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SME DIGITALIZATION IN GEORGA:

2024 SNAPSHOT

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INTRODUCTION

Digital transformation is changing how businesses around the world operate, compete, and create value for their customers. For small and medium-sized enterprises (SMEs), embracing digital tools has become crucial not just for boosting productivity and efficiency, but also for building resilience and ensuring long-term success.

Georgia's IT sector has grown considerably in recent years, with more technology companies emerging and digital services expanding across the market. However, there remains an important question: is this growth in the IT industry actually driving digital adoption among businesses of all sizes? While the technology sector appears to be flourishing, many companies, especially smaller ones, still struggle to implement both basic and advanced digital solutions.

This disconnect raises concerns about whether the success of Georgia's IT sector is truly benefiting the broader business community. Understanding this relationship between IT sector growth and actual digital transformation across different types of enterprises is vital for Georgia's efforts to modernize its economy and ensure that technological progress reaches businesses throughout the country.

This research note builds on ISET Policy Institute's earlier work[1], which tracked private sector digitalization in Georgia first as of 2022 followed by 2023 snapshot, and offers a comprehensive assessment of digital adoption among Georgian enterprises, with a particular emphasis on SMEs. It tracks a range of indicators designed to capture both the foundational and advanced aspects of digital transformation. These include the use of business management systems such as Enterprise Resource Planning (ERP)

[1] The latest publication: ISET Policy Institute. (2023, November). *SME digitalization: 2023 snapshot* (Policy Paper No. 2023/08) is available at https://iset-pi.ge/en/publications/3386-sme-digitalization-2023-snapshot

and Customer Relationship Management (CRM), uptake of frontier technologies like Artificial Intelligence (AI) and the Internet of Things (IoT), and infrastructure-related measures such as access to fast broadband, websites, including with sophisticated features[2], and e-commerce engagement. Collectively, these indicators represent different stages of digital maturity, and the capabilities firms require to participate in an increasingly digital economy.

The analysis disaggregates trends by firm size (small, medium, and large) and examines changes over the 2020–2024 period to capture the evolution of digitalization across the Georgian private sector. In addition to assessing internal dynamics, the note benchmarks Georgian SMEs against their counterparts in the European Union (EU) across three key dimensions: basic digital intensity, integration of digital technologies, and participation in e-commerce. This dual perspective, tracking domestic trends and positioning them in a broader international context, provides valuable insights into Georgia's digital readiness and highlights priority areas for targeted interventions.

The structure of the note is as follows: Section 1 offers an international overview of SME digitalization, using the EU as a reference point. Section 2 presents the national picture, analyzing digital uptake across Georgian firms by size and over time. Section 3 conducts a focused comparison between Georgian and EU SMEs across selected indicators of digital maturity, identifying key gaps and opportunities for advancement.

[2] Sophisticated functionalities of websites include: a description of goods or services; price lists; the possibility for visitors to customize or design online goods or services; tracking or status of orders; and personalized website content for recurrent visitors.

INTERNATIONAL CONTEXT: SME DIGITALIZATION IN THE EU

Across advanced economies, digital technologies have become essential for firm-level performance and national economic growth. The OECD (2023) emphasizes that investments in ICT assets and intellectual property products are pivotal for boosting productivity.[3] Furthermore, evidence from Avalos et al. (2023) indicates that firms utilizing digital tools such as e-commerce platforms, remote work applications, and digital payments show greater operational continuity and faster post-disruption recovery.[4]

Across advanced economies, digitalization is increasingly recognized as a key determinant of firm-level productivity and macroeconomic growth. According to the OECD (2023), investment in growth-enhancing technologies, particularly information and communication technology (ICT) assets and intellectual property products, significantly contributes to national GDP and business-level efficiency. Digital tools such as e-commerce platforms, digital payment systems, remote work solutions, and business process automation enhance firms' resilience, operational continuity, and competitiveness.

