

## **Investor Council Georgia Work Plan 2022-2023**

### **I. COVID-19 pandemic response**

From the very early stage of Covid-19 pandemic in Georgia, Investors Council (IC) initiated number of steps to assist the Government in dealing with the crisis. Two surveys on the impact of COVID-19 on the economy were conducted, with more than 2500 companies participating in 2020. The results were presented to the respective government agencies and used as the foundation for the government's initial crisis response. Early in 2021, with initiative of ICS, EBRD started a technical assistance project funded by GGF, "Assessment of the Impact of Covid-19 on the Georgian Economy and preparation of a Medium-term Strategy for recovery and Tax revenue shortfalls" that was presented to the stakeholders in May 2021.

ICS will continue close cooperation with donors and government agencies in 2022-2023 in order to initiate sectoral/sub sectoral surveys to obtain up-to-date information on the overall health of the different industries and identify challenges. Furthermore, the IC member business associations and IFIs will continue working with the Government to voice the problems of the private sector and provide recommendations.

Counterparty: GoG, MoESD, EG

### **II. Securitization legislation**

Securitization converts an asset, a risk, a future cash flow, into marketable securities to raise funds, creating liquidity, or transferring risk by selling the securities to external investors. It can be used in various sectors and for a range of assets and be conducive for the issuance of many types of tailored-made financial instruments.

Securitization gives the firms otherwise unable to raise capital due to their specific circumstances opportunity to raise capital using securitization. The owners of the asset (originators) may create liquidity by selling the future cash flow to a securitization SPV. As for the investors, securitization can be beneficial since they gain the opportunity to access assets that could not otherwise be accessible to them.

General market liquidity might also improve as illiquid assets obtain liquidity. The need for securitization is now more apparent as Investment Funds Law has been adopted in July 2020 by the Parliament of Georgia.

For the above reasons, ICS cooperates closely with MoESD, MoF, and NBG to create an enabling legal framework – Law on Securitization – for this industry to develop.

The initial draft has been prepared with the support of the USAID economic development program. In cooperation with MoESD, ICS got involved in setting up a smaller editing group accountable to a larger drafting group consisting of all stakeholders including market participants. With this in mind, ICS contacted all its members who nominated their representatives to participate in the drafting and review process.

In full coordination with MoESD and other stakeholders, ICS is engaged in planning the working process of the editing and working groups which is expected to intensify starting from February 2022.

Counterparty: MoESD, NBG

### **III. Factoring Legislation**

Factoring is an important tool to support companies in managing the required level of liquidity and offering them the advantage of obtaining price discounts from suppliers. Factoring is conducive to improving profitability, liquidity, and cash-flow of business, management of time, credit, and default risks. There is strong evidence that the legal environment of factoring is of utmost importance for the saving of transaction cost and improvement of costs and safety determination process of factoring transactions.

To support the development of factoring products in Georgia, ICS closely works with EBRD, MoESD, MoF, MoJ and NBG. Also industry representatives are actively involved in the working group activities.

The ICS, in close coordination with other stakeholders, initiated the feasibility study on the introduction of electronic registry of factoring transactions. The procurement process of the feasibility study will be led by EBRD in the spring of 2022. The ICS has also applied gender lenses on the factoring reform and has considered how introduction of factoring products can contribute to closing the gender gap in access to finance and contribute to women's economic empowerment.

It is expected that the legislative package will be submitted to the Government and Parliament for further approval in summer 2022.

Counterparty: MoESD, MoF, NBG, MoJ

### **IV. Leasing market development**

The leasing sector of financial intermediation is relatively underdeveloped in Georgia. It is especially useful for MSMEs and startups and has a potential to significantly contribute to economic growth in Georgia. There are certain legal aspects regarding this field that require improvement.

In 2021 the ICS with close cooperation with the Leasing Companies Association of Georgia initiated a feasibility study for the development of leasing market in Georgia. Through GGF funding, international experts provided analyzes of regulatory framework, best practices of the other countries and prepared road map for the development of the sector. The outcomes and recommendations have presented to the MoESD.

