraine-Russia war, the situation has changed), but due to the high indicators of undemocratic governance and corruption (Azerbaijan ranked 146th in 2021 in 2021, Russia-124th, Belarus-124th. 148th, Azerbaijan and Russia are in the 129th and 130th place with the perception of the corruption, and Belarus is 63rd) in fear, which is bad for economic development and this is directly reflected in the ratings. Georgia may also be added to this list. The Russian-Ukrainian war will affect the results of 2023 and 2024. These two countries will lose points and occupy lower places (especially Russia as an aggressor). In addition, war will affect neighboring countries such as Georgia, Moldova, Belarus. As for the leading European countries and the US, their positions are quite high in the global innovation index. The top ten list looks like this:

Table 2

Global Development Index (2022)

Country	Score
1. Switzerland	64.6
2. USA	61.8
3. Sweden	61.6
4. UK	59, 7
5. Netherlands	58

6. South Korea	57, 8
7. Singapore	57, 3
8. Germany	57, 2
9. Finland	56, 9
10. Denmark	55, 9

In addition, the private sector is leading the introduction of innovation in developed countries, for example in the US -66%, in Germany -64%, about 50% in Canada and France; There are also mixed costs. Private companies spend a lot of money on innovation, such as Microsoft-4-5 billion \$, GM-6-7 billion, Ford-7-8 million \$, Japanese Toyota-\$ 8-9 billion, Finnish Nokia-\$ 6 billion and more. There is no such data in Georgia, unfortunately there are no such companies.

62% of inventions are used in the US; 95%- in Japan; 8-10% in Russia; 1-2% in Belarus; This data is also unknown in Georgia.

Economic literature has accepted that the cost of innovation with GDP should not be less than 3%, which is the prerequisite for the growth of country's economy and hyper competitiveness. In the last few years, the EU has spent 3.2% of GDP on innovations; -3.8% in the US; -3.3% in Japan; For Georgia, this score is at least ten times less (0.32%-0.3%), and if we take it in real numbers, it turns out that the US has spent \$ 720-750 billion on innovation in 2020 and Georgia \$ 35-40 million. [11] The situation is also aggravated that the "beneficial effect" of \$ 1 spent in the United States is much more intense than in Georgia: the effect of high technology (Nano+; Bio+; Cosmo and Other Technologies) in the US (similar to which There is any news in Georgia) and any news in banking services in Georgia (for comparison).

Where is political, legal and macroeconomic instability, there is always economic pessimism too. Companies operating in the country prefer to solve tactical risks rather than strategic, which means that the company prefers old and already -known technology rather than the introduction of new ones. This is happening because

companies do not want to take high risks due to instability in the country. Such facts are called "technological trap" [6], so economic progress is derived due to lack of innovation. Foreign companies often refuse to cooperate with countries because of such an environment. There has been such a situation in Georgia lately. This has already affected the rating of our country. If the country does not have the economic environment of optimism [5], it means that it is almost impossible to focus on future development. In other words, innovation is possible only in the environment of economic optimism. The innovation is carried out by a person with entrepreneurial function, so in modern literature a new "innovative human" model "Homo Innovaticus" [2] has appeared in modern literature. This is a human abstract model characterized by the following features:

- realizing newly implemented ideas;
- Readiness for learning, mobility in the psychological and geographical aspect;
- General and special knowledge, readiness for risk, openness;
- Compatibility of research and planning skills;
- Tactics tailored to the strategy;
- Ability to cooperate, cooperate;
- Peculiarities of trust and partnership.

It is hard to imagine so many traits in one person (with the exception of a very rare exception), more correct if we call it an "innovative collection" or an "innovative society": managers, managers, researchers, inventors, analysts, marketers, etc. . unity. Homo Innovaticus is always focused on the future, and the future is for him an area that obeys the conquest and colonization [3]. The optimist often risks, motivated to get the greatest benefits, while the pessimist tries to benefit from minimizing the risks [2]. Big companies are often the "owners" of such an "innovative society" and therefore are "global innovative hypercontourers", so they determine growing dynamism, innovation, status and leadership in the world market.

The environment of economic optimism is conditioned by steadily high pace of economic growth; For firms, the high rates of their own growth are a prerequisite for the introduction of innovation. The question is - is the environment of economic optimism in Georgia or other post -Soviet, including Eastern Partnership countries, where Homo Innovaticus can work effectively? Unfortunately not even because there is a problem of peace in many of them, but even the "peace of peace" is not a guarantee of economic optimism; Wrong economic policy can be the cause of many problems. The best example is Hungary, which opposed the EU on the budget policy of 2021-2027. This affected the Hungarian economy, created an unstable environment for companies, so the introduction of innovations was gradually suspended. Incorrect economic policy and, as Keynes said, the "wrong person" in the country's rule leads to the country's regression. For example, stopping Anaklia Port construction in Georgia (the consortium included European and American companies), Société Générale leaving Georgia, creating problems for American companies (eg Frontera), etc. All of this has been added to a pandemic that puts Georgia in a completely disadvantage. The solution to all this may be to stabilize the political and economic situation, to develop a macroeconomic environment stabilization policy, and primarily to restore the environment of economic optimism. All of this needs the hand of the "right people".

Through the innovative activity of described countries, including post-Soviet countries, the authors have tried to identify the problems and challenges that exist in Georgia. As a result of theoretical or practical research, we have come to the conclusion that effective steps in Georgia should be taken to develop innovative activities.

3. Conclusion

The Georgian authorities should make innovative activities and the attraction of investments one of the priorities of the state. This will be particularly relevant after the EU candidate status is adopted.

-Political, economic and legal stability in Georgia should be achieved in the environment of economic optimism and attracting both investments and homo innovaticus, which should be reflected in the introduction of world leading companies.

The Georgian government should pay more attention to the education system, from there they will identify Homo Innovaticus, to collaborate with the introduction of innovation with the private sector in commercialization.

The Georgia should try its best to implement international and benefit projects, to try to offer European, American and Chinese companies to Georgia as a hub with China, the US and the EU. The construction of Anaklia Port should also be resumed and more.

Georgia should pay more attention to improving the components of the Global Innovation Index, eg high -tech production, relations between universities and the private sector, in terms of business funding, university (ie higher education) rating ... It holds quite low positions; It can be corrected by developing the right economic and educational policy, as well as with the help of foreign partners.

The private sector in Georgia should be more interested in innovative activities and the government should greatly contribute to it, such as in Germany, France or other successful states, it should be expressed with the help of financial, technological, human and other resources.

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PART II. CHALLENGES AND PERSPECTIVES OF THE BANKING SECTOR OF GEORGIA

II.1. Priorities of Accomplishment Social Responsibility in the Banking Sector of Georgia

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Abstract. In the article, based on the latest literary sources, the indicators of social responsibility assessment of the banking sector of Georgia are studied, the results of the research of social responsibility in the banking sector of Georgia are evaluated and the main directions of activation of social responsibility of the banking sector of Georgia are determined.

Keywords: social responsibility, banking sector, indicators for assessing the social responsibility, significance of social responsibility, Directions for Activation of Social Responsibility.

1. Introduction

In the modern world, the banking sector is undergoing a radical transformation, as the competitive environment changes, the demands and needs of customers are being developed. Their focus is on viable, new modern banking models that look at profit and finance as a strategy and focus on the public interest and needs.

In the context of any country and economy, banking plays an important role, acting as an intermediary, a link between investors and borrowers, which is why a number of tasks which are constantly in the agenda of banking will help to preserve its image in the future, or to develop strategies that will be aimed at the well-being of society and retain its loyal

customers.

There is a growing demand in the world today for socially responsible organizations that are driven by trust, based on the values and goals served by companies with corporate social responsibility.

It is recognized that the development of socially responsible behavior and activities has a positive impact, both directly on the company's immediate and long-term objectives, and has a significant impact on the country's economic development and social well-being. Therefore, the high quality of its implementation and use in practice is significant.

Hereby global financial crisis that swept the world between 2007 and 2010, when many companies were close to bankruptcy and/or went bankrupt, socially responsible banks endured this crisis, they did not even lose customers, but increased their scale, because consumers believed that unlike commercial banks, whose goal is to maximize profits at all costs, socially responsible banks focus on the needs and expectations of society. As a result, since the financial crisis, there has been a growing trust and expectation in socially responsible banks, consequently they are everywhere and, in every sector, where people, communities want to live healthier and improve the environment.

Banks are an integral part of any economic system and socially important institutions. Their sustainable and dynamic development involves balancing the interests of banks themselves, as commercial organizations, their customers and society as a whole. Banks can only ensure their welfare if, by maximizing their customer' demands, they contribute to the achievement of socially sustainable production growth.

The functional role of banks in the production and distribution sectors is reflected in the complex of different services they provide, while they are constantly under the influence of banking supervisory regulatory institutions and at the same time under the pressure of many market competitors, therefore each bank is forced to seek and develop new types of services that will be demanded by its customers and at the same time not be contrary to the interests of the society.

Corporate social responsibility has become a natural feature of the

banking business, and today the concept is constantly being updated. Over the past decade, the banking business has been able to embrace social responsibility as a core principle, resulting in the establishment of environmental, community-oriented business objectives and practices, with a sense of social responsibility rooted in all of their operational and credit activities. This contributes to efficient banking operations both domestically and abroad. In the current economy, corporate social responsibility has become the best solution to integrate the moral principle into banking, because “a bank based on values has the power to turn finance into a force for good” [1].

The financial stability of the banking business depends on the stability of the country's economy and the well-being of its people. Accordingly, in the context of healthy competition in the banking business in Georgia, it has become important to implement new approaches and methods of corporate management. The sustainable development of the banking business, gaining and maintaining of credibility, the long-term economic stability of the country depend on it.

Modern banking services are becoming more and more socially oriented, although in the scientific literature the banking system is considered in terms of their competitiveness and profitability, where they are practically not involved in the social aspect, and in recent years scientific research has paid insufficient attention to the theoretical development of the activities of banks as social institutions, to the study of the directions and forms of their influence on solving social problems, and to the creation of a complex of socially oriented services.

The special relevance of the topic is due to the study, understanding of the concept of corporate social responsibility and the determination of ways of its implementation in the Georgian banking sector.

2. Research results and discussion

In Georgia, the main awareness of corporate social responsibility in business or public terminology has been established since 2004, and since 2007, research and analysis of the assessment of

the correct expectations of business and society on the concept of CSR has begun.

In 2021, commercial banks filled out environmental, social and governance (ESG) forms for the first time, the forms are available on the National Bank's website. The information presented in the forms allows the analysis of the key performance indicators (KPIs) of the ESG direction of the financial system of Georgia. The information disclosed in the forms shall include qualitative information (related to the business model, policies and due diligence, risk management) as well as quantitative information on the various KPIs.

The evaluation of information related to environmental, social and governance forms showed that the rules of ESG management differ in Georgian banks. A small number of them at this point are quite ahead in terms of implementing ESG risk management and sustainable finance, and they also have other social and environmental policies. On the other hand, there are banks that don't have ESG governance rules in place at the moment, although some of them are in the process of being developed and some are in the process of being implemented.

In line with the assessment of *environmental, social and governance* forms, most commercial banks do not have a definition of green loans or a classification system for them, and as a result, they do not have data on green loans. Only six out of 15 banks have data on green loans. However, most of these six banks do not have a formal definition of green lending, or a classification system, and report only on loans to finance energy efficiency and renewable energy projects.