Despite the widespread recognition of these benefits, a pronounced gap in digital adoption persists between large enterprises and SMEs. This divide is evident across the EU and serves as a useful reference point for assessing

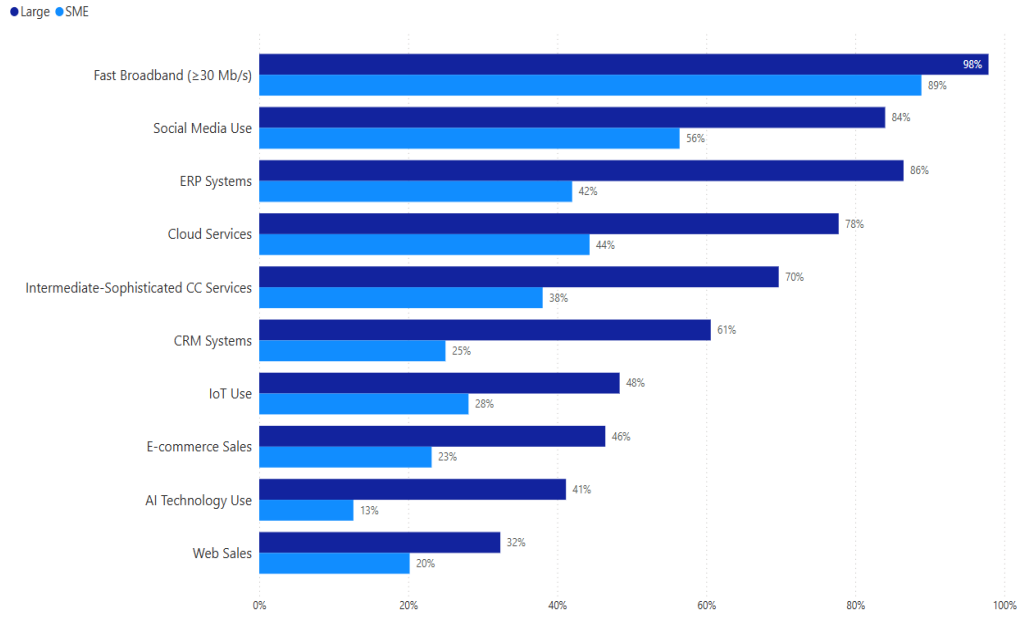
[3] Organization for Economic Co-operation and Development. (2023). *Compendium of productivity indicators 2023*. OECD Publishing. https://www.oecd.org/en/publications/oecd-compendium-of-productivity-indicators-2023_74623e5b-en.html

[4] Avalos, E., Cirera, X., Cruz, M., Iacovone, L., Medvedev, D., Nayyar, G., & Reyes Ortega, S. (2023)
Firms' digitalization during the COVID-19 pandemic: A tale of two stories. *World Bank Policy Research Working Paper No. 10284*. World Bank.
https://documents1.worldbank.org/curated/en/099906201252336913/pdf/IDU003954df4097d60473d0b65906fce19f25ce6.pdf

Georgia's relative progress. As shown in Figure 1, the disparity is prominent in the adoption of most technologies. For instance, enterprise resource planning (ERP) systems are used by 86% of large EU firms in contrast to only 42% of SMEs. Similarly, artificial intelligence (AI) tools are employed by 41% of large enterprises with only 13% of SMEs utilizing them. In the case of customer relationship management (CRM) systems, adoption stands at 61% among large firms compared to 25% for SMEs.

Notably, access to fast broadband is nearly universal across firm sizes in the EU (98% for large firms and 89% for SMEs) indicating that the fundamental infrastructure for digitalization is widely in place. However, large firms are more likely to leverage this infrastructure to implement complex digital systems, integrate data-driven decision-making, and engage in online commerce at scale.

Figure 1. Digitalization Indicators (% Enterprises), EU, 2024



Source: Eurostat, European Union survey on ICT usage and e-commerce in enterprises
Note: SMEs are defined as those employing 10-249 people

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Importantly, research has also shown that digital adoption can yield particularly high returns for SMEs. Sectors where SMEs are particularly active, such as retail, hospitality, and personal services, experience especially strong productivity gains when they integrate digital tools (OECD, 2023). Recognizing this potential, the European Commission has placed SME digitalization at the center of its Digital Decade policy framework. By 2030 the EU aims for at least 90% of SMEs to achieve a basic level of digital intensity, with increasing emphasis on cloud computing, AI, and cybersecurity (European Commission, 2023)[5].

