



EU BUSINESS CLIMATE REPORT GEORGIA 2023

TOWARDS THE EU CANDIDACY



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LIST OF ACRONYMS

ACDA	Former Agricultural Cooperative Development Agency
AEO	Authorized Economic Operator
APMA	Former Agricultural Projects Management Agency
BIn	Billion
BRIPA	Business Rehabilitation and Insolvency Practitioners Association
BSOs	Business Support Organizations
CEN	The European Committee for Standardization
CF	Cohesion fund
CIS	Commonwealth of Independent States
CPR	Construction Products Regulation
CTC	Common Transit Convention
DCFTA	The Deep and Comprehensive Free Trade Area
DFI	Development Finance Institutions
DIMMA	State Programme of Dairy Modernization and Market Access Program
EAFRD	European agricultural fund for rural development
EaP	The Eastern Partnership
EBA	European Business Association
EBRD	European Bank for Reconstruction and Development
EECP	European Economic Cooperation Platform
EFSE	European Fund for Southeast Europe
EFTA	The European Free Trade Association
EG	Enterprise Georgia
EIB	European Investment Bank
EIF	European Investment Fund
EMFF	European maritime and fisheries fund
ENPARD	European Neighbourhood Programme for Agriculture and Rural Development in Georgia
ERDF	European regional development fund
ESF	European social fund
ESIF	European structural and investment funds
EU	The European Union
EUGIPP	The EU-Georgia Intellectual Property Project
EUIPO	European Union Intellectual Property Office
EXBS	Export Control and Border Security Program
FDI	Foreign Direct Investment
FIZ	Free Industrial Zone
FTA	Free Trade Agreement
GCCI	Georgian Chamber of Commerce and Industry
GDP	Gross Domestic Product
Ge-GP	Georgian Electronic Government Procurement System
GEL	Georgian Lari
GENIE	Georgia National Innovation Ecosystem Project
GITA	Georgia's Innovation and Technology Agency
GNCA	Georgian National Competition Agency
GNTA	Georgian National Tourism Administration
GSP	Generalized System of Preferences
GUAM	Organization for Democracy and Economic Development
HICD	USAID Human and Institutional Capacity Development Project
IBC	International building codes
ICT	Information and Communication Technologies
IFI	International Financial Institutions
IP	Intellectual Property

ISSET	International School of Economics at TSU
IT	Information Technology
LEPL	Legal entity of public law
LGF	Loan Guarantee Facility
LPI	Logistics Performance Index
Ltd	Limited Liability Company
M&I	Meeting and incentives
MEPA	Ministry of Environmental protection and Agriculture
MFO	Microfinance Institutions
MICE	Meetings, incentives, conferences and exhibitions tourism
MLN	Million
MoESD	The Ministry of Economy and Sustainable Development
MSMEs	Micro, Small and Medium Sized Enterprises
MSW	Maritime Single Window
NBG	National Bank of Georgia
NCTS	New Computerized Transit System
OECD	The Organization for Economic Co-operation and Development
PCS	Port Community System
PFI	Participating financial intermediaries
PIN	Prior information notice
R&D	Research and Development
RDA	Rural Development Agency
SAFE	Survey on the access to finance of enterprises
SME	Small and Medium Size Enterprises
SNGP	Substantial NATO-Georgia Package
SNiP	Structural design codes designed in Soviet Union and then modified
SPS	Sanitary and Phytosanitary measures
STEM	Science, Technology, Engineering, and Mathematics
T-ENT	Trans-European Network
TDR	Tax dispute resolution
TFP	Total Factor Productivity
TIR	Transports Internationaux Routiers, International Road Transport
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UK	United Kingdom
UNECE	United Nations Economic Commission for Europe
UNWTO	The World Tourism Organization
US	The United States of America
USAID	The United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VET	Vocational Education and Training
WB	The World Bank
WIPO	World Intellectual Property Organization
WTO	The World Trade Organization

FOREWORDS



Pawel Herczynski

Ambassador of the European Union to Georgia



John Hugo Freddy Braeckveldt

President of the European Business Association

As the European Union Ambassador to Georgia, I am delighted to see the release of the second EU Business Climate Report Georgia. The inaugural report was presented at the launch of the European Economic Cooperation Platform (EECP) last year.

The EECP, established by the European Business Association and supported by the European Union has paved solid ground, and we welcome this continuity. Now, more than ever, we need to see strong and united European voices, including in the business community and I remain optimistic that the Platform will expand and continue as an inclusive fora for stakeholders.