The volume of green loans recorded by commercial banks in 2020 amounted to 405 million Gel (\$123 million), most of which is denominated in US dollars. Among banks that have disclosed information on green loans, the share of green loans in total loans granted in 2020 averaged 5 percent and ranged from 1 to 11%. As for the total amount of green loans available at the end of 2020, it is 1.4 billion Gel (\$416 million). In this case, the US Dollar share was even higher (71%). By the end of 2020, green loans accounted for an

average of 6% of the total portfolio, with the highest figure being around 17%.

It should be noted that due to the lack of a proper definition, most banks are not provided with information on green loans. Hence, we might assume that these numbers do not fully reflect reality. In addition, most commercial banks that provided data on green loans included only loans to finance energy efficiency and renewable energy projects.

According to the 2021 ESG report, TBC Bank has a sustainable portfolio, with 83.2% coming from renewable energy projects, 2.8% from energy efficiency projects, 10.8% from supporting youth, and 3.2% from „Women in Business“ projects. At the same time, TBC Bank is seeking to reduce its portfolio share in risky sectors such as coal mining. Currently, 0.2% of the portfolio comes from this sector. It is planned that the bank will exit this sector in the near future.

TBC Bank has a responsibility to actively finance business activities that increase the positive impact on the environment and society.

The Bank's environmental, social and governance strategy focuses on four main areas: (1) customer satisfaction; (2) employee empowerment; (3) society; (4) the environment.

As part of its Sustainable Development Strategy, the Bank has implemented policies and measures to align with these policies. Bank of Georgia's 2020 ESG results are highly rated by the rating agencies, as reflected in the ratings given to Bank of Georgia Group plc, the ultimate parent company. The share of green loans in the total portfolio (balances) at the end of the financial year - 1.2%. - stated in Bank of Georgia's 2021 ESG report.

At the current stage, the Bank is in the process of implementing ESG policies and, given the novelty of the practice, the significant change in the asset backed volume trend will not affect the ESG policy. The bank plans to invest in renewable energy projects and set annual measurable targets that all businesses can meet.

Liberty Bank plans to develop and regularly evaluate ESG risk management methods, processes and tools for financial and non-financial assets (starting with risk-adjusted inventory) and incorporate the results into the risk reporting process. In turn, it must verify whether the entity complies with legal or voluntary ESG guidelines. This is stated in Liberty Bank's 2021 ESG Report.

As the bank grows and develops, it integrates, reviews and refines its ESG policies or procedures every year. The board of directors is directly involved in the change, and in some cases the change is initiated by the board itself.

As of 2020, in terms of environmental and social governance, 95% of the loan portfolio of the bank is classified as low risk, 4% as medium risk and 1% as high risk, while the 2019 portfolio breakdown is broken down as follows: low 88.36%, medium 10.62%, and high 1.02%. By 2020, the main part of the portfolio of the bank is concentrated on low-risk railway loans.

It should also be noted that the policy of environmental and social activities of the Credo Bank restricts the financing of activities that have a truly large and irreversible impact on the environment and society. The funding of industrial projects or mining activities are meant. The Bank has not received any complaints from environmental or social points of view. Most of the loan portfolio of Credo Bank is concentrated in the construction sector, which accounts for 50% as of 2020. This, in turn, ensures consistency with its social mission, as well as a portfolio-wise 51.2% share of loans to women.

A diverse work environment and the development of employees are important to Credo Bank. The percentage of women in the workforce has increased to 57% in 2020, up from 53% in 2019 and 51% in 2018. Employee development activities are also important - in 2020, despite the pandemic, more than 3,000 employees attended 30 different types of training, with an average annual training time of 7.12 hours per employee.

In 2020, the number of complaints registered by customers was 307, compared to 500 in 2019. The directors are directly involved in the discussion of issues identified by the user, and they also send a detailed report to them every month. The bank welcomes any feedback received from the customer, which the bank then uses to improve the service, refine services and optimize processes. In the future, it is expected that the number of these issues and customer latency will increase, driven by an increase in the number of products, services and supply chains. It is noted in the 2021 ESG Report of Credo Bank.

All of the above highlights once again that the banking industry, despite its high development path, does not fully understand the need to engage in socially responsible and sustainable development projects, which directly indicates their lack of development.

Georgian financial institutions see the importance of CSR more as a way to increase their value in society. Most of the time, they focus on creating new products and innovating, which allows them to become part of society. And the fact that corporate responsibility is the key to improving financial performance is less well understood.

Corporate Social Responsibility (CSR) is a business's goodwill, not an obligation. Business may be socially responsible, or it may not. This status is not defined by the state, or the government, corporate social responsibility - it's a concept, a business strategy, to respond to the healthy needs and demands of society that companies develop their brands transparently.

We often hear the question of which companies are important to engage in responsible business activities, to which the answer is unequivocally that responsible business is not considered a diversified category of business, it can be equally engaged with a large corporation, or a government (public) organization, or a small or medium-sized enterprise. The goal is always the same:

- Protect working conditions and relationships with employees;
- Relationships with the society and local people;

- The market environment: customer, investor;
- The environment.

Corporate Social Responsibility in Georgia, as we have noted, has been established since 2004-2007, from this period, the quality of its dissemination and awareness is assessed, what the company knows, the society, whether they use it in their daily activities, is correctly perceived and serves the values that CSR encompasses, if only a marketing trick of the company or business subject in order to create a brand image and be attractive to the public, partners or investors.

Since 2007, the Center for Strategic Research and Development (CSRSD) has started to take care of the dissemination of corporate social responsibility and the evaluation of information quality. The main objectives of research in this area were:

- Study of public attitudes and expectations towards corporate social responsibility in Georgia (2007);
- Study the current situation of social responsibility in Georgia, as well as identify opportunities and potential for the development of corporate social responsibility;
Study the attitude of the top management of major business companies in Tbilisi towards corporate social responsibility, as well as to identify the existing experience of implementing social responsibility by business companies. (2007).

An analysis of these studies shows that awareness of corporate social responsibility issues is very low in both society and the business sector. One-third of the respondents had never heard of the concept, and the concept of "charity" was not confused with CSR. There is also a lack of experience and awareness of CSR by large business companies, as they believed that CSR was only about fulfilling legal obligations and conducting business activities in a quality manner (e.g. paying taxes, doing business in a transparent manner, providing quality products and services to the customer, attracting investment, etc.).

In the same period, there is a lack of attitudes and information in public, because a large part of the population is not informed about the social activities undertaken by businesses and cannot identify the companies that are actively involved in such activities.

The results of the 2007 survey suggest that innovation in social responsibility may be strange to all involved and that the reviews are mixed, but the attitude of business towards the business environment of the period, its development trends and ongoing changes is quite positive. There is also a positive outlook for the future. Big business representatives share responsibility for the welfare of the community and the development of the country mainly between the state, government structures and business itself. However, they see it as critical to engage and engage the community, because it is the community that is the business responsibility that drives them to create and run businesses responsibly, where economic health, well-being, the environment are protected.

We found it interesting to receive information on how far corporate social responsibility is integrated in Georgia's business activities, including banking business, whether and how often social projects are done by them, whether they conduct reports transparently, the coverage of events held by businesses, or how often information is disclosed.

According to the study, the formalization of corporate responsibility issues in the banking business has a positive dynamic compared to previous years, their operational strategic objectives include CSR issues, documentation and informing the media or the public about the measures they take.

An interesting indicator is also in the direction of organizational structure, which relates to the person responsible for the direction of corporate social responsibility in the company, according to the survey respondents, until 2019-2020, there was no such role in a number of companies, and in a number of companies, responsibility was not developed and designed, duties that have

changed with today's situation and the functions of the responsible person are written out exactly. The two largest banking companies are leading here as well.

The study also revealed that the banking business operating in Georgia did not have a budget allocated in advance within the framework of corporate responsibility until 2020. And since 2020, there's been a subtle, but positive change, because of what's called public demand. It is also worth noting the monitoring of corporate responsibility measures, which is carried out periodically to determine whether the measures it has taken have had a positive impact on the purpose of the measure. At the same time, the production of financial and substantive reports on corporate social responsibility activities by companies, which are necessary to make corporate social responsibility activities transparent, is being started, published and sent to stakeholders.

By evaluating the full or separate fragments of the study, it is possible to express an opinion that despite the positive dynamics in business, corporate responsibility in Georgia is making little progress, but still advances in the realization of the value of the content or concept that CSR represents.

For the research component of the paper, it was also important to verify what the population of Georgia knows and what information they have about corporate social responsibility of the banking business.

In order to assess the level of public awareness and perception of social responsibility, a study was conducted that gave us the opportunity to think, analyze and draw some conclusions about the necessary changes on how far the awareness of the Georgian society today is from the current trends or information reception.

On various websites we often find information about social events, surveys and what the public knows about CSR, but here we appreciate the conclusions of the studies and think that they do not go beyond the scope of the published material, or may even be wrong, but the interest in getting the issue to a specific address - business or

society, is not thoroughly covered by researchers and, as a representative of a large part of society, we think that there is less sense of responsibility in society.

To test whether the published studies and the conclusions they draw are productive for society or for companies, we conducted a survey to assess and evaluate the public's perception of social responsibility, what they think and know about it, what their expectations and conclusions are.

The study uses features of quantitative research, the results of the study are used in the short term, although the study can be used in the long term to make analogies or comparisons.

The aim of the study is to answer key questions: what is the attitude and level of customers awareness of corporate social responsibility and what are the demands of consumers towards companies regarding corporate social responsibility.

Respondents were selected for the study on a non-random basis, which is simple, cost-effective, convenient, and allows for a large amount of information to be collected quickly, but it is also less representative, and selection errors are impossible to calculate. The survey respondents were selected through online targeted selection and surveyed by sending a self-administered questionnaire. This method of survey is associated with minimal costs, however, this type of survey has some technical limitations - software or network problems of the respondent, for example, the respondent could not open or receive a file to process information, etc.

The disadvantage of self-administered questionnaires is that the respondent's environment is not controlled by the researcher when collecting the data, and although there is no flexible procedure, the volume of data is acceptable for the study.

The survey was conducted in June 2021, and it took three to five minutes to answer the question. The questionnaire was shared with about 600 respondents, and we got feedback from 247 respondents.

The questions were based on the Likert Scale, a five-point gradation, and the Stapel Unipolar 10-point scale. The questions were open and closed. Research is also related to perception, which means that there may be differences between customer perception/intention and behavior.

Since the segment of respondents in the survey is the customer, the majority (73.3%) believe that social responsibility is about "supporting activities that create long-term social well-being". 63.2% emphasized participation in environmental activities/ecology, 58.7% believe that social responsibility is about supporting the community with disabilities. 51.4% - support for education/culture/sport, 41.7% - charity (diagram 1).

