

Minutes of the 22nd Meeting of the Investors Council

March 22, 2024

Chaired by the Prime Minister of Georgia Irakli Kobakhidze

Present at the meeting

Participating Members of the Investors Council:

- Irakli Kobakhidze, Prime Minister, Chair of the Investors Council
- Levan Davitashvili, First Vice Prime Minister, Minister of Economy and Sustainable Development
- Otar Shamugia, Minister of Environment Protection and Agriculture
- Rati Bregadze, Minister of Justice
- Irakli Karseladze, Minister of Regional Development and Infrastructure
- Giorgi Kakauridze, First Deputy Minister of Finance
- Alkis Vryenios Drakinos, Regional Director for Caucasus, EBRD
- Mark Clayton, Ambassador of the UK to Georgia
- Ivana Fernandes Duarte, Regional Manager for the South Caucasus, IFC
- Rolande Pryce, Regional Director for the South Caucasus, the World Bank
- Irakli Baidashvili, President, American Chamber of Commerce in Georgia
- Samson Pkhakadze, President, Business Association of Georgia
- Zviad Chumburidze, Secretary General, European Georgian Business Council
- John Braeckeveldt, Chairman of the Board, European Business Association
- Otar Danelia, Business Ombudsman of Georgia
- Giorgi Cherkezishvili, Head of the Secretariat, Investors Council

Invited Guests:

- Levan Zhorzholiani, Head of the Government Administration
- Ilia Shamugia, Deputy Head of the Government Administration
- Levan Vepkhvadze, CEO, Business Association of Georgia
- George Welton, Executive Director, American Chamber of Commerce in Georgia
- Magda Bolotashvili, Deputy Director of the Georgian Chamber of Commerce and Industry
- Ani Gabrichidze, European Georgian Business Council
- Chris Reilly, Head of Georgia Programmes, British Embassy
- Levan Pangani, Economic and Commercial Officer, British Embassy
- Lina Jikia, Legal and Public Policy Director American Chamber of Commerce in Georgia
- Giorgi Svanadze, Head of Legal Committee, European Business Association
- Loretta Martikian, Public Relations and Communications, EBRD
- Nicola Lipari, Governance Associate, EBRD
- George Jugeli, Legal Expert, Investors Council Secretariat
- Salome Mekvabishvili, Business Analyst, Investors Council Secretariat

Opening Remarks

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Welcomed participants of the 22nd IC meeting and expressed willingness to discuss proposals aimed at further improving the climate and environment for conducting economic activities and fostering investments in Georgia.
- Highlighted the positive trends in the Georgian economy since 2020, such as high economic growth rates and favorable figures in fiscal consolidation.
- Outlined the economic opportunities stemming from new geopolitical circumstances, with a special emphasis of the Government on improving connectivity.

Mark Clayton, Ambassador of the UK to Georgia:

- Extended formal congratulations to the Prime Minister on the appointment.
- Confirmed that the UK Government will continue working with EBRD to further support the dialogue through the Investors Council (IC) mechanism.
- Highlighted that the dialogue over the years has delivered concrete achievements and outcomes which have significantly enhanced the attractiveness of Georgia for investors and have contributed to the impressive growth highlighted by the Prime Minister.

Alkis Vryenios Drakinos, Regional Director for Caucasus, EBRD

- Stated that EBRD has maintained a relationship for over 30 years with Georgia, emerging as a prominent example among the 38 countries where EBRD operates. Georgia stands out as an exemplary country in terms of its commitment to reforms, reform appetite, and the tangible results achieved.
- Highlighted that in 2015, Georgia became one of the inaugural countries where EBRD initiated the Investors Council concept, aiming to foster closer ties between the investor community and the government.
- Expressed gratitude for the prudent financial support of the UK Government, which has significantly supported the Investor Council's ongoing operations.
- Outlined that over the years, EBRD has implemented numerous initiatives in Georgia, resulting in cumulative investments totaling 5 billion euros across nearly 300 projects. With the current progress indicating favorable outcomes, EBRD in Georgia is anticipated to experience a record year, reflecting the positive trajectory of operations within the country.
- Extended congratulations on the recent appointment and wished the Prime Minister the best of luck in their new responsibilities, while also assuring them that support will be provided as needed.

