

Minutes of the Tenth Meeting of the Investors Council

**May 7, 2019, 14:00 at the State Chancellery Chaired by the
Prime Minister of Georgia Mamuka Bakhtadze**

Present at the meeting

Participating Members of the Investors Council:

- Mamuka Bakhtadze, Prime Minister, Chair of Investors Council
- Natia Turnava, Minister of Economy and Sustainable Development
- Mzia Giorgobiani, Deputy Minister of Regional Development and Infrastructure
- Giorgi Khanishvili, Deputy Minister of Environment and Agriculture
- Irakli Lekvinadze, Business Ombudsman of Georgia
- Michael Cowgill, President, American Chamber of Commerce in Georgia
- Samson Pkhakadze, Chairman, Business Association of Georgia
- Nino Chikovani, President, Georgian Chamber of Commerce and Industry
- Zviad Chumburidze, Secretary General, EU-Georgia Business Council
- Fady Asly, Chairman, International Chamber of Commerce Georgia
- Justin McKenzie Smith, Ambassador of the UK to Georgia
- Thea Gigiberia, Country representative, IFC
- Mariam Megvinetukhutsesi, Head of IC Secretariat

Invited Guests:

- Mikheil Sarjveladze, First Deputy Minister of Justice
- Irakli Aslanishvili, Executive Director, Business Association of Georgia
- Giorgi Kacharava, Executive Director, EU-Georgia Business Council
- George Welton, Executive Director, American Chamber of Commerce in Georgia
- Givi Chanukvadze, GGF Economic Projects Manager, British Embassy in Georgia
- Mikheil Khidureli, Director, Enterprise Georgia
- Loretta Martikian, Communications, EBRD
- George Jugeli, Legal Expert, Investors Council Secretariat
- George Lomidze, Business Analyst, Investors Council Secretariat

Opening Remarks by the Prime Minister:

Mamuka Bakhtadze, Prime Minister in his opening remarks:

- Welcomed the attendees;
- Started with evaluation of the economic performance of the country in the first quarter of 2019, considering it satisfactory and mentioning that Georgia was the only country in the region that had its outlook upgraded to positive by S&P;
- Identified Georgia's current account deficit as a major weakness of the country and mentioned third quarter of 2018 as a "historic milestone" as it was the first time since independence that Georgia had current account surplus;
- Reported on Government's efforts towards larization, very important for reduction of FX-related risks for Georgia; pledged to continue efforts in this direction;
- Declared the government's commitment to adopt the laws in the formulation of which the IC was actively engaged in the second quarter of 2019: Law on Insolvency Proceedings, Organic Law on Agricultural Land Ownership, and Law of Entrepreneurs;
- Announced plans to adopt new legislation that would grant significant tax preferences to foreign companies that would open head offices in Georgia;
- Reported on the intensive work on the new Customs and Tax Codes by the Ministry of Finance, where the Council would be urged to get involved;
- Announced that the education reform is underway and respective legislation should be adopted by the Parliament in June. According to the new legislation the Government will have the obligation to gradually increase expenditures on education up to 6% of the GDP by 2022.

1. Organic Law on Agricultural Land

Mariam Megvinetukhutsesi, Head of Investors Council Secretariat:

- Expressed satisfaction with progress with Law on Agricultural Land and thanked the Government and the Agricultural Committee of the Parliament for taking into account the recommendations of the IC. The draft Law in its current shape is acceptable to the members of IC.

2. Temporary EU Employment for Georgian Citizens

Giorgi Kacharava, Executive Director, EU-Georgia Business Council:

- Reported on the progress regarding temporary employment of Georgian citizens in EU, mentioning the ratification by France of the bilateral agreement with Georgia and work on respective agreements with other EU member states.

Mamuka Bakhtadze, Prime Minister:

- In regard to temporary employment of Georgian citizens in EU stressed the importance of reforms in vocational education that are underway and identified harmonization of Georgian vocational education system with that of EU as a priority.

3. Insolvency reform

Presenter: George Jugeli, Legal Expert, Investors Council Secretariat

Main Points:

- In the Law on Insolvency Proceedings, two main recommendations of the IC were the reduction of the fee for services of the National Bureau of Enforcement and removal of the priority of the tax liens over secured creditors. Both recommendations were taken into account.
- Ministry of Justice prepared together with the main draft relevant changes to other statutory acts, as well as explanatory notes and RIA document.
- Considering all those positive developments the new draft once adopted should be significant step forward for investors' confidence and business friendly environment in Georgia.

4. New draft Law on Investment Funds

- The IC established a working group to work on the draft Law on Investment Funds comprising the key players from the relevant sectors with support from USAID G4G project and reviewed the draft in cooperation with the National Bank of Georgia. Detailed consolidated comments have been provided to the National Bank and it is expected that substantial parts of group's recommendations will be reflected in the revised version of the draft law and secondary normative acts

Mamuka Bakhtadze, Prime Minister:

- Specifically mentioned the positive effect the new insolvency law will have on commercial banks' performance, interest rates, and on risk profile of the investment projects. The next step, which the Government is about to take, is to work on the law on insolvency of individuals.
- Also added that the Government already completed work on draft law on start-ups and technological companies.