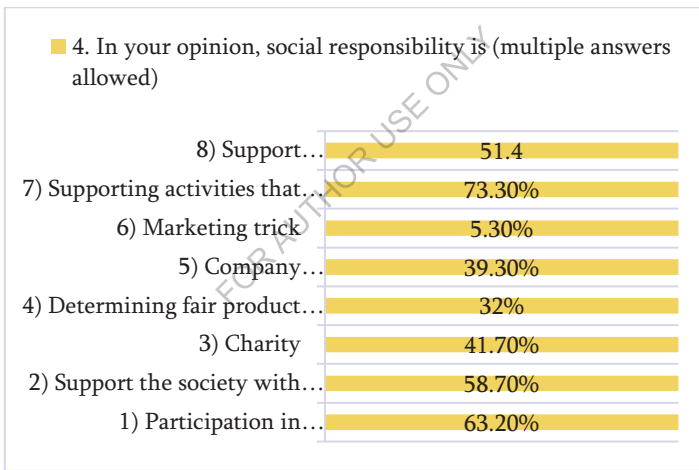


Diagram 1. In your opinion, social responsibility is (multiple answers allowed)

It's clear that there's a lot of variation in the assessment, and this fact is further evidence that we need to make provide more information to public regarding CSR, because things like charity, supporting people with disabilities, it's a voluntary decision by the company, fair product pricing and safety, without social responsibility, it's a direct obligation of the company, and in that

respect the consumer has to be more demanding of the company. The same can be said for corporate transparency and ethics (39.3%).

From diagram 2, we can see that social responsibility is equally valued in all of the industries listed below, but society today is fixating on the healthcare/pharmaceutical industry as a more important industry, because healthcare and maintaining it in today's environmentally unstable environment is more challenging and important.

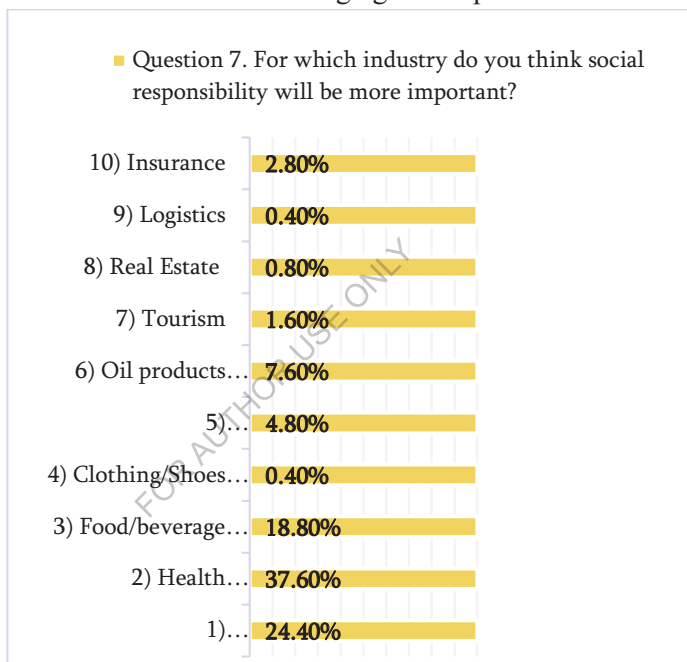


Diagram 2. For Which industry do you think social responsibility will be important

Diagram 3 shows the public's perception of social responsibility, and we get the same result here, with 59.9 percent saying that as part of social responsibility, a company should offer a quality, safe, fair-priced product to the public, when that's a direct responsibility of the company.

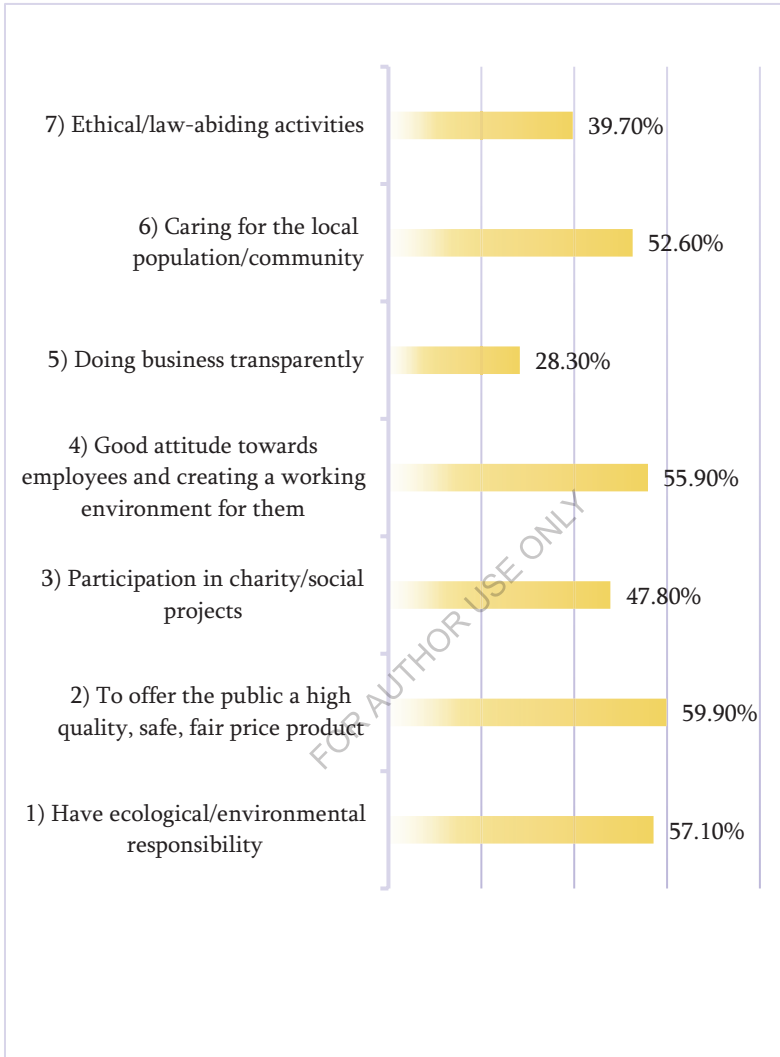


Diagram 3. To consider a company socially responsible, what criteria should it be able to meet

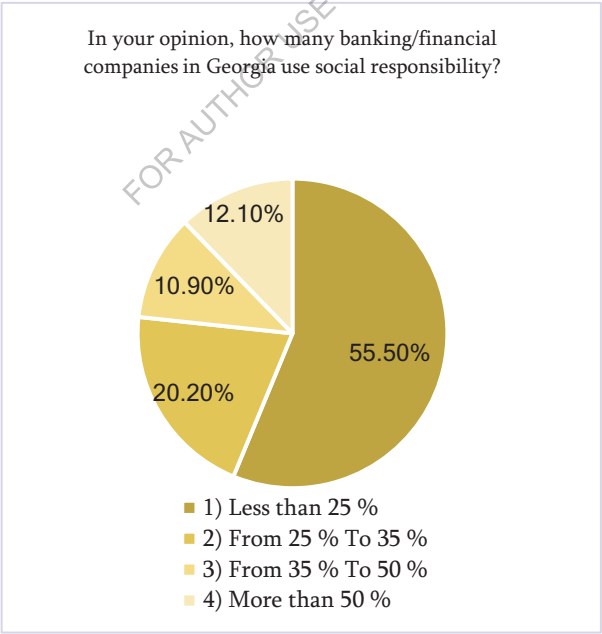
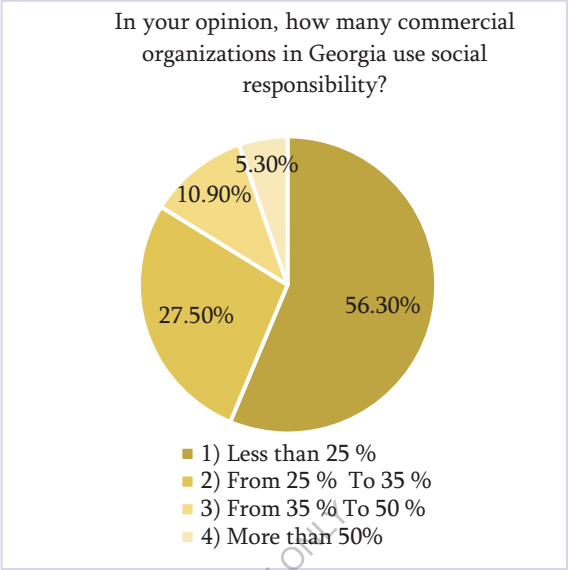


Diagram 4. In your opinion, how many commercial organizations and banks in Georgia use social responsibility

Diagram 4 shows that the society in Georgia is not informed about how many banking businesses or commercial organizations use the concept or strategy of social responsibility and the assessment is expressed in an adequate percentage. However, we can't take the evaluation for granted, or unknowingly, because the public or consumers are not getting the information they need or need. Because 12 of the 15 banking institutions represented in Georgia have a strong emphasis on social responsibility.

While customers and the society (diagram 5) are mainly correct in their perception of the motivation and strategy behind the concept of social responsibility of banking business (24.7% - increase in customer loyalty, 24.7% - increase in company image and awareness, 16.2% - increase in access to banking services for low-income populations), they clearly capture the average (50.6%) awareness of the measures taken by banking business within the framework of social responsibility, or low -36%.

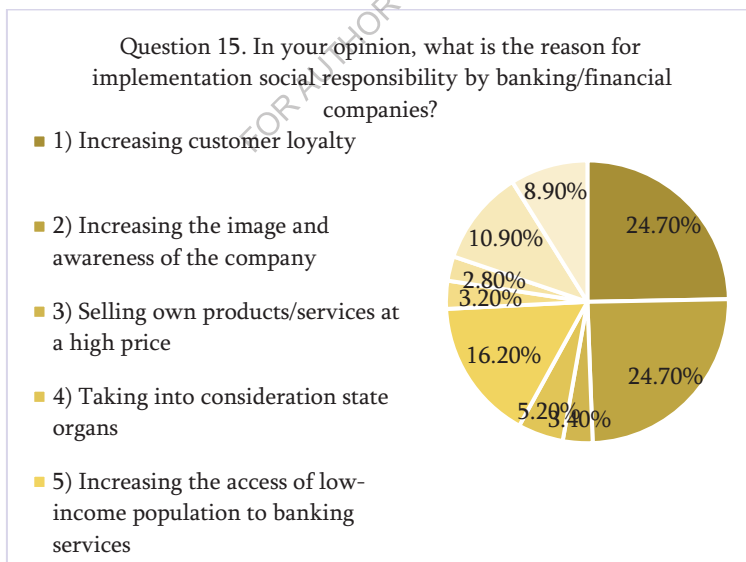


Diagram 5. In your opinion, what is the reason for implementation social responsibility by banking/financial companies

70% of respondents believe that information on the social responsibility of banks/financial organisations is inadequate and 85.8% believe that social measures are necessary. Both components are cause to effect, and if the customer becomes more demanding towards the company, to get the correct information about the CSR concept, to get information about the social measures implemented, the goal will lead unconditionally to the result and the public perception that companies have less sense of responsibility towards CSR (diagram 6) will change with the opposite attitude, in addition, the public will be demanding towards the government to get involved in corporate social responsibility issues, to develop appropriate laws and requirements, to impose penalties on companies, including fines, compensation, non-payment of premiums, and non-profit-making in society.