THE CASE OF GEORGIA: PATTERNS AND PROGRESS

CURRENT LANDSCAPE OF DIGITAL ADOPTION

In Georgia, digitalization is gradually transforming the business environment, particularly following the COVID-19 pandemic, which underscored the need for enterprises to adapt quickly to remote work, digital communications, and online transactions. Despite visible progress, a significant digital divide remains between large firms and SMEs. This section outlines Georgia's digitalization trends by firm size in 2024.

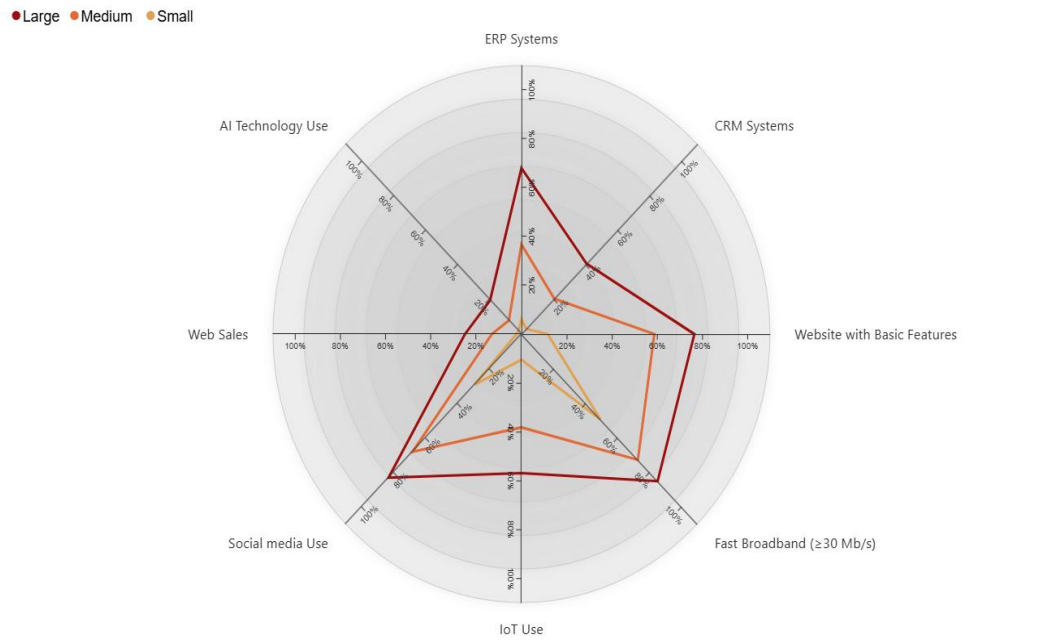
As illustrated in Figure 2, small businesses are especially lagging in key areas of digital adoption. Only 6% of small firms reported using ERP systems in 2024, compared to 37% of medium-sized firms and 68% of large firms. CRM usage follows a similar trend, with just 3% of small firms reporting adoption, compared to 48% among large enterprises.

[5] European Commission. (2023). *A guide to EU funding opportunities to digitalise businesses*. Shaping Europe's Digital Future. https://digital-strategy.ec.europa.eu/library/guide-eu-funding-opportunities-digitalise-businesses

Internet access and online presence indicators also reveal sharp contrasts with 85% of large firms (compared to only 49% of small businesses) report having access to fast broadband internet. The gap is even more pronounced in terms of having a company website, a fundamental tool in the digital economy, where 77% of large companies had one, in contrast to only 12% of small firms.

The pattern persists for more advanced digital tools as well. AI adoption in 2024 was reported by 2% of small enterprises, 8% of medium firms, and 20% of large firms. IoT (Internet of Things) technologies were used by 11% of small firms, 38% of medium firms, and 57% of large enterprises. These figures underscore the persistent challenges faced by smaller size enterprises in integrating more sophisticated digital solutions into their operations.