We are living in dynamic geopolitical times. Due to Russia's unprovoked and unjustified war against Ukraine, there are high costs, including high human cost, worldwide. We are also living in transformative times, and the geopolitical context is changing. Despite all of this, 2023 marks a historic moment for Georgia and its people, with the European Commission's recommendation, in November, that Georgia is granted Candidate Country status as it continues on its path towards the European Union.

Industries, businesses and households have been affected by recent developments. They need to access this dynamic and comparable picture over the years. The EU Business Climate Report Georgia 2023 is an important tool for the business community, for investors and for policymakers, to tailor-make their interventions and engagement, now and in the future.

The business environment in Georgia is conducive for investment. Georgia ranks among the best performers in the world according to international indices on doing business and openness to foreign direct investment. Opening a business in Georgia is easy and quick. Trade openness has been increasing constantly since the 1990s.

For those European businesses already in Georgia, those considering coming to Georgia, and for Georgian businesses exploring the EU market, all need to seize the moment, and be part of Georgia's deepening integration with the EU and with EU markets. It is time to practice a functioning market economy, extend the scope and the depth of the EU-Georgia Deep and Comprehensive Free Trade Agreement (DCFTA). It is time to harness the benefits of sound macroeconomic policies, as well as the institutional and regulatory environment in the country. And it is time to reap the benefits of the DCFTA by deepening EU-Georgia trade and business relations.

The European Union is a longstanding partner of Georgia. We believe Georgia is in a strong position to advance further and we see three priorities. First, Georgia needs to continue with ambition on its connectivity agenda, taking a strategic approach to energy, transport and digital investments. Second, Georgia should work further on the diversification of its energy supplies and develop its renewable energy production. Third, digitalisation, access to finance and investing in human capital are the cornerstones for job creation, growth and SME productivity.

Finally, I would like to express my appreciation to the European Business Association for their continuous effort to publish the EU Business Climate Report and thanks for all the contributions and opinions coming from the participating entities.

In my capacity as the President of the European Business Association (EBA) I am delighted to present the European Business Climate Report 2023 aimed at identifying the major aspects of the business environment as perceived by European business in Georgia.

Leading an effective and evidence-based policy dialogue requires complete understanding of the improvements and difficulties that European businesses experience in Georgia. This survey was offered to the participating companies as an opportunity to take their needs to the attention of the policy-makers, better addressed by public and private sector actors. This year the survey results are even more important as the EU candidacy decision for Georgia is pending. Furthermore, the results and key findings of the report enable development of the agenda and work of the European Economic Cooperation Platform (EECP) that facilitates a dialogue between representatives of the business sector, IFIs, European diplomatic community and policy makers to develop a favorable social-economic climate and non-discriminatory, transparent business environment, which would be attractive for investment.

Year of 2023 has been full of challenges and achievements at the same time. Businesses globally have had to navigate the aftermath of the pandemic, geopolitical shifts, supply chain disruptions, and technology transformations. Recent developments in the region established additional constraints. Yet, amidst these uncertainties, EBA has remained steadfast, coordinated and unique European cluster guided by our vision "doing business in Georgia will be the same as doing business in Europe". At the beginning of 2023 we started the campaign #EBAMembers4Europe in order to raise the voice of the European business community in Georgia within the list of working meetings and public-private dialogues were conducted. At the end of the year, we are very proud that EBA together with its distinguished members made valuable contributions towards Georgia's European integration. The EU Commission has recommended that Georgia is granted candidate status. This is a big recognition from the EU of the progress achieved within the last years. I believe that the future of Georgia is in the EU. We are excited about the opportunities that lie ahead and confident in our ability to fulfill all the requirements that might be linked to the candidate country status.

On behalf of the EBA I convey our deep sense of gratitude to the European Union Delegation to Georgia for their support that enabled conducting comprehensive research and developing evidence-based policy dialogue mechanism. The European Investment Bank (EIB) for hosting the EU-Georgia Business Forum 2023 where we present the findings. I would also like to thank EBA members, all business representatives and public decision-makers for their invaluable commitment and participation in the survey. Finally let me thank the team of EBA for amazing work presented. The Association gladly continues to act on European values and fulfill the vision, mission and commitments to all of our members and partner organizations. I look forward to your continued trust, confidence, and support. Together we are stronger and that is our advantage.