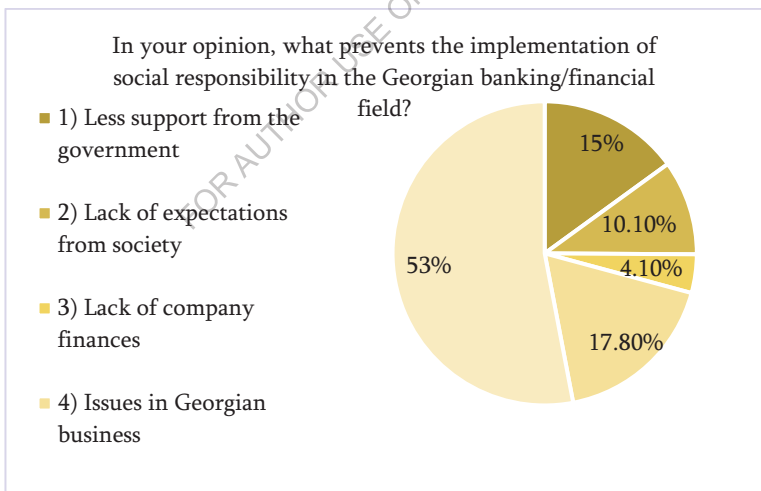


Diagram 6. In your opinion, what prevents the implementation of social responsibility in the Georgian banking/financial business

17.8% of respondents believe that there are problems in Georgian business. It's interesting to hear from respondents about the response they've seen, but we can assume that in most cases,

companies will see social responsibility as a cost rather than an investment, and they'll feel less engaged in the social activities they're doing. 53 percent believe that the government is less supportive in social activities. On the one hand, we can agree with the opinion of the public, since it is the direct obligation of the state and the government to improve the social condition of the society, to create a sustainable economic environment, and on the other hand, social responsibility, since it is a voluntary activity, is a measure itself, and businesses should be interested in creating environmental conditions and financial access that are important for the business or the living environment.

The survey showed that public satisfaction is average about the social responsibility of banking/non-profit companies, they believe that in most cases the banking business is profit-oriented, the measures taken by banks are less known to the general public, they express dissatisfaction with the measures taken and there is a desire to have more information available through various mass media, the Internet or the company website. Since most of the respondents were between the ages of 20 and 40, it's also acceptable for them to have a company website, but we think that the distribution of information should be equally distributed and accessible to consumers of all ages.

We've done a small-scale study of how people, like bank customers, relate to the banking business they've been doing business with for a certain period of time.

Within the limits of the study it appeared that in many cases, despite long-term cooperation with the bank, the customer had little or no information about the bank's social responsibility. The only thing that made the emotional connection with the bank was the good relationship with the employees and the proximity of the bank's branch. As, according to the same respondents, Georgian banks are characterized by high financial expenses for their services or products, which harms the welfare of society. However, the study estimates that high interest rates and financial expenditure in the long run create a

society that is financially impoverished, which in turn limits access to finance for a useful purpose.

The fact is that at the current stage, it is difficult for Georgian business, it is difficult for society, to accept the upcoming global challenges that are going on in a chaotic world, especially in Georgia, where economic processes need to be healed, or managed processes, which can be achieved with strategies that include social responsibility. But not with the results that we have today, when the world is a society that manages CSR processes and companies, willingly or unwillingly, take into account the needs of society and the world.

Information about the banking business in Georgia and their socially responsible business is not shared in media or social networks in a volume that completely covers up the vulnerable society of Georgia. Banking has more or less correct information about corporate social responsibility to the part of the public that is employed in specific banking organizations where CSR is an important part of the company's strategy and company employees are involved in social events.

In developed countries, non-financial stakeholders, such as customers, employees, NGOs, are more sensitive to corporate social responsibility in banking because they have a greater awareness of social and environmental issues. And as our research shows, the awareness of the Georgian society regarding environmental and social problems is kept to a minimum, therefore, the actions taken by them, in most cases, are harmful to both the environment and the society itself.

In today's customer-oriented world, where customer trust is valued, social responsibility is an important financial asset for banking businesses. Social measures allow banks to direct their profits to the benefit of society, as was done during the COVID-19 pandemic, in the process of restructuring consumer loans by the National Bank of Georgia, the state and banking business. However, there was also a

downside to this case, where the public was not fully informed about the increase in interest rates after the deferral, which in most cases had a negative impact mainly on the bank's image. In this case, the correct form of the solution would be not a public responsibility, but a solution at the moment that would reduce the bank's risks in the short term.

In Georgian reality, the main directions for activating the social responsibility of banking business can be stated as: (1) involvement of the bank management in the business processes of the bank, where the first task of the bank management will be to disseminate CSR in the banking departments, which will allow each of its employees to contribute to the dissemination of social responsibility; (2) access to and dissemination of financial literacy among their customers.

One of the activation processes can be seen as the creation of a CSR advisory group within the supervisory management of the organization to monitor how the company is conducting its social responsibility and assess the risks to financial sustainability. The Advisory Group contributes to improving the company's culture of social responsibility and ensures that risks to the company's reputation are properly assessed.

It is very important and, at the same time, responsible for both banks, financial business companies operating in Georgia, as well as directly government to comply with ESG criteria, to develop new methods and tools of CSR mechanisms in order to make the country's investment environment attractive for those investors who value the investment object and environment with the ability to form an effective, stable, sustainable environment.

3. Conclusion

Based on the analysis of issues related to the implementation of social responsibility in the banking sector of Georgia, the following conclusions can be made:

1. By studying the experience of social responsibility of banking business abroad (developed countries) and Georgia, it was

found that developed countries are multiple times ahead in terms of the level of social responsibility in banking business. In the banking business of Georgia, this issue is a serious problem.

2. The study found that the correct implementation of the values of social responsibility in Georgia's banking business and implementation in daily activities is still at a low level. And applying the values of social responsibility, the principles of social responsibility in our daily activities, is linked to reliability, security, economic stability, which gives us the opportunity to reduce corruption in the country, unreasonable spending, unreasonable environmental impact, to increase government involvement in responsible behavior, which is the key to establishing a dignified place among states where corporate responsibility is the highest standard of development of the country. However, socially responsible spending is not a waste of resources for the banking industry, but may lead to more efficient use of resources.

3. The results of the study showed that effective corporate social responsibility is linked to a complex approach. Accordingly, the implementation and implementation of the concept of social responsibility of the banking sector in the country should be considered as an integral part of the country's sustainable development, which will lead to the country's economic well-being in the long term.

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II.2. Development and prospects of non-bank credit and financial institutions in Georgia

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Abstract. Credit system is one of the most developing and successful field in Georgia, It has a multilateral role on developing the country's economy. A lot of credit institutions are presented in the credit market, these credit institutes can be divided into two main groups, banks and non-banking organizations.

Today, on the lite of global economy it is more important to study and discuss non-banking field issues. Today both economically developed and developing countries are characterized by the diversity of financial credit institutions. Microfinance organizations and Loan issuing entities are an important part of credit institutes in Georgia. Exactly these institutes are the most important part of credit market of Georgia and the improvement of their activities contributes to the improvement and stability of the country's financial and credit system.

Keywords: Credit system, Non-bank credit institutions, Microfinance organization, Credit union, Lending entity.

1.introduction

Formation of credit-bank system in Georgia started in XVIII-XIX centuries. As in other countries belonging Russian empire, Georgia had a branched, multilayered credit-banking system that

provided a wide range of credit and other banking services to legal entities and individuals, but this system failed to become two-tier based system. In 1917-1921 independent credit system characteristics were formed in Georgia. It was developing on the bases of market economy, but due to the catastrophic state of the economy and numerous military and domestic political difficulties, creation of self-sustained credit system was not possible.

Credit organizations in Georgia had essential place in complex program of economic reforms during transition period to market economy. Laws on national bank and commercial bank activities were adopted. In the beginning of XXI century structure of credit system in Georgia was as follows: 1) National Bank of Georgia; 2) commercial banks; 3) Specialized credit-financial institutions [1].

Non-banking credit- financing institutions are third element of banking-credit system. They are engaged in credit-financial services for certain sectors or areas of the economy. They typically have one or two major operations, they operate in relatively narrow segments of the loan capital market, and have specific customers.

According to the legislation of Georgia the non-banking/credit institutions such as Micro-Finance organizations, Credit Unions, lending entities and Currency Exchange offices obey the supervision and control of the National Bank.

The National Bank of Georgia, within the framework of promoting financial stability, oversees activities of Non-banking credit- financing institutions, with the aim to ensure the stable functioning, reliability and sustainability of the non-banking sector of Georgia and avoid possible risks and by doing so protect interest of creditors.

2. Research results and discussion

As of December 31, 2022, the non-bank financial sector comprises 36 microfinance organizations (with 396 branches), 176 lending entities (with 332 branches), 511 currency exchange points (with 689 branches), and one credit union [8].

The total assets of the non-bank financial sector amount to 2.4 billion GEL, with the microfinance sector claiming the largest share at 1.9 billion GEL. As a result of the changes implemented in 2018, for the implementation of supervisory and controlling functions, the National Bank was granted the authority to request and receive any kind of information from non-banking and credit institutions, including microfinance organizations.

The primary objective of regulating and supervising non-bank credit institutions is to ensure transparent, reliable, and stable sector operations. This aims to mitigate potential risks, safeguard the interests of creditors, and foster sector development. The increased transparency is expected to enhance public trust in the sector.

A non-bank depository institution - a credit union, is a legal cooperative entity authorized to receive deposits exclusively from its members. It can issue loans in their name and conduct lawful banking operations allowed by law, with a focus not primarily on profit generation [5].

The Credit Institution - Credit Union Regulatory Law was enacted in 2002, leading to the National Bank of Georgia assuming the role of overseeing and controlling credit unions. The pertinent regulatory framework established by the National Bank outlines the conditions for registering a qualified credit institution, specifying the minimum authorized capital, liquidity requirements, suitability criteria, and other matters. Should a legal entity (excluding commercial banks) attract funds from more than 400 individuals or exceed the threshold of 5 million GEL raised from individuals, it is mandated to register with the National Bank of Georgia, adhering to the stipulated requirements.

Within its jurisdiction, the National Bank possesses the authority to scrutinize, impose restrictions, sanctions, and even liquidate credit unions. Typically formed with the participation of residents from various regions, credit unions offer their services to the community.

As of December 31, 2022, a singular credit union operated in the credit market with total assets amounting to 0.55 million GEL. Amendments introduced on December 23, 2017, emphasized the principle of uniting individuals residing in the same self-governing administrative unit under a common symbol as part of the credit union's activities. Additionally, a membership cap of 200 individuals was instituted, aiming to foster unity among members based on shared objectives and needs, rather than solely focusing on attracting deposits. These changes significantly influenced the sector over the past three years, resulting in six out of eight licensed credit unions voluntarily relinquishing their business licenses, initiating liquidation proceedings. Furthermore, one credit union had its license revoked by the National Bank through supervisory actions, leading to an ongoing liquidation process.

