

Minutes of the Second Meeting of the Investors Council

17th February 12:00 at the State Chancellery chaired by the Prime Minister of Georgia, Giorgi Kvirikashvili

Present at the meeting

Participating Members of the Investors Council:

- Giorgi Kvirikashvili, Prime Minister, Chair of Investors Council
- Dimitri Kumsishvili, Vice-Prime Minister, Minister of Economy and Sustainable Development
- Nodar Khaduri, Minister of Finance
- Nodar Javakhishvili, Minister of Regional Development and Infrastructure
- Ilia Eloshvili, Deputy Minister of Energy
- Giorgi Gakharia, Business Ombudsman
- Sarah Williamson, President, American Chamber of Commerce in Georgia
- George Chirakadze, Chairman, Business Association of Georgia
- Nino Chikovani, President, Georgian Chamber of Commerce and Industry
- Zviad Chumburidze, President, EU-Georgia Business Council
- Aleksi Aleksishvili Vice-Chairman, International Chamber of Commerce Georgia
- Bruno Balvanera, Director for Caucasus, Moldova and Belarus, EBRD
- Jan Van Bilsen, Regional Manager for South Caucasus, IFC
- Yesim Elhan Kayalar, Country Director, Asian Development Bank
- Mariam Megvinetukhutsesi, Head of IC Secretariat

Invited guests:

- Giorgi Tabuashvili, First Deputy Minister of Finance
- Nodar Kereselidze, First Deputy Minister of Agriculture
- Ketii Bochorishvili, Deputy Minister of Economy and Sustainable Development
- Giorgi Pertaia, Head of Georgian National Investment Agency
- John Gabriel Goddard, the World Bank
- Eric Livny, ISET Director, Chairman of Economic Commission of ICC
- Umit Aydogan, Member of the Board, Georgian Turkish Business Association (GURTIAD)
- Milo Stevanovich, Chief of Party, Governing for Growth in Georgia
- George Welton, Executive Director, American Chamber of Commerce
- Irina Kvakhadze, Deputy Executive Director, Georgian Business Association
- Loretta Martikian, Advisor, EBRD
- Givi Giorgadze, Business Analyst, Investors Council
- Leila Urazbaeva, EBRD

Progress on decisions of the previous IC meeting dated 29th October 2015

1. Legislative changes to address the Court injunction practices

AmCham (American Chamber of Commerce in Georgia) has been leading the process by working closely with the lawyers and the Ministry of Economy and Sustainable Development. The new law that they have drafted is aligned with the US model for applying injunctions and involves three key principles

- Injunctions are not applied without cause
- They are proportional to the amount of the claim.
- They take into account the harm done to the person whose assets are frozen – and ensure for redress if necessary

The Minister of Economy and Sustainable Development noted that drafting of the respective legislative changes was in progress.

2. Creation of the Mechanism for Public Disclosure of Draft Legislation

The World Bank representative took the lead on this topic suggesting that there should be an efficient structure in place to provide a transparent mechanism of publishing draft laws online for public to have an opportunity to comment.

The priority is to agree on the time when a draft law should be shared with the public for feedback.

The Business Community acknowledged good cooperation with the Ministry of Economy and Sustainable Development and expressed willingness to communicate with other government entities in the same manner.

Comments:

- The Ministry confirmed that since the beginning of the year any changes in 20 laws with major economic impact would be posted on "Sakanonmdeblo Matsne" 2 weeks prior to the draft law being presented to the Parliament;
- In the WB's and the IC's view however, the process of the public consultation still needs to be fine-tuned. The main issue is whether a draft law should be presented for public consultation before it goes to the Parliament or before it is finalized within the government, even at the concept paper level. It is also believed that a two week consultation period is usually not sufficient enough;

Business Community believes that there should be a comprehensive and well-functioning mechanism in place for the businesses to be able to work with the Government and be more involved at early stages of drafting legislation.

The Prime Minister's position:

- The Prime Minister considers it important to have feedback from the business community on this matter;
- However, it is important to take into account the nature of the law and urgency of its implementation. There should not be a standardized, one rule for all; each law should be considered based on its urgency and complexity. However a minimum of 2 weeks should prevail;

The IC has agreed that it will create a working group with major input by the World Bank, to come up with the most suitable proposal for creation of such a mechanism.

Discussion on topics of the meeting

3. Tax Administration

The IC established a working group largely supported by AmCham to identify key problems with tax audit process. The group had a number of visits to the Revenue Service and key problems faced by businesses were identified and discussed.