Figure 2. Digital Uptake by Small, Medium, And Large Enterprises, Georgia, 2024



Source: Geostat

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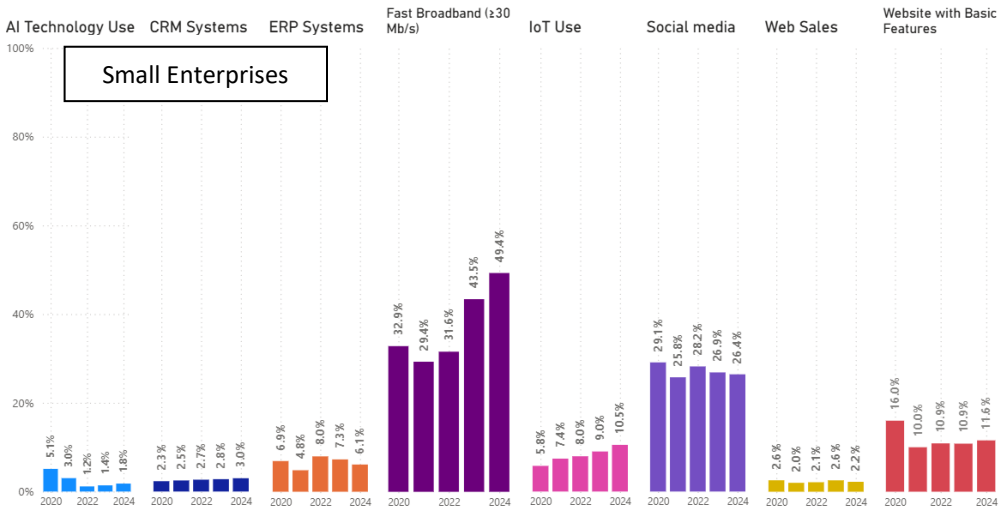
DIGITALIZATION OVER TIME: 2020–2024

Between 2020 and 2024, digitalization among small enterprises progressed slowly, with some indicators even declining. As shown in Figure 3, ERP usage slightly decreased from 6.9% to 6.1%. CRM usage grew modestly from 2.3% to 3.0%, while web-based sales remained stagnant at around 2.0-2.5% throughout the period. Positive developments include a rise in fast broadband access from 32.9% in 2020 to 49.4% in 2024 and an increase in IoT usage from 5.8% to 10.5%. Finally, small firms experienced a marked decline in AI usages from 5.1% in 2020 to 1.8% in 2024, while large and medium-sized enterprises demonstrated overall growth. This widening gap likely reflects a combination of factors, including limited financial and human resources, lower awareness of potential benefits, and the perception that AI applications are not well-suited to small-scale operations. Notably, all firm sizes experienced a dip in AI adoption in 2022, the year following the peak of the COVID-19 pandemic. However, while medium and large firms managed to recover and continue progressing in this area, small enterprises showed only a modest increase.