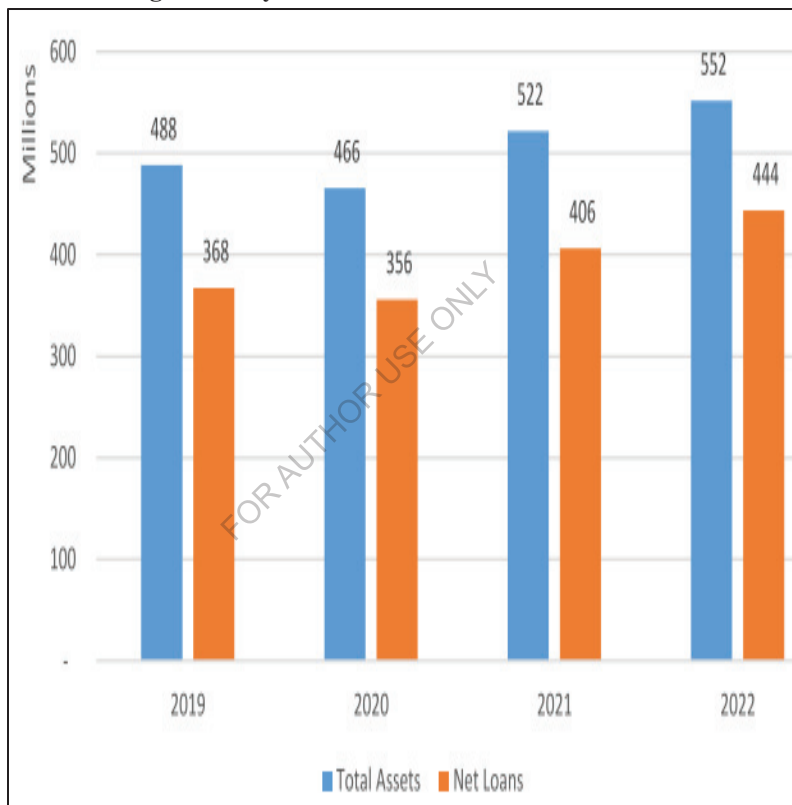
Lending entities - an individual, a person to whom more than twenty individuals have a loan debt simultaneously [6]. The National Bank of Georgia regulates the activity and registration of lending entities. However, it is worth noting that, given the specific nature of their operations, the regulations for lending entities are not as rigorous as those applied to commercial banks and microfinance organizations.

Following the amendment made to the Organic Law of Georgia "On the National Bank of Georgia" on December 23, 2017, the National Bank of Georgia was granted the authority to license lending entities and oversee their activities. The relevant directive from the President of the National Bank of Georgia outlines the rules for the registration, regulation, and cancellation of registration of lending entities within the banking system of Georgia. The process of accepting applications for registration as a lending entity commenced on December 20, 2018, with a deadline set for April 30, 2019, for those subject to registration.

In 2021, an amendment was introduced to the "Rule of registration, cancellation of registration and regulation of a lending entity in the National Bank of Georgia," focusing on defining

standards and requirements for lending entities concerning operational risks. In particular, the requirements in terms of operational program and accounting were defined, as well as, in the case of granting secured loans, the standards of handling and storage of collateral (jewelry, equipment, etc.).

Diagram 1. Dynamics of total assets and total loans



Source: National Bank of Georgia, Annual report 2022.

The lending entity has the right to carry out the following activities:

- ❖ To grant loans and, depending on the need, to carry out the

- necessary actions to collect the loan;
- ❖ Carrying out operations related to currency exchange, in case of receiving the relevant additional permission;
 - ❖ In case of obtaining additional permission, it can also combine the function of the agent of the payment service provider.

Currency Exchange offices - an entrepreneur registered by the National Bank, engaging in cash buying and selling operations of both national and foreign currencies within a designated operating area and/or through an electronic device [7]. If registered as a lending entity with the National Bank, the currency exchange office is granted authorization to conduct activities related to issuing and withdrawing credit in accordance with prevailing legislation.

The structure of Georgia's existing credit system aligns with the requirements and principles of a market economy. It is noteworthy that the formation of the credit system was initially marked by various shortcomings. Early credit institutions were relatively weak, limiting their capacity to offer diverse products and quality services. Primarily, short-term loans were prevalent, and commercial banks lacked the necessary investment resources for long-term ventures. Customer interests were seldom prioritized. Over time, a trend of bank mergers and expansions emerged, a process that persists today. Non-bank credit institutions, including microfinance organizations, have gradually developed and continue to exhibit growth trends.

Among the non-bank credit institutions in Georgia, microfinance organizations distinguish themselves with their notable development and growth rates, primarily focusing on credit operations. The regulation of activities and operations of microfinance organizations in Georgia is governed by the Law of Georgia "On Microfinance Organizations," enacted in 2006. Prior to this, the concept of a specialized microfinance fund was introduced in the Civil Code in 2003, serving as an intermediary structure between a microfinance organization and donor-funded financial funds.

Microfinance organization - legally licensed entity under the

National Bank, established in the legal structure of either a joint-stock company or a limited liability company. Upon submission of a suitable application, it undergoes registration by the National Bank of Georgia and is granted the authority to engage in activities sanctioned by the laws and regulations set forth by the National Bank, subject to supervision and control.

As per the legislation of Georgia, microfinance organizations have the right to conduct the following activities:

a) Providing various types of microloans to legal and physical persons, including consumer, mortgage, pawnshop, group, secured, unsecured, business, and agricultural loans; issuance of credit cards is also permissible;

b) Conducting operations related to remittances;

c) Investment in state and public securities;

d) Providing consultations regarding lending;

e) Performing the functions of an insurance agent;

f) Borrowing from both resident and non-resident legal and natural persons;

g) Production of various types of financial services and operations provided by legislation, including buying and selling foreign currency, factoring, leasing, issuing promissory notes and bonds, and their sale.

Although the share of the microfinance sector in the overall financial system is modest (2.5 percent), its role in terms of providing access to finance is crucial. The regional coverage is significant, constituting 25 percent of the system in terms of the number of branches and 20 percent in terms of borrowers.

Similar to commercial banks, microfinance organizations have the authority to invest funds in public and state securities to diversify funds and generate additional income. They are also entitled to hold shares in the authorized capital of legal entities within the boundaries permitted by law.

In 1999, only two microfinance organizations operated in the

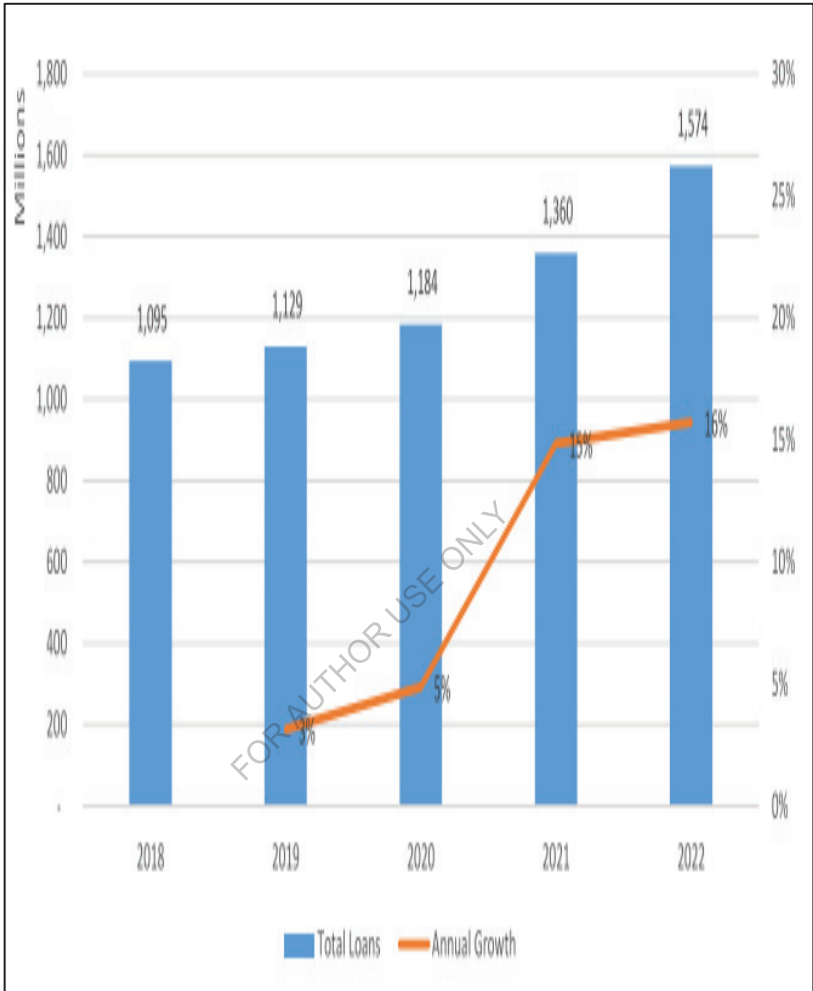
country, and by 2017, their number exceeded 80. Presently, there are 36 microfinance organizations in the market. These organizations actively engage in activities related to remittance cashing and currency conversion. Notably, until 2006, this sector lacked the appropriate legal framework, impeding the progress of the microfinance segment. To address this, the National Bank formulated the draft law "On Microfinance Organizations" with the specific intent of regulating this sector.

In recent years, the compliance, control, and supervision systems of microfinance organizations have significantly improved. The National Bank of Georgia maintains a close relationship with the microfinance segment, assisting in the implementation of internal control systems, policies, and procedures. With relevant legislative changes in 2017, the supervisory approach of the National Bank towards non-bank credit institutions has been strengthened. These changes have contributed to financial stability and transparency, ensuring the protection of consumer rights, and enhancing the availability, efficiency, and security of the services offered.

However, on the other hand, it is important to acknowledge that the changes implemented have significantly impacted the microfinance organizations market. Despite providing a reasonable transition period for financial institutions to adapt to the new reality, many microfinance organizations struggled to navigate the alterations and were compelled to undergo liquidation.

As of December 31, 2018, there were 67 microfinance organizations operating in the country. However, by December 31, 2019, their number decreased to 48. Subsequently, in 2020, only 40 entities remained in the market, followed by a further reduction to 38 in 2021. Currently, 36 microfinance organizations are in operation, with six organizations undergoing the liquidation process.

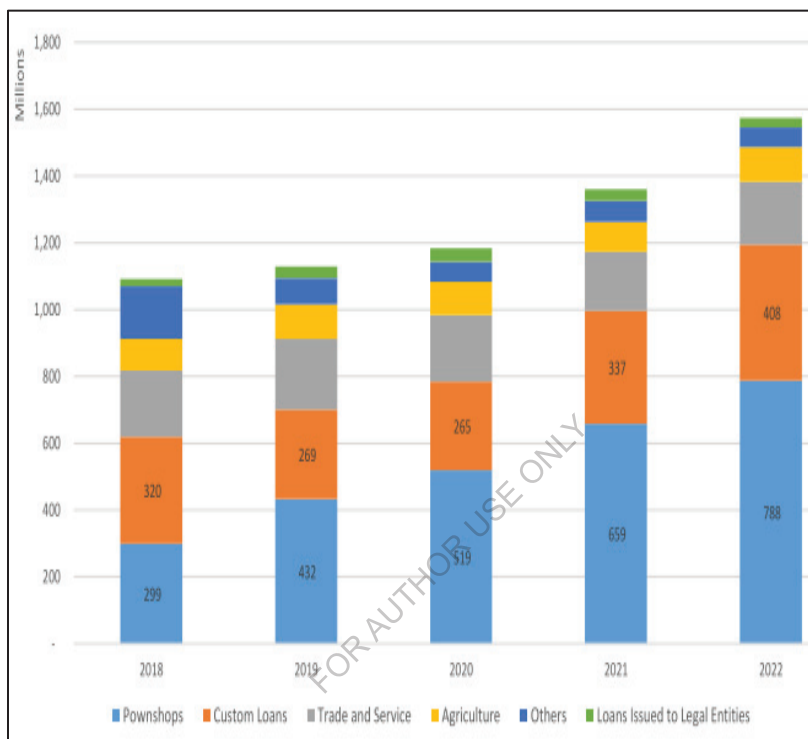
Diagram 2. Volume of the loan portfolio of microfinance institutions



Source: National Bank of Georgia, Annual report 2022.

