

Minutes of the Eleventh Meeting of the Investors Council

February 3, 2020, 14:00 at the Government Administration chaired by the Prime Minister of Georgia Giorgi Gakharia

Present at the meeting

Participating Members of the Investors Council:

- Giorgi Gakharia, Prime Minister, Chair of Investors Council
- Maya Tskitishvili, Minister of Regional Development and Infrastructure
- Thea Tsulukiani, Minister of Justice
- Ivane Matchavariani, Minister of Finance
- Natia Turnava, Minister of Economy and Sustainable Development
- Levan Davitashvili, Minister of Environment Protection and Agriculture
- Mikheil Daushvili, Business Ombudsman of Georgia
- Michael Cowgill, President, American Chamber of Commerce in Georgia
- Samson Pkhakadze, Chairman, Business Association of Georgia
- Zviad Chumburidze, Secretary-General, EU-Georgia Business Council
- Sascha Ternes, Chairman of the Board, German Business Association
- Osman Turan, President, Georgian And Turkish Businessmen's Association
- Catarina Bjorlin Hansen, Regional Director for Caucasus, EBRD
- Justin McKenzie Smith, Ambassador of the UK to Georgia
- Jan Van Bilsen, Regional Manager for Caucasus, IFC
- Giorgi Cherkezishvili, Head of Investors Council Secretariat

Invited Guests:

- Sebastian Molineus, World Bank Regional Director for the South Caucasus
- Ekaterine Tikaradze, Minister of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia
- Mikheil Khidureli, Head of Enterprise Georgia
- Giorgi Kacharava, Executive Director, EU-Georgia Business Council
- Levan Vepkhvadze, Executive Director, Business Association of Georgia
- Sarah Williamson, First Vice-President, American Chamber of Commerce in Georgia
- Thomas Kimmeswenger, Executive Director, German Business Association
- Mustafa Tabakoglu, Executive Board Member, Georgian and Turkish Businessmen's Association
- Magda Bolotashvili, Deputy General Director Georgian Chamber for Commerce and Industry
- Ellen Wichmann, Head of the GGF Georgia, British Embassy in Georgia
- Givi Chanukvadze, GGF Economic Projects Manager, British Embassy in Georgia
- Beka Liluashvili, Adviser to the Prime Minister
- Loretta Martikian, Communications, EBRD
- George Jugeli, Legal Expert, Investors Council Secretariat
- George Lomidze, Business Analyst, Investors Council Secretariat

Opening Remarks by the Prime Minister:

Giorgi Gakharia, Prime Minister in his opening remarks:

- Welcomed the participants.
- Underlined the commitment of the Government of Georgia to maintain the effective work of the Investors Council. Stated that the government considers the council a very important platform for cooperation between the private sector and the Government. Mentioned that fast economic growth and job creation are the top priorities for the government.
- Welcomed two new members of the Investors Council - German Business Association and Georgian and Turkish Businessmen's Association.
- Welcomed the new Head of IC Secretariat, Mr. Giorgi Cherkezishvili.
- Expressed appreciation for the former Head of IC Secretariat Ms. Mariam Megvinetukhutsesi.

Catarina Bjorlin Hansen, Regional Director for Caucasus, EBRD:

- Thanked the participants for gathering to discuss the key issues and reforms that would bring business climate in Georgia to an even higher level.

Giorgi Cherkezishvili, Head of Investors Council Secretariat:

- Thanked the members of the council for trust and support on appointing him to the position of the Head of IC Secretariat
- Introduced new members of the Investors Council - German Business Association and Georgian and Turkish Businessmen's Association. These associations were selected as the permanent members of the Council out of six applicants in the open and transparent selection process and will serve as members of the IC for the period of eight Council meetings or approximately two years.

Insolvency reform and new Law on Investment Funds

Presenter: George Jugeli, Legal Expert, Investors Council Secretariat

Main Points:

- The draft law on insolvency improves significantly the current insolvency legislation and addresses concerns currently faced by both the secured and unsecured creditors. The document underwent the scrutiny of domestic and international experts and IFIs, whose overall assessment is very positive. In its current shape, it is believed that the draft is ready for the legislation process, and the reform should move forward as soon as feasible.
- The Secretariat's working group comprising the key players from the relevant sectors that

reviewed and commented Draft Law on Investment Funds. One of the most important aspects of the relevant legal framework is the taxation of investment funds and its investors. The Secretariat is ready to cooperate with MoESD, MoF and NBG for making the relevant legal framework as supportive as possible for this emerging and still underdeveloped industry.

Proposed new topics

Giorgi Cherkezishvili, Head of the Investors Council Secretariat:

- Presented the work plan of Investors Council for 2020-2021. The document is attached to these minutes as Annex 1.

Construction permits

Presenter: Sascha Ternes, German Business Association:

- Referring to the topic of construction permits and construction sector in general, made it clear that the German Business Association fully supports all reasonable regulations that ensure safety and architectural standards. However, stated that there are certain procedural problems when it comes to the issuance of construction permits.
- Noted that businesses and investors, not only developers, are facing difficulties and a very prolonged process in the process of issuance of construction permits, with a high number of instances of different authorities involved.
- Proposed to create a working group under the IC that would collect and study problems of businesses and then provide specific recommendations to all stakeholders.