Figure 3. Digital Technology Adoption Among Georgian Enterprises, 2020-2024



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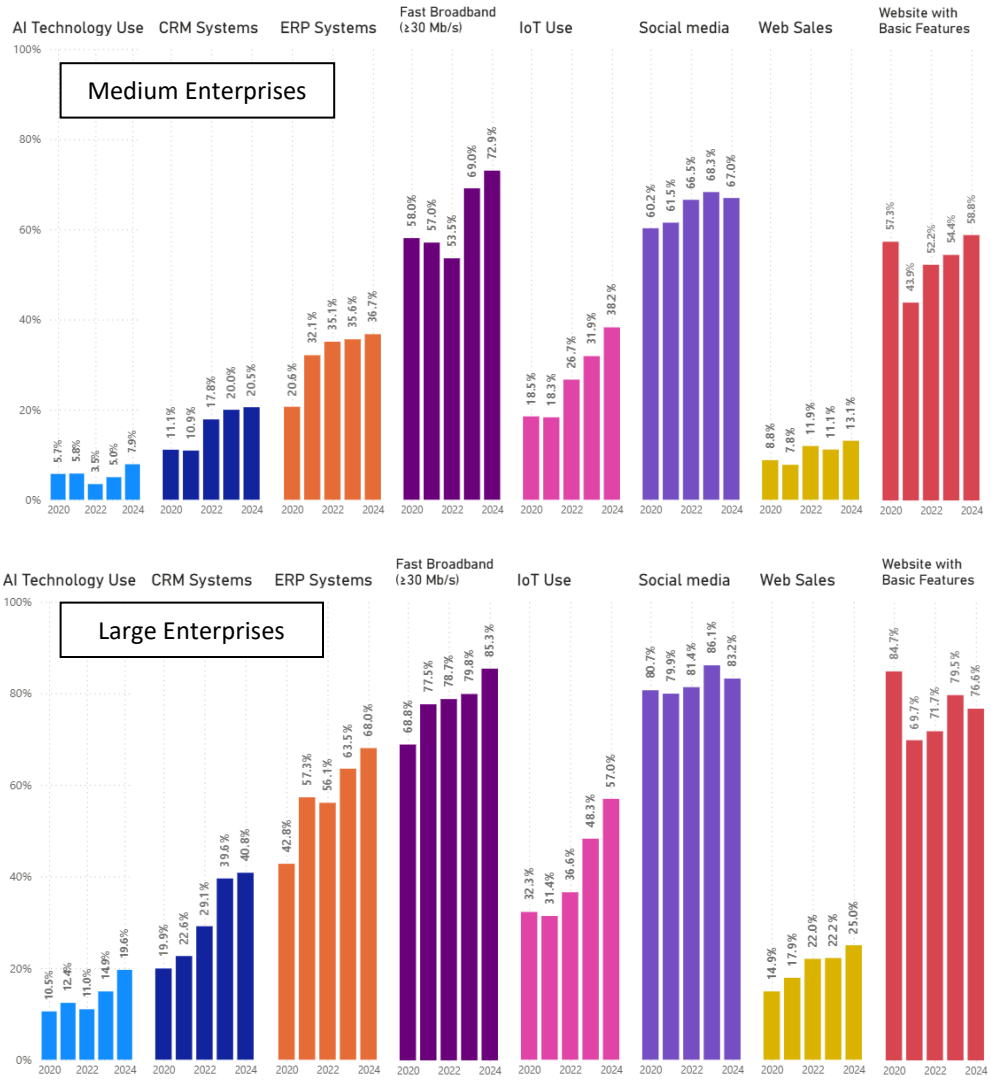


Source: Geostat

Medium-sized firms demonstrated clear and consistent improvements across most digital indicators (Figure 3). ERP adoption increased from 20.6% to 36.7%, and CRM usage nearly doubled, from 11.1% to 20.5%. IoT usage grew significantly, from 18.5% in 2020 to 38.2% in 2024. Improvement in AI adoption was also evident in 2024 – with fluctuations from year to year, it reached 7.9% by 2024 (compared to 5.7% in 2020). Finally, fast broadband access reached 73% by the end of the observed

period, indicating steady improvements in the development of basic digital infrastructure.

Large businesses led digital adoption across all categories, significantly expanding their use of advanced technologies throughout the period (Figure 3). ERP usage rose from 42.8% to 68.0%, and CRM usage increased from 19.9% to 40.8%. AI and IoT adoption nearly doubled, with AI rising from 10.5% to 19.6%, and IoT from 32.3% to 57.0%. Notably, as we can observe, IoT adoption in Georgia has increased across all firm sizes. IoT reflects the integration of physical operations with digital infrastructure, enabling automation and data-driven decision-making, particularly relevant for efficiency gains in production and logistics. These results point to growing awareness of IoT's value in business operations, particularly for inventory management, real-time monitoring, and automation.

In large enterprises, fast broadband access exceeded 85%, and web sales increased by more than 10 percentage points over the period of 2020-2024. These trends reflect a robust digital transformation among Georgia's largest firms.

With the data on websites with basic features, as shown in Figure 3, we also calculated the share of websites with sophisticated features. The data reveals a clear firm size–based gap in the adoption of such advanced functionalities, with large enterprises consistently leading, followed by medium-sized firms and then small firms. However, all three groups demonstrate either declining or stagnating trends, with no sustained upward trajectory across the observed period. Large enterprises experienced a substantial decline in usage, dropping from 62.1% in 2020 to 40.9% in 2024, indicating a steady disengagement from maintaining an advanced web presence. Medium-sized firms exhibited more volatility, peaking at 41.9% in 2022 before sharply declining to 30.9% in 2023, followed by only a marginal rebound to 32.8% in 2024. Small firms consistently remained at very low levels of adoption, falling from 13.3% in 2020 to just 7.1% in 2024.