The primary focus of lending in the microfinance sector is consumer loans issued to individuals, constituting 80 percent of the total credit portfolio, amounting to 1.3 billion GEL. The remaining 20 percent is allocated to loans granted to the business and agriculture sector, totaling 319 million GEL.

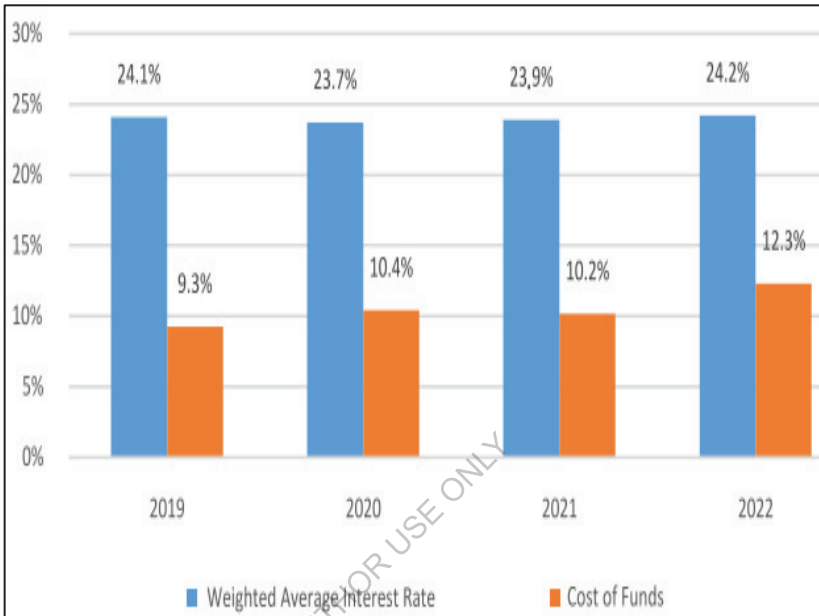
Diagram 3. Loan portfolio structure



Source: National Bank of Georgia, Annual report 2022.

Despite the decrease in the number of microfinance organizations, the system maintains liquidity, attributed largely to new regulations related to liquidity gradually taking effect in 2018. The credit portfolio's quality has improved compared to the previous year, evident in the decrease in the share of non-performing loans from 8.0 to 7.4 percent, and the reduction in the share of the overdue portfolio from 8.0 to 5.5 percent. The total portfolio reserve remains within 5 percent.

Diagram 4. Cost of weighted average interest rates and funds in the Portfolio



Source: National Bank of Georgia, Annual report 2022.

Despite the myriad challenges that microfinance organizations had to overcome and still face, the measures taken by the National Bank of Georgia to ensure the financial stability of microfinance organizations and protect consumer rights are positively evaluated. The sustainable and effective functioning of microfinance organizations plays a pivotal role in the growth and stability of the country's economy. For the normal functioning of the credit system, it is imperative for microfinance organizations to exhibit flexibility, safety, efficiency, and reliability.

3. Conclusion

- ▶ The progress of a nation's economy is intricately linked to the advancement of its credit market. The evolution of this market hinges on the growth of its infrastructure and institutions. The economic prosperity and maturation of a country are heavily

reliant on the presence of a robust and well-organized credit system, encompassing non-bank credit organizations. The development of the nation's credit-financial system is inconceivable without the concurrent progress of non-bank credit institutions.

- ▶ The measures instituted by the National Bank of Georgia to oversee the non-banking credit-financial sector have played a crucial role in enhancing the financial stability and transparency of institutions. These efforts have also ensured the safeguarding of consumer rights, as well as the accessibility and security of the services provided.
- ▶ The non-banking credit-financial sector is developing steadily and the sector is ensured to maintain a high buffer of capital and liquidity levels.
- ▶ The microfinance sector continues developing process and promises significant innovations to both it's clients and Georgian and fringe investors. Leaders of the sector aware of the importance of responsible lending and take care of both the sector and their own professional reputation.

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II.3. Strategic aspects of pre-crisis adaptation of banking organizations in anti-crisis management

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Abstract. Against the background of global crises that have struck the world in recent years, the concept of management of the industry economy is exclusively based on anti-crisis management - management that should forecast and mitigate crises, as well as ensure the functioning of the enterprise in the mode of survival during the crisis.

The purpose of this article is to understand how it is possible to adapt the organization to the upcoming crisis, avoiding tough crisis challenges. Accordingly, within the framework of correctly understood and implemented anti-crisis management, pre-crisis adaptation can have a decisive effect in order to maintain the viability and stability of organizations.

An indicator of the success of anti-crisis management is the prevention of a crisis or conviction in the long-term excess of profits over short-term losses

Studies in the field of pre-crisis adaptation, on the example of a number of crisis phenomena, show a high probability of weakening the crisis impact or completely eliminating the crisis phenomenon by ensuring positive interactions with all interested parties of the company.

Keywords: anti-crisis management, pre-crisis management, pre-crisis adaptation.

1. Main text

Crisis management in the sphere of interaction with the external environment is based on the perception of the crisis by the external environment, the positive perception of the crisis in turn affects the effectiveness of the internal processes of the organization's crisis management.

The more positive the external and internal stakeholders perceive the situation, the stronger will be the leverage of crisis management measures. The measures of impact on the situation are aimed at preventing the refusal of the organization's products and services, ensuring payment discipline of the organization's contractors, fulfilling labor obligations by the organization's employees, and also increasing the volume of anti-crisis communication. [4].

Crisis communications are measures aimed at forming effective interactions between management and stakeholders during pre-crisis adaptation, crisis management and post-crisis adaptation. [5], and also the need to form a structural group for crisis communications [6;], with carefully developed terms and definitions for reporting information.

The crisis communications management process involves interaction not only with consumers and external stakeholders, but also with the media. It should be noted that the efforts of internal stakeholders must be aimed at creating a positive public opinion [7]. The activities of the media significantly affect the perception of the crisis by all interested parties, and this also ensures the involvement of external stakeholders in resolving the crisis. The practice of interaction with the media, in general, can be formed as follows:

1. Include social networks in the crisis communications plan, to ensure the proper level of attention and analysis.
2. Analyze the mood of stakeholders as well as consumers through social networks. Pay special attention to the created information products related to the organization.

3. Daily create and distribute information products and content on social networks.

4. Use social media as a tool to communicate small information messages regarding the crisis management process.

5. Disseminate not only accurate and reliable information, but also take into account the need to express human emotions on a social network. Remember, social media is a tool for interpersonal interaction, not the dissemination of official information.

6. Social media should be used to get feedback from stakeholders, to help and get advice.

However, it should be taken into account that the company's social media activities, especially when approaching and during crises, can be very dangerous and require a balance of disclosure and degree of interaction.

Of course, informative interaction is not a complete part of managing an organization with an impending crisis, in terms of interaction with the external environment. Particular attention should be paid to interaction with competitors in terms of the formation of a self-regulation system. Studies show that crisis phenomena concerning one organization can cause negative phenomena in companies of the same industry unaffected by the crisis [8]. It is essential to ensure some degree of freedom of the self-regulatory organization in order to ensure impartiality of disclosure of information, otherwise, the opposite effect may be obtained due to distrust of the communication channel.

The passage of the organization through the crisis negatively affects such aspects of functioning as public opinion and business reputation, which will inevitably affect the economic performance of the subject in the post-crisis period [9].

The pre-crisis adaptation of internal organizational management is aimed at creating a response mechanism - the formation of reserve funds that are stable in various economic, political and social crisis phenomena. In addition, the tools of pre-crisis adaptation should ensure the functioning of the system for diagnosing and tracking deviations in

the indicators of economic indicators of the organization.

Beagle and Roberts highlight three qualities of a crisis-adapted organization: [10]:

1. Organizational flexibility.
2. Support for creative approach in management.
3. Openness to new ideas.

In order to ensure these qualities, a number of recommendations should be followed:

1. Early design of the structure responsible for management during a crisis.
2. Formation of a reorganization plan in case of crisis situations.
3. Introduction of pre-crisis psycho-emotional training of personnel.
4. Create a personnel training system.
5. Creation of a system of interstructural interaction - interstructural interchangeability and synergy in case of crisis phenomena.

Together, these measures should be aimed at the possibility of launching such management mechanisms that are necessary to overcome any crisis phenomena with the least losses.

An important target group to keep in mind when forming a mechanism of interaction is former employees of the company: as studies show, staff reductions, which are a mechanism of pre-crisis adaptation, are the source of an independent crisis in the company's work, which, in turn, can lead to boycotts, strikes and litigation. Studies also show the importance of taking into account the psychological state of the reduced personnel and their perception of the ongoing process of personnel reduction [11].

It is recommended to pay attention to the areas of ensuring organizational stability and the quality of corporate culture when conducting internal organizational pre-crisis adaptation.

The pre-crisis adaptation of the organization is directly related to socio-cultural adaptation, three parameters of effective socio-cultural

adaptation are distinguished [12]:

1. Satisfaction with the financial situation.
2. Involvement in public life.
3. Emotional comfort.

Considering the above, pre-crisis adaptation of an organization in anti-crisis management is a special type of management activity, which, like any management activity, has its own characteristic tools: tools in the areas of production, labor and organizational resources, which imply:

- ▶ Communications management.
- ▶ Logistics optimization;
- ▶ Optimization of the organizational structure;
- ▶ Motivational policy;
- ▶ Staff optimization - Formation of a new team;
- ▶ Formation of corporate culture and style;
- ▶ Pre-crisis management of the organization includes an assessment of key financial indicators:
- ▶ Credit policy management;
- ▶ Management of efficient use of working capital;
- ▶ Improving the sales system and pricing policy [13].

The model for assessing the effectiveness of anti-crisis management was proposed by K Kondratyeva. [14].

Table 1

Crisis Management Performance Indicators		
Performance Indicators	Performance Criteria	Indicators
Efficiency of Financial and economic activities	Productivity and financial efficiency	Profit and profitability Liquidity indicators Sustainability indicators Earnings per share Probability of bankruptcy
	Sustainability and	Speed of adoption and

Management efficiency	adaptability	implementation of management decisions
	Innovations	Product quality Frequency of innovation implementation R&D expenses Economic efficiency of R&D
	rganizational structure and social efficiency	Labor discipline and working conditions, Staff turnover Relationships in the team Average salary The rate of growth of labor productivity is faster than with th rate of wage growth Regulations and standards Management system costs

As can be seen from the table presented, this model contains a significant part of subjective indicators. They are assessed by experts. The lack of explicit quantitative indicators, in our opinion, makes the analysis process subjective, and the possibility of making management decisions based on the data obtained is also difficult.

The result of pre-crisis adaptation is the entry of the subject-organization to a new level, the formation and implementation of the organization's development potential- the use of artificial intelligence technologies that will help managers of any category make decisions to avoid crises.