Giorgi Cherkezishvili, Head of Investors Council Secretariat:

- Provided a brief description of the progress of IC within different working groups in close cooperation with the Government agencies:

- Georgia's ranking in OECD Country Risk Classifications has improved from the 6th to the 5th category. The topic was discussed during the IC Meeting in July and was a result of fruitful cooperation with MoF.
- The Law on Securitization was adopted in December 2023. This marked yet another successful cooperation between the IC members, international financial organizations, business associations the MOESD, NBG and Parliament of Georgia.
- Changes to the Law on Entrepreneurs were adopted by the Government and the Parliament, extending the deadline for one year for the re-registration of legal entities based on the requirement of the new Law. Additionally, individual proprietors and non-commercial entities were relieved of the re-registration obligation, as discussed during the previous IC Meeting.
- The IC permanent working group has concluded the proposed amendments to the Law on Entrepreneurs and submitted them to Parliament for further discussions.
- With the support of the UK Good Governance Fund and the British Embassy in Georgia, a gender impact assessment (GIA) of the law on entrepreneurs has been developed, and its findings are scheduled to be presented in April.
- The IC gender working group, in collaboration with the Georgian Chamber of Commerce and Industry, Gender Equality Council of the Parliament, and UN Women, has drafted legal amendments to institutionalize the certification of women-owned businesses. This initiative addresses gaps in the legislative framework by defining the certification process and concept. It will be submitted to Parliament shortly.
- With the support of EBRD, a feasibility study was concluded last year for establishing a factoring transactions registry within the Ministry of Justice's public registry system. Close collaboration with the MoESD and the NBG resulted in the development of a draft law. Adoption of the law is anticipated shortly.
- The IC with the support of UNDP and the Swedish Government, has started research on the regulatory framework of higher education (internationalization) in Georgia. The project aims to provide recommendations on policy and development of the sector and will be finalized in April.
- The legislative initiative on the Protection and Promotion of Investments and the FDI strategy for 2024-2028 are currently in progress and expected to be finalized in May. Both projects are supported by the IFC, and experts are working closely with the MoESD and Enterprise Georgia.
- The IC collaborates closely with MoESD on a feasibility study exploring Con trailer transportation—a system utilizing specialized railway platforms for truck and trailer movement. Azerbaijan government agencies are also involved in the project implementation. The study is funded by EBRD and the tender has already been announced.
- The IC Green Economy Transition working group participated in national consultations on Climate Law. In collaboration with EBRD, they work closely with the MEPA to digitize environmental permitting procedures. EBRD has secured project financing and will assist the Ministry in assessing and implementing IT solutions for environmental permits.
- EBRD supported projects on digitalization of the construction permits of the MoESD and development of the Artificial Intelligence solutions in the customs formalities of the MoF are in their final phase.

- With the support of the EBRD, EU and UK Government's Good Governance Fund, the implementation phase of the development of the Port Community System has been launched in October 2023. The project will be fully completed in 2025.
- Noted that every year, the IC presents and updates its Work Plan 2024-2025 for the next two years which guides the organization's activities. These topics are shared with all stakeholders and is publicly available.

EU Approximation

John Braeckveldt, Chairman of the Board, European Business Association

- Highlighted that Georgia was granted EU candidate status and an open letter from the IC member Business Associations sent to Brussels, addressed to Charles Michel and Ursula von der Leyen.
- Outlined the importance of EU membership for businesses as a potential to access the European market of 500 million consumers as it facilitates easier export opportunities for Georgian companies. Moreover, it attracts more investors to the country.
- Stated that close communication with the European Delegation is maintained, particularly regarding EU Commission reports, as these directly impacts businesses.
- Thanked the Government for engaging in public-private dialogue in recent years and expressed hope for increased dialogue this year, with a focus on discussing legislation before enactment to address potential implementation challenges.
- Mentioned The EU Business Climate Report conducted in November 2023, which emphasized the growing role of business associations and support organizations, underscoring the need to ensure alignment of business concerns with government agencies.
- Stated that IC serves as a vital platform for facilitating public-private dialogue and is crucial for the business community.