AUTHOR'S NOTE - BY WAY OF INTRODUCTION



Tengiz Lomitashvili

Report Author

Release of the inaugural EU Business Climate Report Georgia in 2022 last year coincided with a strange period in recent history - transitioning from one "Black Swan" event to a full-scale war at the border of the EU. The actual surveying for the report started within few weeks after Russia's invasion of Ukraine. Therefore, the businesses sentiments captured by the survey back then reflected the relinquishing effects of the COVID-19 pandemic, on one side, and surging wave of uncertainties, brought about by the war - on the other side.

Since then, the geopolitical scene in the surrounding region has been anything but calm. Military operations in neighboring Nagorno Karabakh and the events in the Near East released the steam from the conserved conflicts and sent shock waves to the world outside. What else could have happened in such a short period?

Despite the surrounding geopolitical turmoil, Georgia has demonstrated remarkable economic resilience, and to some extent, in economic terms, even came out favorably. Inbound flows of people and money from Ukraine and the Russian Federation benefitted the local currency and the overall economy.

However, positive economic growth in 2022 and the first part of 2023 may mask underlying political risks and uncertainties ahead. For businesses, indeed, political instability, a key dimension of which is the geopolitical element, has always been on top of the list of major obstacles. Therefore, the key question is how inversely related impact factors, such as instability and economic growth, jointly affect overall business climate of the country, as seen by European business in Georgia. This represents the subject of this year's Georgia's EU Business Climate Report.

Most, if not all, business climate factors only make sense when seen over time, rather than static. Therefore, to capture the dynamics, this year survey replicated about 80% of the questions from the previous one, allowing lots of trend-revealing comparisons. Some important and relevant questions replaced the obsolete ones too.

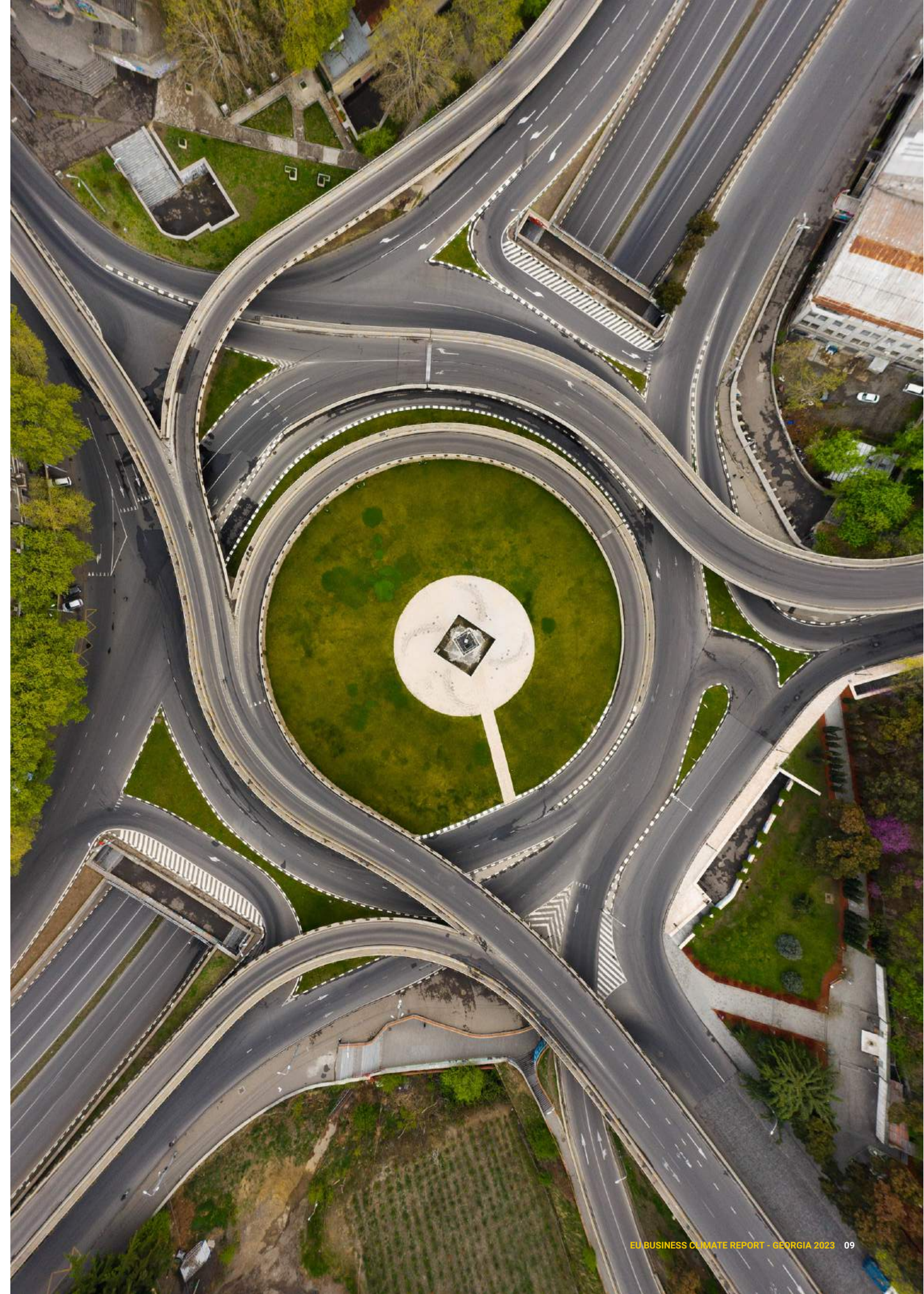
Since the publication of first report, Georgia was granted the EU Perspective. And as the survey was being conducted, the question of Georgia's EU candidacy still remained open (the recommendation of the European Commission only came out late in October, after the survey was finished). To reflect this seemingly political question in a business lens - a related question was added in the survey, examining expected benefits for businesses from the EU candidacy.