Managers, who are busy with routine work when crises are approaching, do not have time to think creatively, create new ideas, develop the company's strategy, get creative solutions. Creativity and decision making is an essential human ability that has been extensively studied by psychologists and neuroscientists. These cognitive processes are not only important in everyday life, but also critical in many

professional fields, especially in business, education or medicine. In pre-crisis adaptation and anti-crisis management of the organization, the most convenient way to solve the most difficult task of making the right, relevant decisions is to use artificial intelligence technologies that will help managers of any category to avoid crises.

Due to technological advances and public interest, Artificial intelligence is seen as unprecedentedly revolutionary Technology in human history. At this stage, managers have only Small tips on how they can use artificial Intelligence in managing their companies. companies digital Transformation helps organizational leaders become leaders in his field. Artificial intelligence has moved out of research labs in business. Recent statistics indicate that the last two Over the years, a large number of companies have developed various Applications of complexity and their number continue to grow today. Most applications are integrated with traditional systems, such as data processing and management information systems. There are a growing number of other applications such as neural networks, knowledge-based planning and plan control systems, Speech synthesis systems, voice recognition systems and more Intelligent systems that simplify business processes.

Despite the development of technologies, medium and high-end Managers understand little about the practical issues that Related to artificial intelligence, management and organizations with interactions. This is an important topic because artificial The success of an intelligence system depends on various technical, on the solution of managerial and organizational issues.

Under anti-crisis management conditions, it is very important to make quick decisions and Ability to adapt. Technological changes, that forces the management modify decision-making processes to cope with the workload, evaluate the growing flow of information and analyze their essence, In order to manage the organization adaptively, in the context of the pre-crisis situation, to prevent crises.

2. Conclusion

Considering the above, pre-crisis adaptation of an organization

in anti-crisis management is a special type of management activity, which, like any management activity, has its own characteristic tools: tools in the areas of production, labor and organizational resources, which imply:

- ⇒ Communications management.
- ⇒ Logistics optimization;
- ⇒ Optimization of the organizational structure;
- ⇒ Motivational policy;
- ⇒ Staff optimization - Formation of a new team;
- ⇒ Formation of corporate culture and style.

Under anti-crisis management conditions, it is very important to make quick decisions and Ability to adapt. Technological changes, that forces the management modify decision-making processes to cope with the workload, evaluate the growing flow of information and analyze their essence, In order to manage the organization adaptively, in the context of the pre-crisis situation, to prevent crises.

The result of pre-crisis adaptation is the entry of the subject-organization to a new level, the formation and implementation of the organization's development potential- the use of artificial intelligence technologies that will help managers of any category make decisions to avoid crises.

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II.4. Discussion of the problem of improving the supervision of modern commercial banks by the National Bank of Georgia

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Abstract. The topic includes the issue of who will be affected by the next reduction of the "Refinancing Rate" of the main instrument of the Monetary (Monetary and Credit) Policy of the National Bank of Georgia in relation to the payment of the loan servicing fee.

Keywords: Financial Assets, Market Rate of Interest, Bank Credit, Monitoring of Current Financial Activity, Nominal Rate of Financial Instrument.

1. Introduction

According to the Organic Law of Georgia "On the National Bank of Georgia", the main task of the National Bank is to ensure price stability. At the same time, National Bank should ensure the stability and transparency of the financial system and promote sustainable economic growth of the country so that the performance of its main task is not threatened. Price stability, on the other hand, implies the existence of such a level of inflation in the medium term, which is optimal for high and sustainable economic growth. Focusing on the medium-term period is of particular importance, since as a result of shocks, inflation can deviate from the target rate, however, as a result of the policy implemented by the National Bank, in the event of

additional shocks, inflation will return to the target rate in the medium-term period, thereby achieving price stability.

In order to ensure price stability, the National Bank of Georgia conducts its Monetary (Money-Credit) Policy in the mode of inflation targeting. The mentioned regime is considered to be the most modern and effective model in the world today, it involves pre-announcement of the target rate of inflation and subsequent implementation of the policy in such a way that the inflation is close to the target level in the medium term. The main instrument of the Monetary Policy of the National Bank of Georgia is the monetary policy (Refinancing) rate, which changes according to the inflation forecast. If the projected rate of inflation is higher than the target level, the National Bank of Georgia will tighten the monetary policy, and on the contrary, if the projected rate of inflation is lower than the target level, the National Bank will soften the monetary policy. This approach provides price stability and, compared to other alternatives, the lowest long-term interest rate. Along with the development of monetary policy instruments and their transmission mechanism, public expenditure to ensure price stability also decreases. That is why the National Bank constantly takes care of improving monetary and credit policy instruments and increasing the effectiveness of the monetary policy transmission mechanism.

2. Research results and discussion

Given that supply-side factors were still strong in 2021, and that keeping inflation above target posed a risk of fueling inflationary expectations, the refinancing (monetary policy) rate was gradually increased from 8.0 percent to 10.5 percent during 2021. At the meeting of the Monetary Policy Committee on March 30, 2022, the Monetary Committee rate was increased from 10.5 percent to 11.0 percent and was maintained at this level during the year. **As of December 31, 2023, the National Bank of Georgia reduced the refinancing rate and made it equal to 9.0 percent.**

At the end of 2021, the total credit portfolio of the banking system reached 43 billion GEL (45 billion GEL on December 31, 2022) and its annual growth, without the effect of the exchange rate, was 18.2 percent. In 2021, compared to 2020, the ratio of banking sector loans to GDP decreased and amounted to 71.4% as of the end of the year. As for deposits, their volume increased by 2.6 billion GEL during 2021 (by 7.6 percent, without the effect of the exchange rate - by 11.3 percent) and amounted to 37.2 billion GEL (61.8 percent of GDP) by December.

As we mentioned above, the National Bank of Georgia has started to gradually reduce the refinancing rate, and today it is equal to 9.0 percent, which means that the service of loans linked to the refinancing rate, i.e. the monthly interest rate, will decrease slightly, but still. It should be noted that, according to the National Bank, the reduction of the refinancing rate and the softening of the monetary policy mean that Lari loans will definitely become cheaper.

It should also be noted that the refinancing rate applies only to loans taken in Lari (We wonder why?), although not all of these loans are tied to the refinancing rate and some of them are fixed.

According to the annual report of the National Bank of Georgia (December 31, 2021), the total credit portfolio of the banking system reached 43 billion GEL, so it is interesting to see what effect the continuation of the refinancing rate reduction policy will have on loans, whether loans will become cheaper for the population and by how much, as well as for those who have taken loans in foreign currency or Fixed, what can be done?

Here we would like to mention that based on the official data of the "Banks and Finances" magazine, 185,000 loans in Georgia today are tied to the refinancing rate, and this means that their monthly percentage payments will definitely decrease.

It should also be noted that - one of the determining factors of the interest rate of loans in Lari is the "Refinancing" or

Monetary Policy rate. National Bank of Georgia determines it based on the overall economic situation and expectations. Accordingly, the average interest rate for those (whose reduction will directly affect 185,000 borrowers tied to such refinancing rate) and those who will take a loan in GEL after that will be reduced. A decrease in the refinancing rate is immediately reflected on their loans, as the agreements specify that if the refinancing rate increases, the interest on their loan increases, and vice versa, if it decreases, it decreases.

It is also an important factor that when the National Bank determines the monetary policy, that is, the refinancing rate, in this case it is important what is the economic situation in the country, what is the inflation, etc. In 2023, Georgia had 0% annual inflation and this allowed the National Bank to ease monetary policy. Inflation and financial stability are the main things that guide the National Bank when determining the monetary policy.

3. Conclusion

Considering the above, it is possible to make the following short conclusion and in this regard, we believe that:

- ▶ Lowering the importance of the refinancing rate is one of the positive and important factors for the country's economic growth, as long as - a low interest rate stimulates business so that the borrower can take additional loans and activate economic activity, that is, a loose monetary policy has a positive effect on economic growth, but moderate inflation must continue for this.
- ▶ The primary goal of the National Bank of Georgia is to reduce price growth, which it does by tightening the monetary policy. Thus, the reduction of the minimum average interest rate of loans depends on many other factors, in addition to the refinancing rate, although the refinancing rate is definitely one of the motivators for the banks as well, as the raised funds become cheaper for them as well.
- ▶ Also, additional research is needed in the banking field to multiply the monetary (free) resources of each bank on the basis of the

"Bank Multiplier" ($BM = 1 / \text{Required Reserve Norm}$), where from the first half of 2021, the minimum "required reserve norm" for funds with a remaining maturity of 1 year in the national currency (RRN) - 5%, and for funds raised in foreign currency - 25%. Each bank can use its resources for free - Bank Multiplier = $1 / ((0.05 + 0.25) / 2) = 6.6$, which is not so insignificant free source for the total credit portfolio of the banking system of 45 billion GEL.

- ▶ Commercial banks should also review their credit portfolio to some extent and with some moderation refuse to issue short-term so-called "speculative one-year loans" (where only other people's products are sold) and long-term loans mainly to clients with "normal credit history" and really give it to enterprises and organizations creating new jobs and new products.

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II.5. Involvement of the insurance sector in the lending process of the tourism sector

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Abstract. In recent years, one of the most important problems for Georgia is lending to the tourism sector, which turned out to be the most sensitive during the Covid pandemic. Restrictions imposed by the state had a negative impact on the income of tourist businesses. Accordingly, the liabilities of individuals and legal entities employed in this sector increased, which negatively affected the ability to pay bank loans. Therefore, the involvement of the insurance sector is the most important, because the risk of paying loans related to tourism activities should be reduced to a minimum.

That is why it is important to determine what should be the golden gap, according to which the risk of both financial institutions and borrowers will be reduced to a minimum. This can be done on the basis of observation, correlational analysis of operating factors and the opinion of specialists in the field employed in the insurance sector.

Keywords: tourism sector lending, real estate insurance, commercial risk insurance.

1. Introduction

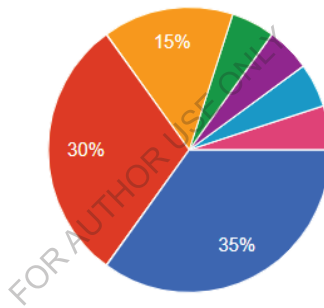
The formation of interest rates for loans and deposits plays an important role in the credit market. They are formed under the influence of various factors. Determination and analysis of these factors is necessary for the analysis of loan and deposit portfolios of banks and the banking sector as a whole. Since the tourism sector has a large share in loan portfolios, this study was conducted to ensure that

the loans were insured, which would further reduce the risk of the client's solvency. 20 (twenty) representatives of the insurance sector participated in this survey, let's consider the results of the study:

2. Main text

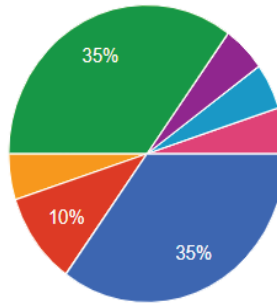
To the first question, which insurance product is the most useful and important for the tourism business? 20 people answered this question, the majority of respondents (35 percent) think that the most important insurance product is health insurance. 30 percent think that tourism real estate is insured against significant environmental factors.