ICS will continue working with MoESD and leasing sector representatives in order to develop leasing sector and provide respective legislative changes if needed.

Counterparty: MoESD, MoF, NBG

## **V. Crowdfunding**

Crowdfunding is seen as an important tool for non-banking finance development which is very shallow in Georgia. During the previous years, Georgia's Innovation & Technology Agency (GITA) has prepared a draft law with help of international experts, which has not yet been adopted and requires further work. Especially for actual implementation, crowdfunding framework needs policy dialogue and further arrangements between policymakers in regards to its regulatory framework.

Crowdfunding, especially equity crowdfunding is a security and falls within securities regulation, which is overseen by National Bank of Georgia. At the same time such mechanisms for early financing should be excluded from current stringent securities market regulatory framework, so that the legal relations in regards to crowdfunding are not seen as too costly and/or complicated for entrepreneurs trying to have better access to finance.

ICS will cooperate with NBG and MoESD in order to facilitate an inter-policy dialogue and make sure that implementation and supervision policy views are aligned between all stakeholders.

Counterparty: MoESD, NBG, GITA

## **VI. Business Disputes & Judiciary**

A well-functioning judicial system free of any undue influence has a significant bearing on the country's economic competitiveness and its attractiveness for investments. IC believes that Georgia's less than enviable position in this regard, showed, among others, by the Global Competitiveness Index should be addressed to give the country a chance to succeed in the global competition for FDI especially in light of changing FDI geography due to COVID 19 pandemic.

IC intends to draw the attention of the state actors and other stakeholders to the need for reforms in the judiciary with the emphasis on the resolution of business disputes, which is, an important precondition for various other FDI-related efforts of the government to succeed.

Yet another direction of reforms should be resolving the problem of the case overload of the courts. A part of the solution might be the creation of a special procedure for resolving petty disputes and continuous support for ADR mechanisms (mediation & arbitration).

Counterparty: GoG, HCOJ

## **VII. Company Law Reform**

The new Law on Entrepreneurs (LoE) envisages fundamental changes to the existing company legislation to increase the predictability of the legal framework for practitioners and judges alike.

Furthermore, the draft transposes EU company law directives covered by the EU-Georgia Association Agreement into Georgian Law.

ICS Company Law Working Group has been actively involved in the review process of the draft law starting from 2016. ICS also contributed to the drafting of the annotations to the provisions of the draft published by the GIZ Legal Transition Project.

The new law has been approved by the Parliament of Georgia on August 2nd, 2021. On December 20, 2021, ICS hosted an online discussion on the newly adopted law. All stakeholders – commercial lawyers, public registry, judiciary, academia, and members of the parliament - have attended the meeting. The participants discussed several areas where the new law might require attention, including minor legislative changes. ICS has gathered written feedback from the stakeholders as of further improvement of the law.

Towards the same end, ICS started cooperation with USAID Economic Governance Program to create a LoE implementation monitoring platform. The initiative aims to track and analyze the implementation of the new law including registration and court practice based on the new law and pertaining secondary legislation and if necessary, advocate for necessary modification to the new legal framework to make the LoE more business-friendly.

ICS and USAID EGP will be devising coordinated action-plan including active participation of the ICS company law working group, experts, practicing lawyers, and judges.

Counterparty: MoJ, MoESD

## **VIII. Insolvency Reform**

IC has been actively involved in drafting the new Insolvency act of Georgia (Law on Rehabilitation and Collective Satisfaction of Creditors) to replace the often-criticized Law on Insolvency Proceedings of 2007.

Georgian Parliament has adopted the new Law on September 18, 2020. Its provisions became fully effective from April 1, 2021.

MoJ adopted the secondary legislation necessary for the new legal framework to start working. Namely, normative acts to regulate the profession of insolvency practitioners: authorization and creation of the unified registry of insolvency practitioners as well as the electronic system for a random assignment of insolvency cases to insolvency practitioners.