Freezing all bank accounts of the companies paralyses them. It was suggested that the tax lien should be proportionate to the liability in order to allow companies to continue functioning. In addition, freezing of bank accounts should be enforced only as a last resort in cases where the RS believes the assets may disappear.

The Prime Minister's position:

- The Chair agreed that the tax lien should be proportional to the liability;
- The Prime Minister requested the IC members to form a working group with reputable tax experts in order to propose best practices to be adopted by the RS;

Estonian model

With regard to the Estonian Model, Business Association of Georgia was vocal in terms of including banks (one of the most successful and profitable players of the economy) into the tax model.

It was highlighted that if the banking sector was left out, it would create much resentment amongst the industry participants and send negative message to the International Investor community, since two largest banks were listed on the London Stock Exchange.

It has also been suggested as a compromise to include the banking sector at the beginning with the condition that it will be applicable for the banking sector in 2-3 years' time.

The Prime Minister's position:

- The Prime Minister agreed that the banking sector should be included but the key question was when;
- The Prime Minister also suggested the option of including the banks in the proposed new scheme simultaneously with other sectors subject to banks creating a start-up financing facility to support the inspiring ideas and entrepreneurs;

Additionally, the business associations highlighted that, while they support this policy 100% and that the business associations are excited by the prospect of the reform and the positive results it will bring, it is crucial that the implementation takes place in a way that does not create administrative frustrations and uncertainty for the business community. A poorly communicated, prepared and implemented policy, they argued, could undo the good-will created by the policy itself.

Decision: In order to facilitate the best advice, consultation and clarity of information flow, the IC will create a working group to work with the Revenue Service (RS) on the Tax Administration platform and the implementation plan for the Estonian model.

4. Increasing Attractiveness of Investing in Georgia

As one of the measures to increase Georgia's visibility and to improve communication with the public locally and internationally it has been proposed to:

- Select the most attractive sectors of the economy and show case those abroad to all potential investors;
- Launch strong advertising campaigns for international community;
- Target Georgians living abroad cultivating emotional attachments, offering incentives to invest in Georgia;
- "Come Home" initiative presented by Eric Livny, who shared Israeli experience in attracting the diaspora back to Israel;

In addition, the concept of the "Business House" was discussed. It was acknowledged that the Government has already started to work on this idea and GCCI and BAG have also done extensive research on the concept, which would see the creation of a one-stop customer oriented front desk, able to advise local and international, existing businesses and start-ups on how to register, obtain license, receive any additional technical support and/or advice. The IC is ready to commit resources to work further on this initiative.

The Prime Minister's position:

- The Prime Minister will instruct the Ministry of Diaspora to work with Eric Livny to produce a concept paper for further implementation of the Georgians Come Home Concept.

- The Prime Minister welcomed the fact that the IC is well advanced on the “Business House” concept. He urged and encouraged the IC to engage with the Ministry of Economy and Sustainable Development and the Ministry of Justice in order to define the best model that should be ready to be implemented in 2 months’ time.

5. VAT Exemption on Imported Capital Goods

A discussion on proposed changes to VAT taxation rule/procedure on imported capital goods was initiated by the IC Members.

The Prime Minister’s position was to further continue discussion of the legislative initiative with the Revenue Service in order to ensure that this initiative is formulated in such a way to encourage investment, but also to provide a level playing field for all market participants.

6. Insolvency reform

The IC invited Milo Stevanovich, Chief of Party of G4G to present to the IC the inadequacy of the current insolvency system in Georgia, which translates to ranking of 102 in Doing Business rating by the WB. Therefore, there is a need for:

- a new law;
- a specialized legislation governing insolvency office holders;
- an appointment of the most appropriate regulatory body;

The Prime Minister’s position:

- The Prime Minister requested to establish an insolvency reform working group that would communicate with the Ministry of Economy and Sustainable Development and the Ministry of Justice to come up with the most business centric draft of the law to be proposed to the Government.

It was agreed that next meeting would take place within 6-8 weeks. The exact date to be finalized with the Prime Minister’s administration.

One topic has been accepted to be addressed at the next IC meeting with others to be proposed and agreed later:

1. **Improving the Judiciary System**– comprehensive study of current situation and identification of ways to address this major problem the country faces today including

capacity building etc. Exploration of ways to offload courts via promotion of alternative dispute settlement mechanisms for commercial cases, etc.

The Prime Minister proposed that at the next IC meeting, the Minister of Justice be invited to present the reform plan to the IC.

HE Giorgi Kvirikashvili
Chair of Investors Council

Mariam Megvinetukhutsesi
Head of IC Secretariat