20 responses



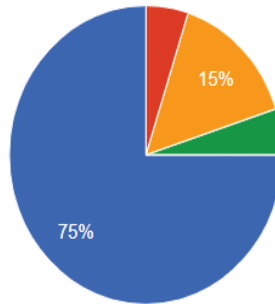
To the second question - in your opinion, for which sector of the tourism business is commercial insurance important? 20 (twenty) respondents participated and the majority of the respondents voted in two, 35 (twenty-five) percent think that it is important to insure hotel management properties in the sector covered, and the other 35 (twenty-five) percent think that for logistics companies.

20 responses



To the next question - how important is the involvement of the insurance sector in lending to the tourism sector? 20 (twenty) respondents participated, 75 (seventy-five) percent of respondents who think that it is quite important for insurance companies to actively participate in lending to the tourism sector.

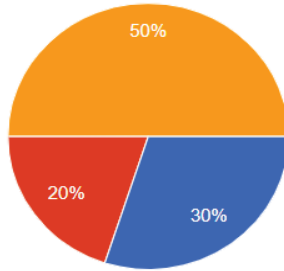
20 responses



On the fourth question - should the insurance company have an obligation during tourism and hospitality lending? 50 (fifty) percent of respondents think that insurance companies should insure all types of credit obligations only against those risks that were impossible to

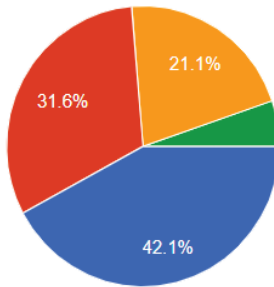
take into account (for example, the Covid pandemic) and had an impact on the world economy.

20 responses



To the next question - which sector is the most risky when lending to tourism business and in case of which commercial insurance companies will have the biggest responsibility? The majority of the respondents believe that various companies related to tourism business have the biggest responsibility, because this business is more loss-making than tourism management.

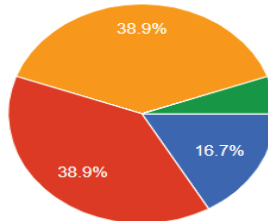
19 responses



To the sixth question - apart from commercial insurance companies, what alternative insurance resources can be used in tourism and hospitality lending? Votes of the respondents were split in two, 38.9 (thirty-sevenths of nine-tenths) percent think that the

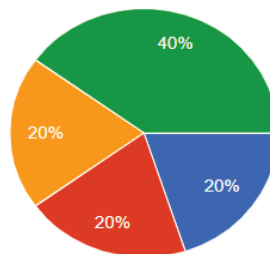
government should invest additional guarantees in start-up tourism companies, while the other 38.9 (thirty-sevenths of nine-tenths) percent think that only low-level sectors should be diversified and insurance companies should be involved only. - in the insurance of risky tourism loans.

18 responses



The next question - are commercial insurance services, other than real estate environmental factor insurance, easily available for investors (who are doing business in the Georgian market)? The majority of respondents, 40 (forty) percent believe that it is easy, although the lending criteria need to be revised to have a less risky business portfolio for insurance.

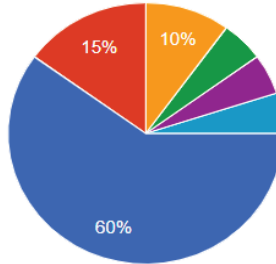
20 responses



To the eighth question - what is the role of the insurance supervision service in the regulation of insurance services? 60 (sixty) percent of the respondents believe that the insurance supervision

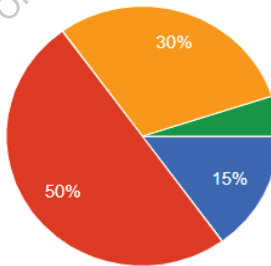
service is the main regulator that affects the health of the insurance portfolio.

20 responses



On the next question - in case of loss, how should the compensation issue be regulated? 50 (fifty) percent of the respondents believe that a detailed study of each case and a full compensation of the loss should be done, which will also be regulated by the insurance supervisory body.

20 responses



Regarding the last question, in your opinion, what was the most important change or transformation that the insurance sector has experienced in the last 30 years (in independent Georgia)? Respondents expressed different opinions on this issue:

- ⇒ In the current period, the insurance sector was created and developed, which had a great impact on the change in the attitude of the profession.
- ⇒ Introduction of mandatory insurances (accident insurance, mandatory GTPL, mandatory TPL for vehicles entering Georgia).
- ⇒ The field of insurance has developed more, many more products have been created, therefore the competition has increased.
- ⇒ Creating a liability insurance product.

3. Conclusion

as a result of this research, we can conclude that the insurance market does not insure the commercial risks of the tourism sector. That is why during the Covid-19 period, small and medium business loans employed in the tourism sector, as well as loans of individuals who rent out apartments, became problematic. It is necessary to introduce a new service through which business loans will be insured, which will bring overall benefits to both commercial banks and tourism and other related businesses.

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II.6. Modern concepts of sales in credit institutions

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Abstract. Marketing is a modern management market tool, an important component of developing and introducing new products, overcoming competitiveness and influencing the efficiency of financial and credit institutions. It should be noted that most of the commercial banks in Georgia, non-bank financial credit institutions offer identical services, which inevitably leads to increased competition and, consequently, affects their profitability. These and other aspects lead to the need to introduce banking marketing as a complex system, shape bank governance and marketing activities for banking products and services taking into account the needs and interests of consumers.

The banking system needs new organizational technologies based on the use of market mechanisms and tools based on modern information capabilities. In particular, the growth of market capacity of commercial banks lies in the newly created information technologies and provides an opportunity to improve quality, accessibility, and sales development. One of the most promising areas for the development of banking marketing is Internet technologies, which allow for closer and more trusting relationships with customers, reduce risks and increase the quality of banking products offered.

Keywords: financial-banking institution, commercial banks, non-banking financial-credit organization, banking marketing, banking products, marketing activity, Internet technologies, trust relations.

1. Main text

The marketing complex represents the main marketing tools by means of which the credit institution meets the needs of its customers and achieves the set goals. It includes certain practical measures through which the credit institution develops its market offers, strengthens its market position and quickly adapts to constant market changes. The development and constant modification of the marketing complex is an integral condition for the bank's success in the highly competitive financial market. The complex can be created both for a separate product and for a separate segment of the financial market.

In the banking sector of Georgia, as a result of the intensified competition, marketing activities are becoming increasingly important, strong marketing services have been created (TBS Bank, Bank of Georgia, VTB Bank) that actively use the concept of sales. According to this concept, the customer will not buy a sufficient amount of the product until the organization conducts intensive sales promotion activities, that is, it must take appropriate measures in the field of stimulation. It should be noted that stimulation is a combination of several methods, the ultimate goal of which is to spread a clear, coherent and distinctive message about the credit institution and its products. Advertising, sales promotion, public relations, direct marketing and personal selling are increasingly used. [1]

The advantage of advertising is to provide information to the maximum number of potential customers. However, there is a high probability that this effort of the bank will not reach the addressee. Today, credit institutions are one of the biggest buyers of advertising, and they try to give advertising campaigns a targeted character.

Advertisements are placed in special publications, on Internet sites, in large retail chains, and on street billboards and banners.

The content and objectives of the advertising campaign change along with the changes in the life cycle of the banking product, as well as in accordance with the strengthening of competition in the banking sector. According to the advertised objects, the Georgian banking sector uses the following types of banking advertising, such as bank advertising, banking product advertising, image advertising.

Sales stimulation is of great importance for any banking institution. Key incentives include customer incentives such as samples, coupons, rebates, flat pricing, bonuses, promotional items, special rewards, point-of-purchase incentives and product demonstrations, as well as contests, contests and games.

The sales promotion manager provides information about banking products and services to potential buyers. If the segment and the product are given, the sales promotion manager must solve the following tasks:

- Creation/development of effective methods/channels of information dissemination;
- Development of information content, content, form;
- Organization of sales stimulation promotions, events.

Solving all three tasks requires creativity, many creative ideas. No matter how creative one person thinks, after some time ideas will run out, they will become monotonous, so the sales promotion manager should involve other employees in the generation of ideas as much as possible, and he himself should facilitate this process. This task can be solved by forming permanent groups that will periodically meet on different tasks and come up with new innovative, interesting ideas.

It is also important and we cannot fail to mention that solving these tasks alone will not be enough to achieve complete success without an effective feedback system. Feedback from customers, what they think about banking products or services, and then reacting to all

this already from product development managers will create a continuous chain to increase sales.

In the banking sector, a significant role is assigned to public relations, which implies the establishment of friendly relations by the company with different layers of society. Also, prevention of unwanted rumors and rumors through special measures. At this point, the message is delivered to the buyer as "news" and not as a sales communication. Public relations professionals use several tools. These are the news; giving a speech; Extraordinary events with information conferences, press tours, presentations, educational programs, which are created for the inclusion and interest of the target society; Mobile marketing and more.

Direct marketing involves direct contact with individuals in the target market for both immediate response and long-term relationships. Using telephone, e-mail, fax, mail, Internet and other means of communication, to contact the bank's specific customer directly.

Despite the accelerated pace of technical progress in the banking sector, the bank employee - i.e. the seller of banking services - remains the main figure on whom the success of multifaceted and targeted banking marketing activities depends, It is under these circumstances that it is possible to explain that the acceleration of the banking process, together with communication and various stimulating measures, is significantly determined by the personal sale of services.

Personal sales is one of the important forms of the communication policy of the credit institution, which provides for the use of individual channels by the bank in the relationship with the customer. It refers to the oral presentation of services by sales agents to potential customers through face-to-face meetings, telephone connections, video or Internet conferences, or other means. Therefore, it is a special channel of communication through which the main subjects of the market, the buyer and the seller, establish a direct

business relationship and feedback. From an organizational point of view, personal selling of banking services includes a set of operations performed by a bank employee or a freelance employee (sales agent) during the sale of services to the customer and related services. [2]

The sales staff is an important link between the bank and the buyer. They introduce the buyer to the bank: they spread information about the product and service, find new buyers, contact them, introduce the product, answer questions, complete the sale. The information they get helps marketing and product managers conduct marketing research and intelligence, develop new or improve old sales strategies.

Personal selling, unlike advertising or sales promotion, involves direct relationships between the seller and the client, the customer. In general, personal selling can be defined as a two-way communication between a potential buyer and a seller, during which at least three tasks must be performed: (1) identify the requirements of the potential buyer; (2) the compatibility of these requirements with the firm's products or services; (3) on the basis of this conformity, persuading the buyer to purchase the product. Ultimately, this is a complex communication process that marketers have yet to fully understand.

The importance of personal selling depends in part on the type of product. In general, a new or different, technically complex or expensive product requires a greater personal selling effort. The seller plays an important role in this process. For example, insurance is a very complex and technical product that often requires serious personal selling.

Personal selling is a component of the marketing system that serves two important functions: one for customers and the other for companies. Lack of relevant information may result in lower quality or volume of sales. For example: Doctors would have a hard time figuring out new drugs and procedures if it weren't for salespeople working in the pharmaceutical sector. Marketing success

depends on meeting the needs of customers. If the existing product does not meet the customer's requirements, then special procedures must be implemented to update or improve these products. If there are certain problems in this regard in a particular company, then the management should respond quickly.

2. Conclusion

In conclusion, it should be noted that the above sales promotion methods are partially used by some banks in the banking sector. But it should be noted that an integrated approach is needed to solve these problems, which will significantly increase the effectiveness of sales and the stability of the Georgian banking system.

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