ICS was involved in training the first candidates to become insolvency practitioners and also participated in PPD events to analyze the first data regarding the implementation of the new insolvency law organized by the USAID Economic Governance Program (USAID EGP).

Since the introduction of the new legal regime relevant court and legal practice started developing, however, it needs support and further development.

ICS intends to cooperate with the Business Rehabilitation and Insolvency Practitioners Association (BRIPA) and USAID EGP to monitor the implementation of the new insolvency legislation and support its further improvement.

Counterparty: MoJ

## **IX. Ownership of Agricultural Land**

On June 25, 2019, the Parliament adopted in final hearing two relevant laws:

- (i) Organic Law on Agricultural Land; and
- (ii) Law on Determination of designated purpose of land and sustainable management of the agricultural land

The new legal regime creates a possibility for foreign or foreign-controlled enterprises to own the agricultural land based on an investment plan subject to governmental approval.

Drafts of the Organic Law on Agricultural Land and Law on Determination of designated purpose of land and sustainable management of the agricultural land have been reviewed and extensively commented on by the IC Land Law Reform Working Group.

After the adoption of the above laws, IC organized several meetings with the Land Management Agency and the Ministry of Environmental Protection and Agriculture (MEPA) to discuss the new legislation and remaining challenges for foreign investments in the agricultural sector.

Furthermore, ICS worked closely with MEPA and the Land Management Agency to draft the regulation “on submission and approval of investment plans” and several draft decrees of the Minister regarding technical issues related to the functioning of the Land Management Agency. All necessary laws and subordinated normative acts ICS worked on have been adopted by the relevant authorities (Parliament, Government, MEPA).

In agreement with the Land Management Agency, IC members nominated Executive Director of the Business Association of Georgia (BAG) as a member of the Council of the Agency.

Now as the new legal framework for ownership of agricultural land by foreigners and foreign-owned companies is in place, ICS will continue monitoring the process to see how encouraging the new regime is for foreign investments in the agricultural sector and will work with all stakeholders to refine the relevant legal framework based on the first results.

Counterparty: MEPA, MoESD

## **X. Development of Regulatory Impact Assessment (RIA) platform**

From January 2020, according to the latest changes to the Organic Law “On Normative Acts”, preparation of regulatory impact assessment (RIA) documents is obligatory for the legislative acts provided by the relevant Governmental resolution. Furthermore, upon a decision of the Government, RIA is obligatory for the legislative drafts prepared by the Government. RIA methodology has been approved by the Governmental resolution No. 35 of January 17, 2020.

In cooperation with IC members, other business organizations and USAID Economic Governance Program, ICS considers supporting the creation of a peer review platform for qualitative and quantitative evaluation of the RIA documents developed by the Government and concerning the investment and business environment in Georgia. In particular, the ICS can facilitate cooperation of the business representatives with the necessary expertise with the experts engaged by USAID EGP to review RIA documents prepared by various government agencies.

ICS and USAID EGP will continue cooperation to develop a viable concept of ICS cooperation with the RIA peer review platform to ensure the quality of RIA documents prepared on the relevant legislative initiatives of the government and the ministries.

Counterparty: MoESD, MoJ, MoF

## **XI. Revisiting Labor Law Reform**

In September 2020, the Georgian labor law underwent significant reform. The main areas that have been addressed are:

- Expansion of rights of the Labor Inspection,
- Working time, rest time, overtimes, and night work,
- The obligation of employers to recoding working time of employees,
- Labor contracts and dispute resolution mechanisms.

ICS considers the establishment of a working group to analyze the practice of the labor legislation after the above reform and its strengths and weaknesses and to evaluate its effectiveness and possible deficiencies.

The objective of the effort will be to identify challenges the reform might be creating for Georgian business organizations and can be further addressed to meet the needs of employers and employees alike. There also might be a need to bring concepts introduced by the reform in line with the purpose and content of the relevant EU Directives not to place an excessive burden on employers especially, small and medium-sized enterprises.