5. Changes in the procedures and the composition of the Council

Mariam Megvinetukhutsesi, Head of Investors Council Secretariat:

- Provided an update on changes in the procedures and the composition of the Investors

Council.

- Stated that all the details should be finalized within a period of two weeks and will be ready for government approval and then the new rotational members can be elected.

Proposed new topics

Mariam Megvinetukhutsesi, Head of Investors Council Secretariat:

- Stated the three issues the IC has been dealing with, namely the Law on Insolvency Proceedings, Organic Law on Agricultural Land, and Law on Entrepreneurs, have been resolved or are nearing the resolution, and proposed two potential issues that IC could start working on: Empowering investor aftercare function of Enterprise Georgia and draft law on Regulatory Impact Assessment (RIA).

Fady Asly, Chairman of International Chamber of Commerce Georgia:

- Stressed the importance of investor aftercare and emphasized the necessity of political will for empowering the institution responsible for this function to make it more effective.

Mamuka Bakhtadze, Prime Minister:

- In this context added that a new Deputy Minister of Economy and Sustainable Development responsible for this issue is about to be appointed and asked Natia Turnava, Minister of Economy and Sustainable Development, to elaborate on this topic.

Natia Turnava, Minister of Economy and Sustainable Development:

- Explained that the new Deputy Minister of Economy will be fully responsible for coordination between different agencies and ministries, the coordination will be led by the Ministry of Economy and by doing so the concept of the one stop shop for investors will be strengthened.

Samson Pkhakadze, Chairman of Business Association of Georgia:

- Thanked Prime Minister for starting legislative process for the new Law on Regulatory Impact Assessment that can be an effective tool in the hands of the Government.
- Pointed out the expedience of one amendment to the draft law: according to the current draft all legislative initiatives of the Government have to go through RIA, however this does not apply to the initiatives of the Parliament members. Asserted that in order for the new law to be effective this procedure should apply to all legislative initiatives including the Parliamentary initiatives.

Miscellaneous:

Current pressure on businesses

Presenter: Fady Asly, Chairman of International Chamber of Commerce Georgia:

- Pointed out slowdown of the growth of Georgian economy and the potential to return to double-digit growth rate in case of further improvement of the business and investment climate.
- Asserted that main hurdle for business in Georgia for the past twenty years has been the pressure from the Government, oftentimes politically motivated.
- Pointed out details of particular cases of pressure on business in recent years: Philip Morris and British American Tobacco, Omega Group, TBC Bank and Anaklia Development.
- Asked the Government to ease pressure on business, resolve problematic cases listed above and take measures to improve business climate.

As per the request of Mr. Asly his speech has been added to the minutes in the Annex 1.

Mamuka Bakhtadze, Prime Minister:

- Generally disagreed with Mr. Asly's negative assessment of Georgian economic growth and FDI figures, pointing out the general economic slowdown in the region in the recent years and Georgia still having higher growth rates than its neighbors. However, added that more can be achieved and the Government will do its best in this direction.
- Regarding particular cases of pressure on business listed by Mr. Asly, Prime Minister ruled out any political motivation and presented his view on the objective reasons behind each problematic case and pointed out accountability of the businesses.
- Regarding Omega Group Prime Minister asserted that it is purely a case of tax debt, namely excise tax. This debt had been accumulating for years and the tax authorities had provided extension to the company 16 times. Moreover, in 2012 the new government showed significant support to Omega Group and facilitated the return of assets the company was unduly deprived of during the previous government.
- On Anaklia Development Prime Minister noted that the Government regards this project as vitally important for Georgia and fully supports it from the very inception. The Government held negotiations with European partners and IFIs to ensure support and funding for this project, continues to fulfil its commitments regarding provision of land and development of infrastructure.
- Recognizing TBC Bank as a key systemic bank in the country, the Prime Minister stated that after the agreement was reached and the joint statement was made by TBC Bank and the National Bank of Georgia, he does not see any uncertainties or any open questions on this matter.

Black Sea electric power underwater transmission line project

Zviad Chumburidze, Secretary General of EU-Georgia Business Council:

- Briefed the Council on the steps taken towards formulation of Black Sea electric power underwater transmission line project and the significance of this project for Georgia's energy sector and economy as a whole.
- Kindly asked the Prime minister to approve signing of the memorandum of understanding on project promotion between the Government of Georgia and EU-Georgia Business Council.

Mamuka Bakhtadze, Prime Minister:

- Confirmed that the Government has the same view on significance of this project and that the Ministry of Economy and Sustainable Development has already started working on this issue.
- Mentioned that he already discussed this project with his Romanian and Bulgarian colleagues.

Natia Turnava, Minister of Economy and Sustainable Development:

- Informed the Council that the Government has already approached EU energy community secretariat with a request to give high priority status to this project.
- Acknowledged that support of EU-Georgia Business Council will be instrumental for successful implementation of this project, and that the Memorandum draft is being reviewed by the Ministry.

It was agreed that the next meeting of the Investors Council would be held in summer 2019.