Overall, the trend suggests that while enterprises may have initially invested in advanced website features in response to the immediate pressures of the COVID-19 pandemic, many, particularly larger firms, have since reduced these investments. Meanwhile, the persistently low adoption among small firms is likely to reflect more structural constraints, such as limited digital capabilities and financial barriers.

BENCHMARKING GEORGIAN SMES AGAINST THE EU PEERS

Building on the analysis of digital adoption trends within Georgia, this section shifts focus to a comparative perspective specifically for small and medium-sized enterprises, assessing how Georgian SMEs perform relative to their EU counterparts across several key dimensions of digitalization. The comparison highlights areas where Georgia has made progress, as well as persistent gaps that may constrain SME competitiveness and digital readiness. Three critical dimensions are examined in detail: basic digital intensity, integration of digital technologies, and e-commerce adoption. These indicators were selected because they reflect both foundational and advanced aspects of digital maturity and directly influence SMEs' ability to innovate, scale, and compete in domestic and international markets.

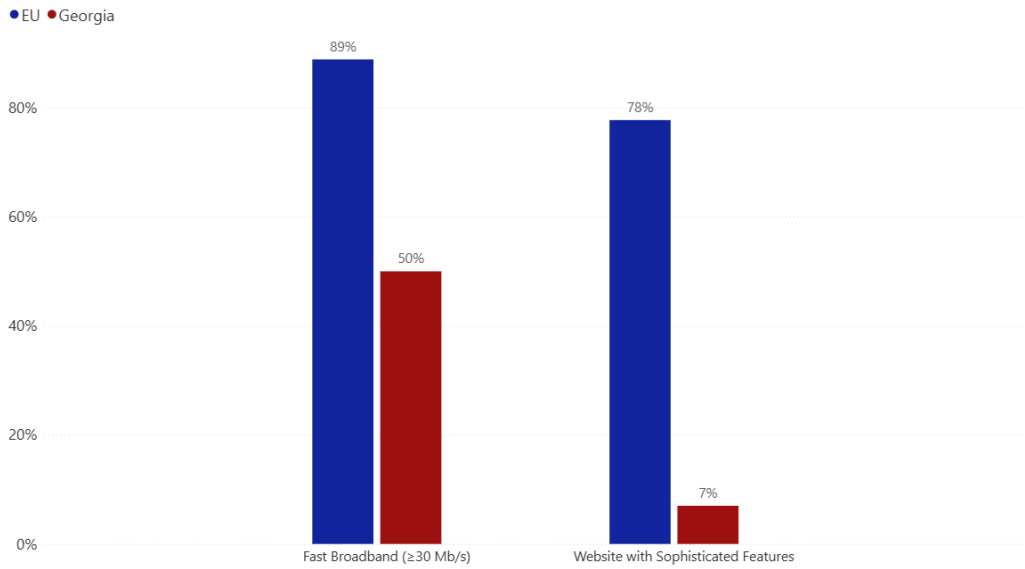
BASIC DIGITAL INTENSITY

Basic digital intensity refers to the foundational digital infrastructure and tools that enable firms to operate in a digital environment - namely, access to high-speed internet and the presence of websites with sophisticated features. These indicators serve as a gateway to more advanced digital capabilities, such as online sales, customer engagement, and integration of digital services.

As shown in Figure 4, Georgian SMEs significantly lag behind EU averages on both indicators. In 2024, only 7% of Georgian SMEs[6] reported having websites with sophisticated features, compared to 78% across the EU. Access to broadband speeds of at least 30 Mbps is also lower in Georgia, reaching just 50% of SMEs, while 89% of EU SMEs report such access.

These figures underscore the digital infrastructure and capability challenges still faced by Georgian businesses, especially those in rural or remote areas. The lack of utilizing websites with sophisticated features suggests that many SMEs in Georgia are missing out on opportunities to reach new markets, enhance customer service, and participate in e-commerce. Similarly, the lower penetration of fast internet constrains access to cloud-based tools and digital collaboration platforms.