Counterparty: MoH, MoESD

## **XII. Public Procurement Reform**

The importance of development/improvement of the public procurement system of Georgia is recognized as one of the crucial processes in respect to overall economic development, especially in the context of the EU-Georgia Association Agreement, which includes in Title IV a dedicated Chapter 8 on public procurement, comprising Articles 141-149 and an associated Annex XVI.

Adoption of the new Law on Public Procurement of Georgia, as well as related bylaws (being part of DCFTA Implementation Action Plan), following broad discussion with business sector representatives might contribute to the development of public procurement system in Georgia. It is important to ensure further digitalization of the procedures and development of e-services e.g. ensuring acceptance of electronic signatures on bank guarantees, create database for contractors, etc.

Counterparty: State Procurement Agency (LEPL), GoG, MoESD

## **XIII. Assistance to the Georgian National Tourism Administration**

Before the COVID-19 pandemic, the tourism and hospitality sector represented one of the biggest sectors of the Georgian economy, and it was rapidly growing every year. However, after the start of the pandemic in 2020, it has been the hardest hit sector in the Georgian economy. Since 2021, the tourism recovery process has started, but the number of international visitors remains low compared to pre-pandemic figures.

Since 2018, IC cooperated with the agency and in periodic meetings provided ideas and suggestions for the annual budget and overall strategy. However, the COVID-19 crisis presented extraordinary challenges to the sector and they require an equally radical response. Implementation of proper tourism policy, safety rules and development of the new resorts and destinations (wellness resorts, mountain resorts, etc.) can support the tourism recovery process. Pandemic and Post-pandemic tourism policy should reflect renewed needs of international travelers. The members of IC agree on the significance of assistance to the sector. For that matter, the IC will work closely to provide advice to GNTA and MoESD.

Counterparty: GNTA, MoESD

#### **XIV. Reforms in Energy Sector**

Energy security of the country is one of the key issues where the Investors Council is keen to engage more actively. Electricity market development is particularly crucial in this regard. Electricity generation via renewable sources (hydro, wind, solar) has a potential to be one of the most attractive sectors for the investors. However, number of circumstances resulted in decrease of FDI in energy sector in recent years.

The IC intends to address the problematic issues of the sector through a working group comprised of industry experts, representatives of companies and investors involved in the sector, IC members, IFIs and development partners. The issues of overall sector strategy and legislative framework, investor aftercare, development of exchange market, power purchase agreements (PPAs), public-private partnership (PPP), and improvement of grid have been identified as most pressing so far. In order to achieve tangible results, the working group will work closely with key government agencies, most importantly the MoESD, Georgian Energy Development Fund (GEDF), Georgian Energy Exchange, GNERC, etc.

It is also important to define specific measures and climate changing mitigation policies in the energy sector as it is the biggest contributor to GNG emissions in Georgia with 60.4% of the total. IC intends to support the reforms and obligations that Georgia took on climate change and environment which also have major implications for restructuring energy sector, especially in transition to renewable energy sources.

Counterparty: MoESD, GEDF, MoF, MEPA, GNERC

#### **XV. Support Enterprise Georgia's "Invest in Georgia"**

It is agreed that Georgia needs to develop a comprehensive investment policy statement, through advocacy and coordinated approach among different stakeholders further strengthen the FDI attraction function, improve high-level aftercare system – related to regulatory and policy challenges that investors face and correspondingly improve one-stop-shop services.

IC prioritized the importance of improvement investors' aftercare system and initiated technical assistance project that will be financed and led by EBRD. The project envisages to prepare the gap analysis and deliver capacity building workshops for Enterprise Georgia (EG) staff in order to enable delivery of high quality and targeted aftercare services.

