

Milestones of Investors Council October 2020 – December 2020

Factoring Reform:

Georgia needs a modern legal and regulatory environment for factoring in order to help increase the use of factoring services and help SMEs to access alternative financing methods. Factoring is particularly useful for providing SMEs with access to working capital while helping to strengthen their financial resilience.

EBRD and the Investors' Council Secretariat established a Factoring Reform working group - with the participation of Begiashvili & Co law firm - that has been instrumental in drafting the Factoring Law. Members of the working group include the Ministry of Finance, the Ministry of Economy and Sustainable Development and the National Bank of Georgia, who are all key stakeholders of this reform, as well as the EBRD legal reform experts. Following several consultations with local financial institutions, the draft legislation has now been finalised and aims to resolve the current market gap.

The EBRD has long been promoting factoring through the activities of its Trade Facilitation Programme and through investments in financial institutions. Currently, factoring is experiencing a market revival due to the development of more sophisticated technical solutions which, in turn, require a more sophisticated legal foundation that this new legislation should now provide.

The benefit to the private sector: Factoring is when a third company (the buyer) buys a debt or invoice owed by one company (the debtor) to another company (the creditor), essentially transferring to it the ownership of the debt which it then chases up. The buyer pays the creditor less than the face value of the debt, providing the creditor with working capital to continue trading, whilst enabling the buyer to chase up the debtor for the full amount of the debt, from which the buyer then profits. Factoring is commonly used by exporters to help accelerate their cash flow. The process enables the exporter to draw up to 80% of the sales invoice's value at the point of delivery of the goods when the sales invoice is raised.

Once the new Factoring law is adopted by the Parliament, additional steps to promote the use of factoring will also be taken, such as:

- setting up a factoring operations registry through the National Agency of Public Registry
- the separation of factoring from debt collection;
- business education and marketing of factoring;
- the promotion of paperless and automated document flows;
- the protection of creditors' rights;
- the rethinking of factoring-related risk assessment;
- the establishment of a factoring risk insurance framework; and improved legislative regulation.

Next steps: The ICS and the Factoring Reform working group will recommend approval of the new law at the next IC meeting.

Leasing Market Development Strategy:

The Investors' Council Secretariat is leading work on a strategy to develop a leasing market in Georgia. A working group has been created and the UK Government's Good Governance Fund has approved an associated Technical Assistance project through its Managed Fund. International Experts and local consultants will work closely with the Ministry of Economy and Sustainable Development, Ministry of Finance and the National Bank of Georgia, Leasing Companies Association and other representatives from the sector to develop the leasing market development strategy. Legislative changes will also be required to improve the performance of the lease financing market.

The benefit to the private sector: Leasing is a proven tool for financing growth of Micro, Small and Medium-size Enterprises (MSMEs) by increasing access to finance, while stimulating fixed capital formation and helping companies to be more competitive.

Lease financing is one of the most important sources of medium and long-term financing where the owner of an asset gives another individual the right to use that asset against periodic payments. Leasing is a particularly helpful financing option for MSMEs needing to purchase expensive machinery and/or equipment for their business operations to improve productivity.

Next Steps: The ICS is working on finalising a comprehensive leasing strategy by Q2 2021.

In order for leasing to have a significant impact on Georgia's economy, the legislative and tax environment should incentivise and allow leasing companies to develop targeted products to meet market needs. Operational capacity at all levels of government agencies/regulatory bodies is also required, as well as greater awareness of leasing financing options amongst MSMEs.

The objective of the project is to promote a more developed and competitive lease financing sector in Georgia which will respond more effectively to the financial needs of the private sector, particularly MSMEs.