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Highlighted European integration as both a national and constitutional objective.
- Mentioned a structured 9-point plan followed by the Government and expressed optimism regarding the potential decision by the European Council in December to initiate accession talks, underscoring its unwavering commitment to actively contribute to this process.
- Recognized the pivotal role of European integration in bolstering the Georgian economy, and improving the investment environment and reaffirmed the dedication of the Government to pursuing this goal.

Development of the Insurance Sector – Third-Party Liability Insurance

Alkis Vryenios Drakinos, Regional Director for Caucasus, EBRD:

- Recommended necessary reforms to address the third-party liability insurance issue, highlighting that Georgia stands out as the only country in the region lacking third-party liability legislation. This gap has significant implications for the country and its drivers.

- Outlined that the implementation of such reforms is expected to have a substantial impact on the market, facilitating the entry of major car rental companies into the tourism sector and enabling local companies to rent vehicles to foreign citizens. This is anticipated to have positive economic effects and contribute to the development of the insurance market.
- The aim of the reform to alleviate the burden of potential liability faced by Georgian citizens in case of involvement in accidents was also noted.

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Stated that this topic is on the parliamentary agenda, and consensus was reached on certain details, allowing for progress in this regard.

Recent Developments in Commercial Arbitration

Irakli Baidashvili, President, AmCham Georgia:

- Extended congratulations and best wishes to the newly appointed Prime Minister on behalf of all members.. Emphasis was placed on the commitment to collaborative efforts.
- Outlined that arbitration is crucial in Georgia's corporate landscape, facilitating swift resolution of commercial disputes and easing strain on the overloaded court system, essential for Georgia's aspirations as a regional commercial arbitration hub.
- Stated that arbitration in Georgia has encountered certain difficulties recently stemming from the newest developments in the case law with respect of conflict of interest rules. This might undermine the arbitration system and discourages lawyers from participating in arbitration, thus hindering efforts to establish Georgia as an arbitration hub.
- Suggested forming working group of diverse experts to develop both short-term and long-term strategies collaboratively, addressing regulatory issues related to arbitration.

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Confirmed readiness to establish a working group, adding that if legislative changes are deemed necessary to enhance commercial arbitration, those considerations could be included in the discussions.

Middle Corridor – Current Challenges

George Welton, Executive Director, AmCham Georgia:

- Outlined the middle corridor along with EU integration as a significant issue for the Georgian economy.
- Noted that despite improvements observed in infrastructure, soft infrastructure, and regional cooperation the existing concerns from the business community highlights the areas where the Investors Council could enhance its efforts.
- Mentioned World Bank's report on the middle corridor dated 2023 which highlights a significant trend: while container transit saw a dramatic increase between 2021 and 2022, many of these gains were subsequently reversed between 2022 and 2023 due to the high costs and uncertainties

associated with the transit route. This resonates with concerns voiced by businesses and business associations. Highlighted notable expansion and the development of new port facilities, especially for transit originating from Central Asia and Kazakhstan. Despite ongoing efforts to develop Georgia's National Transport and Logistics Strategy, specifically aimed at increasing rail transportation to alleviate pressure on the system and enhance efficiency, there remains an opportunity for the Investors Council and business associations to contribute their practical knowledge. Cross-border issues, digitalization, and customs management were identified as weaknesses to be addressed.

- Suggested establishment of a Working group on the middle corridor, particularly with a focus on soft infrastructure as hard infrastructure issues have been successfully addressed by the Government.