IC will continue providing recommendations around the specific promotion programs, which could be attractive for potential investors (e.g. Citizenship by investment program, etc.) and steer Enterprise Georgia's activities in regards of development and implementation of the FDI strategy and to identify new sectors for investment.

Counterparty: EG, MoESD



## **XVI. Challenges in Obtaining Construction Permits**

Construction is one of the largest sectors of Georgia's economy. The sector has been exhibiting steady growth over past several years. Over the past several years, construction regulations have been tightening in line with general trend of harmonization with EU regulations. While this is undoubtedly a positive development, it is important to maintain efficiency of the procedures of issuing of construction permits and to ensure adequate quality control during construction. Complaints have been voiced by the representatives of the sectors regarding prolonged and nontransparent process of the permit issuance. Improvements in this direction will have a significant positive effect on development of the sector and on investor sentiment. The safety issues, both workplace safety and the safety of completed buildings and structures, are also very important.

ICS intends to consolidate the efforts of its members and create a working group, to identify specific shortcomings of regulations and inefficiencies of procedures, and provide policy recommendations to the relevant authorities.

Counterparty: MoESD, MRDI, Local Municipalities

## **XVII. Reforms of the State Owned Enterprises (SOEs)**

State Owned Enterprises' efficiency and prudent management in Georgia is important for economic and social reasons. It is also crucial to retain fiscal risks and reduce the burden on taxpayers from recurrent and large bailouts. SOEs employ more than 56,000 people in Georgia. Their financial performance need to be improved as according to MoF, almost all 142 SOEs are loss-maker and they suffered a total loss of more than 1 billion GEL in 2020.

IC shares the IMF's idea that comprehensive reform in this area is "critical" and express readiness to support and be involved in the process. Successful implementation of the reform could lead to successful privatization of the nonstrategic Stated Owned Enterprises and consequently contributing to FDI inflow.

Counterparty: MoF, MoESD

## **XVIII. Pension Reform**

Pension Reform envisages the management of investments and administration of the pension assets within the pension savings scheme, in accordance with the interests of the participants throughout the territory of Georgia. Contributions are envisaged to be invested in a variety of reliable financial instruments, which shall lead to: a) Decent life at the pension age; b) Poverty reduction; c) Creation of large-scale investment capital base; d) Development of the local capital market; e) Powerful stimulus to accelerate the economic growth; f) Creation of new workplaces; and g) Increased income.

The current pension scheme in place consists of the universal pension payouts system (Pillar I) and a contributory pension savings scheme (Pillar II). According to the reform plans of the Government of Georgia Pillar I and Pillar II pension schemes should be complemented by the establishment of a fully private pension scheme (Pillar III), to create further mechanisms for the provision of a decent standard of living to its elderly citizens.

The reform resonates with the commitment of the country under the EU-Georgia Association Agreement to harmonize the domestic legislation to the EU Directive (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORPs).

Since it is newly launched reform and taking into consideration the challenges posed by Covid-19 pandemic, there is a need of technical assistance, which, inter alia, covers directions concerning IT infrastructure (software / hardware) development, digitalization of the processes, capacity building and awareness raising activities in order to deliver information on the benefits of the reform to various target groups and ensure smooth and unhindered operation.

ICS intends to cooperate closely with MoESD and Pension Agency that oversees the coordination of the reform efforts of all stakeholders in supporting the reform, including by offering IC platform for the public-private dialogue.

Counterparty: MoESD, MoF, NBG, Pension Agency (LEPL)

## **XIX. Development of Pharmaceutical Market**

According to numerous studies Georgia holds competitive advantage in Pharmaceutical production and has a significant export potential. Meanwhile, one of the main challenges recognized the lack of internationally accepted manufacturing standards (GMP - Good Manufacturing Practice).

In 2020-2021 IC was actively involved in the implementation of GMP standards and supported public private dialogue. In the first stage of the reform, pharmaceutical companies included in the list of state support mechanisms of Enterprise Georgia. Also, VAT refund procedures were introduced on importing machinery and equipment for the development of pharmaceutical production, and existing local producers and exporters were granted with sufficient time for the implementation of GMP standards.