New Labor Legislation

Presenter: Michael Cowgill, American Chamber of Commerce in Georgia:

- Regarding the new labor legislation, mentioned that recently the members of the IC and business associations individually have been mainly working on two major issues: health and safety in the workspace, and changes regarding Labour Inspectorate.
- Pointed out that of the priority of Labour Inspectorate should be safety and human rights issues and that there are concerns about broad powers of labor inspectors which can severely inhibit certain aspects of the economy.
- Noted that in general sense, Labour Code and relevant regulations should be the most business-friendly, cost-effective and with high administrative efficiency and at the same time meet the requirements of the Association Agreement with EU.
- Pointed out that, to his knowledge, some regulations in the current draft of Labour Code are in excess of the requirements of the Association Agreement and similar regulations of some of the EU member countries.
- Provided a recommendation to the Government to hire EU labor-related experts to devise such regulations that would meet the minimum requirements of the EU and at the same

time remain business-friendly and cost-effective.

Giorgi Gakharia, Prime Minister:

- Agreed with the points that were emphasized however pointed out that besides the EU requirements Georgia has to comply with requirements of the International Labour Organization and the United States Trade Representative.
- Emphasized that the Government of Georgia is counting on support and guidance of the Investors Council, and the American Chamber of Commerce in particular, in dealing with the United States Trade Representative.

Compulsory Standardization GMP 2022

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

- Spoke about mandatory GMP standardization of Georgian pharmaceutical companies from January 1, 2022.
- Draw the attention of the members of the IC to the situation in the sector, where, as of now, an absolute majority of companies will not be able to meet GMP standards within the next two years.
- Mentioned planned meeting on this issue, suggested the creation of a working group under the IC and urged the Government to actively cooperate on this topic.
- Emphasized achievements in this regard and thanked the Revenue Service and the Government Administration for effective cooperation that enables pharmaceutical companies to claim the VAT refund that includes funds spent on equipment for pharmaceutical production.

Remarks from the Government Members

Ivane Matchavariani, Minister of Finance:

- Pledged full support for activities and initiatives of the Investors Council regarding financial markets regulations, in particular taxation of investment funds.
- Recalled the success that had been achieved by cooperation between the Ministry of Finance and the Investors Council and culminated in the amendments to the Tax Code and introduction of the so-called Estonian model and assured the participants that this cooperation should continue.

Maya Tskitishvili, Minister of Regional Development and Infrastructure:

- Regarding issues brought up on changes to the Labor Code, agreed with the Prime Minister that the goal of the Government is not only to comply with the minimum requirements of the EU Association Agreement but all also comply with regulations of the International Labour Organization and the United States Trade Representative.
- Regarding difficulties with construction permits, agreed that some procedures require improvement and noted that the Ministry of Regional Development and Infrastructure is aware of these issues and is already working in this direction.
- Noted that regarding safety regulations important impediment is the lack of skills and

declared that the Government and the private sector should cooperate to improve the situation.

Natia Turnava, Minister of Economy and Sustainable Development:

- Stated that for improvement of business and investment environment capital market development is one of the major priorities for today. She mentioned that the preparation of the draft Law on Investment funds was a great success and noted IC's role in this process. Noted that laws on Covered Bonds, Securitization and Private Pensions (so-called pillar 3 pension schemes) are soon to follow.
- Underlined the importance of tourism in the development of the Georgian economy and expressed gratitude to the IC for cooperation with the Georgian National Tourism Administration
- Said that energy independence, security in energy supply and the development of a competitive energy market represents the important priority and integral part of the Government reform agenda. Noted that Georgia has confirmed its readiness and commitment to ensure the establishment of energy markets (for both electricity and natural gas sectors) that comply with free market economy principles and non-discriminatory access and transparency requirements. Taking into account the significance and complexity of energy reform, expressed hope that continuing fruitful cooperation with Investors Council will bring tangible results.
- Informed the participants that the Ministry of Economy and Sustainable Development with the support of IFC has approved a new 2 years Investment Promotion Strategy and action plan for "Enterprise Georgia". As "Enterprise Georgia" is an important tool to support the promotion of Georgia's investment climate on the international level, asked the members of the IC to continue supporting the agency.

Thea Tsulukiani, Minister of Justice:

- Pointed out that the Ministry of Justice and other stakeholders reached an agreement on the most important matters of the draft law on Rehabilitation and Collective Satisfaction of Creditors, which are: the role of the National Bureau of Enforcement (NBE) and the tax liens.
- Mentioned that the draft law on Rehabilitation and Collective Satisfaction of Creditors will go to the parliament in March 2020 and encouraged business representatives to support the draft.
- Explained that the draft Law on Entrepreneurs would need to further be discussed among all stakeholders before the governmental approval process might be initiated
- Draw the attention of the IC members to the adopted Law on Mediation which came into force on January 1, 2020, that offers unique possibilities to businesses to resolve their disputes amicably

Miscellaneous:

Roundtable – Georgian Business and Reforms 2020-2024

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

- Draw the attention of the Prime Minister and the members of the Council to the event that will be organized by EU-Georgia Business Council on March 17, 2020: Roundtable – Georgian Business and Reforms 2020-2024 and invited the Prime Minister to participate.
- Noted that ahead of the Parliamentary elections this year it will be extremely interesting and beneficial for the business to hear on vision and agenda of the Government and the ruling party as well as opposition.

Making business-related regulations more business-friendly

Presenter: Samson Pkhakadze, Chairman, Business Association of Georgia (BAG):

- Touched upon the issue of changes to Labor code and increased powers of the labor inspectors.
- Noted that BAG, based on the position of more than 300 members and the practices that exist in EU and other highly developed countries, considers certain powers excessive and potentially harmful for businesses and the economy in general.
- Expressed hope that consultations on this issue with the Government will continue and regulations will be improved to better suit the needs of both employers and employees.

Approval of the next IC meeting date

Prime minister suggested holding the next meeting of the Investors Council in two months, in early April of 2020. The members of the IC unanimously supported this initiative.