Figure 4. Basic Digital Intensity of SMEs, EU and Georgia, 2024



Source: Eurostat; Geostat

[6] SMEs in Georgia are defined as those employing 1-249 people.

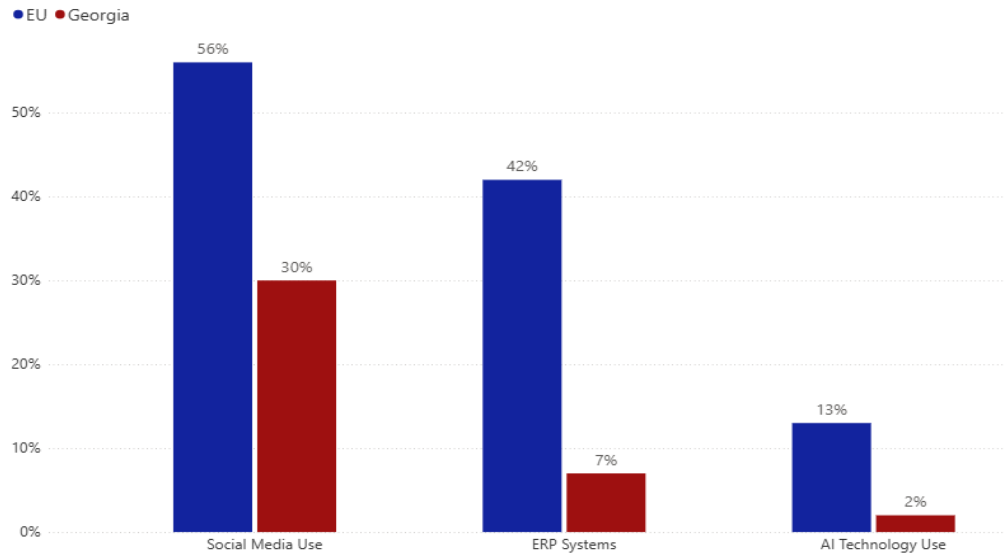
INTEGRATION OF DIGITAL TECHNOLOGIES

Beyond basic infrastructure, digital maturity also entails the integration of advanced digital technologies into business operations. These include systems that support internal efficiency (e.g., ERP), customer engagement (e.g., social media), and innovation (e.g., AI). The ability to adopt such tools reflects a firm's readiness to compete in an increasingly digital economy.

Figure 5 compares the adoption of three key technologies – ERP systems, social media, and AI - among Georgian and EU SMEs. The data reveals a clear performance gap across all indicators. In 2024, only 7% of Georgian SMEs reported using ERP systems, compared to 42% of SMEs in the EU. The use of social media for business purposes reached 30% in Georgia, significantly lower than the EU average of 56%. The most pronounced disparity is in AI adoption, where only 2% of Georgian SMEs report usage, compared to 13% in the EU.

These gaps suggest that many Georgian SMEs are not yet leveraging the full potential of digital tools to streamline operations, enhance customer interaction, or support innovation. Several underlying factors may explain this lag. Financial constraints often limit investment in more complex systems like ERP or AI. In addition, many SMEs lack in-house digital skills or external advisory support to guide the adoption and integration of such technologies. There is also evidence that SME managers in Georgia may underestimate the potential business benefits of digital tools, which reduces demand for such solutions.