Samson Pkhakadze, President, Business Association of Georgia

- Congratulated the Prime Minister for his new role and stated that his leadership is anticipated to maintain the crucial role of this platform, contributing to its continued effectiveness.
- Emphasized middle corridor's geopolitical importance and multimodal nature. Since in certain countries, along the Europe-China corridor transit routes rely solely on railway transportation, maintaining competitiveness to ensure direct engagement with other stakeholders in the middle corridor was also highlighted. Mentioned a container transfer fee of 30 LARI imposed by Poti and Batumi municipalities in 2023. While the fee itself may not pose significant trade barriers concerns arise regarding potential risks, particularly if neighboring countries implement similar measures, stressing the importance of competitive pricing to ensure the smooth flow of cargo through the corridor.

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Outlined that these discussions are perceived to be closely tied to the global context, encompassing political and economic developments both nationally and internationally.
- Acknowledged the interconnectedness of the middle corridor with Georgia's EU integration path.
- While efforts are being made to bolster Georgia's position regarding the middle corridor, the Prime Minister expressed readiness to discuss specific issues and broader aspects of the corridor with stakeholders.

List of Specific Industries with 48-Hour Work Weeks

Samson Pkhakadze, President, Business Association of Georgia

- Emphasized that within the context of a growing economy, the existence of a flexible labor code bears significant importance.
- Outlined that Parliament initiated amendments to the labor code following extensive discussions involving various associations. A consensus was reached to maintain the existing list of industries adhering to a 48-hour workweek. However, altering the list in late 2022 raised concerns that need to be promptly addressed.

- Further explained that in industries facing a chronic deficit of at least 20% of employees—such as retail, Horeca (hotel, restaurant, and café), and construction, which collectively contribute significantly to the Georgian economy—the recent change imposing a reduction in working hours from 48 to 40 per week presents notable challenges. This adjustment implies the need for 1.5 to 2 times more employees, contingent upon various factors such as the work environment and employee roles. Given the existing labor shortage, such additional demands are deemed unwarranted and exert significant pressure on businesses.
- Highlighted the labor code provision allowing employers to agree on a 48-hour workweek with employees, provided both parties agree, with a one-week notice requirement for exceptions. This notice period, however, presents a practical challenge for continuous employment where employees are expected to work 48 hours a week for 365 days.

John Braeckveldt, Chairman of the Board, European Business Association:

- Stated that as a European Business Association, they stand for EU values and EU standards, however, the labor code holds significant importance for businesses.
- Provided the example of countries like Poland, Bulgaria, and Romania where employees can work more hours if they sign the contract, without the requirement for a one-week notification. Adoption of similar practices was suggested to facilitate the business sector's needs.

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Stated that the upholding of strict rules is in line with discussions held before the adoption of the relevant legislation, guided by the requirements of international labor organizations.
- Expressed willingness to revisit the issue and continue consultations with the Ministry of Healthcare, acknowledging its role as the responsible entity for this matter.

Crimes Committed by Minors

Samson Pkhakadze, President, Business Association of Georgia:

- Highlighted the issues surrounding crimes committed by minors, particularly theft and robbery. After consultations with major supermarket chains, incidents of theft and robbery emerged as significant concerns.
- Suggested establishment of juvenile referral centres, where efforts can focus on reintegrating minors into society through counselling, education, and rehabilitation. This would address one of the key issues at hand.
- Outlined that Supermarket representatives have raised concerns about the sale of stolen products, particularly tobacco and branded items at open markets following robberies. These stolen goods are often sold at significant discounts. They suggest that law enforcement agencies could address this problem effectively after identifying locations.

Irakli Kobakhidze, Prime Minister, Chair of Investors Council:

- Suggested dedicating a separate meeting for the problem and finding the ways for its resolution.

Zviad Chumburidze, Secretary General, EUGBC:

- Extended best wishes to the Prime Minister and the team for successful activities and positive outcomes following Georgia's attainment of candidate status from the European Union, highlighting the historical opportunity to effect change and development in the country.
- Affirmed readiness to collaborate with the Georgian government in meeting the obligations that accompany the country's newly acquired candidate status from the European Union, emphasizing the importance of fulfilling these commitments for the benefit of Georgian society.