Government declared that reforms will continue and will cover the sector wider. In this regards, IC emphasizes readiness to participate in working groups in order to ensure adoption of EU best practices and support successful implementation of the reform.

Counterparty: MoH, MoESD, EG

## **XX. Development of Financial Center**

Recently Government declared about the intention of the development of Tbilisi Financial Center, that will be a Special Economic Zone, which will exclusively offer financial services.

According to initial idea, the zone will cover the following segments: wealth management (enabling Trust services in Georgia); asset management (supporting Investment Fund Industry); Fintech (including clear regulatory framework for digital and crypto assets) and commodity and derivatives trading. It is planned to develop a district to attract High-Net-Worth Individuals from CIS region, Middle East and Eastern Europe.

Government intends to create a special legal regime, special regulatory regime and special fiscal regime. Legal regime will provide further security to the investors for their permitted activities within the zone, will establish a regulatory body that will oversee the activities, zone will also have a special arbitration center to resolve disputes that arise within this center, regulations will be liberal and based on the common law principles, while fiscal framework will enable beneficial treatment for companies that will operate within permitted segments.

IC will closely work with MoESD in order to support development of the zone, bring expertise and find best practices.

Counterparty: MoESD

## **XXI. Support Digitalization Process in Public Sector**

It is important to encourage relevant government agencies to increase the scope and quality of the digital services they are offering, especially in the financial sector, transportation and logistics. The first relevant project that was initiated by ICS and is led and financed by EBRD, assists the Maritime Agency of Georgia to prepare a feasibility study for the development of a port community system in the Georgian ports to contribute to the full integration and digitalization of the maritime transport chain. In 2021, ICS with close cooperation of MoF and Revenue Service (RS), initiated development of Unified Tax and Customs Platform that is a part of the Tax Dispute Reform (TDR).

Further development of e-governance services to maintain high positions in international rankings should also be among the priorities. According to the 2020 assessment, e-government score of Georgia is 0.72, which puts the country in 65th place among 193 countries. Two years ago, Georgia was ranked 60th with a score of 0.69. Even though, Georgia has improved its score by 0.03 points in 2020, it dropped in the ranking by 5 positions. This can be attributed to a higher rate of development shown by other countries in comparison to Georgia.

ICS will continue working with different government agencies and IC members to promote development of e-services as a part of the county's investment attraction strategy.

Counterparty: MoESD, MoJ, MoF

## **XXII. Gender Equality**

In August 2021, the ICS has engaged a part-time resource to provide gender-expertise and to conduct gender impact assessments of the Council's policy interventions. In addition, the ICS will actively contribute to the policy discussions and reforms on women's economic empowerment (WEE) as women's empowerment and WEE is directly linked with gender-sensitive investment climate.

Since 2021, the Parliament of Georgia and its Permanent Gender Equality Council (GEC) has taken a great interest in advancing women's economic empowerment agenda. The GEC Chair has recently announced that the WEE policy discussions will be a top priority in 2022, including the aspects of access to finance, and gender-based discriminatory norms. The ICS has already provided inputs to the draft of the first national concept note on women's economic empowerment drafted by the Parliamentary GEC. The ICS will continue liaising closely with the GEC on the WEE agenda, and will facilitate a policy dialogue between its members and the GEC to discuss the priority areas of the concept note and enhance the public-private dialogue.

In order to advance gender mainstreaming within the ICS and among its members, a Gender Equality Working Group (GEWG) has been established, with the objective to further contribute to relevant policy and legislative work. It will closely monitor policy developments around women's economic empowerment and general economic reforms, and identify the entry points for the IC to contribute.

Gender equality principles and women's needs will be taken into account while implementing all of the above-mentioned ICS initiatives in the Work Plan.

Counterparty: Parliamentary Gender Equality Council, Parliament of Georgia, MoESD, MoJ