Figure 5. Integration of Digital Technologies in SMEs, EU and Georgia, 2024



Source: Eurostat; Geostat

E-COMMERCE

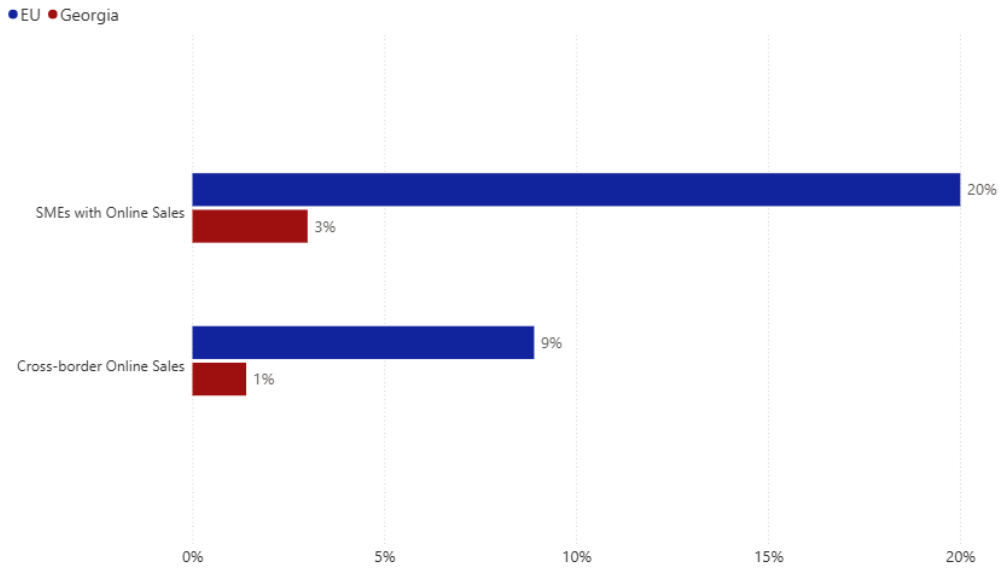
E-commerce represents one of the most visible and impactful applications of digital technology in the SME sector. It allows firms to reach new customer segments, expand into international markets, and improve sales efficiency. The COVID-19 pandemic significantly accelerated the global shift toward online commerce, making it an important area for comparative analysis.

Local e-commerce in Georgia has experienced significant growth, with the total volume of electronic transactions, conducted via virtual terminals in Georgia using both Georgian and foreign bank cards (excluding transactions in government institutions and gambling establishments), increasing by 135% from 2020 to 2023. Specifically, from 2019 to 2020, transaction volumes rose by 99%, followed by year-over-year growth rates of 29% from

2020 to 2021, 61% from 2021 to 2022, and 12% from 2022 to 2023 (Reformeter, 2023).[7]

At the same time, Figure 6 highlights the stark differences in e-commerce adoption between Georgian and EU SMEs. In 2024, only 3% of Georgian SMEs reported engaging in online sales through websites, apps, or digital platforms, compared to 20% in the EU. Cross-border e-commerce is even less developed with just 1% of Georgian SMEs selling to international customers online, compared to 9% in the EU.

Figure 6. E-commerce of SMEs, EU and Georgia, 2024



Source: Eurostat; Geostat

Several barriers constrain broader SME participation in e-commerce. On the demand side the key constraining factor is the preference of Georgian customers towards international e-commerce platforms couple with the general low consumer trust in online transactions. On the supply side, many

[7] ISET Policy Institute. (2023). *E-commerce reform assessment report – Phase III (ReforMeter)*. USAID Economic Governance Program. https://reformeter.iset-pi.ge/system/reform_survey_reports/39/en/E-commerce_Reform_Assessment_Report_-_Phase_III_-_ENG.pdf

SMEs face high upfront costs to develop functional e-commerce platforms or lack knowledge to integrate fintech services that would facilitate online payments and logistics integration (Reformeter, 2023).

CONCLUSION

This research note provided a comprehensive overview of SME digitalization trends in Georgia, tracking progress across a range of indicators and benchmarking the outcomes of Georgian SMEs against both larger domestic enterprises as well as EU peers. The analysis shows that while digital adoption is advancing, significant disparities persist across firm sizes and across types of technologies. Small enterprises remain consistently behind medium and large firms in their uptake of both basic and advanced digital tools, with particularly low adoption observed for ERP systems, CRM, AI, and e-commerce platforms.

When compared to the EU, Georgian SMEs face substantial gaps across all major dimensions of digital maturity - basic digital intensity, integration of digital technologies, and participation in e-commerce. While some progress has been made, especially in broadband access and IoT usage, overall digital readiness among Georgian SMEs remains limited. These findings point to the importance of continued observation of digital uptake trends, with particular attention to barriers constraining smaller firms from fully engaging in the digital economy, which becomes even more critical considering fast growth of the ICT sector in Georgia.

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