Lastly, at the background of the geopolitical events in the region as well as uncertainty related to Georgia's candidacy, we discovered that access to finance seemed to become problematic recently. Informal conversations with the key stakeholders confirmed that demand on financing exceeded supply by a large margin. For that reason, access to finance has been selected as a featured topic in this year report. The dedicated section analyzes the issue in more depth, featuring the problems faced by European companies in Georgia, compared to the breadth of financing opportunities for enterprises in the EU.

I must thank the chief representatives of the participant enterprises, who allocated a few minutes of their valuable time and shared their views with us, often with informative comments, on the important issues addressed by the report.

We hope that all things considered, EU Business Climate Report Georgia 2023 will prove to be both interesting for readers and useful for policymakers, bringing Georgia's business climate one step closer to the EU.

Enjoy reading



EXECUTIVE SUMMARY

BUSINESS ENVIRONMENTAL FACTORS, BUSINESS PERFORMANCE AND OPTIMISM

Tandem of the uncertainty in the neighboring region and positive economic momentum

During the course of 2022-2023, despite the ongoing Russia-Ukraine conflict, Georgia has managed to make considerable progress, maintaining a stable economic outlook. In 2022 the real GDP grew by 10.1% and in the first quarter of 2023 the real GDP rose by 7.7% compared to the same period of 2022. According to the World Bank estimates, in 2023, annual growth rate of GDP will be 3.3% and in 2024 growth will make up about 3.2%. The growth forecasts of the GoG vary depending on the scenarios of external and internal factors. Overall, some level of resilience of the economy in relation to geopolitical events is clear, which has its impacts on the optimism of businesses. It should also be noted that despite growing revenues of SMEs over the last decade, the share of SMEs in the total business turnover and value-added has been consistently decreasing and continued to decrease in 2022.

Still little progress in trade with the EU

Opportunities of from the DCFTA continue to be underutilized and trade with the EU remains limited. Exports to the EU grew by 27% and 21% and imports from the EU grew by 25% and 32% in 2021 and 2022, correspondingly. However, the total share of the EU trade in 2022 did not exceed 21% - down from 25% in 2014 and same as in 2021.

Labor costs, cost of energy and corruption were among the worst performing business environmental factors in 2022-2023

The 2022 survey addressed the question about main decision factors to invest or do business in the otherwise small domestic market of Georgia. So the relative importance of past factors was more or less established. This year, the related question was asked again on how these important factors evolved recently. Access to technologies and knowledge was found to be the best performing factor among this year's sample, with more than 50% of respondents reporting *improvements*. Access to markets (domestic, the EU and other export markets/free trade agreements) were among the best performing factors, with the *smallest ratio* of respondents who thought that the situation *deteriorated*, compared to the ones who believe that it improved or remained the same. Labor costs, cost of energy and corruption were among the ones with a notable portion of respondents who *report deterioration*.

Benchmarking progress with the previous year - shows that the labor costs, ease of doing business procedures and low tax rates deserve special attention

The 2022 report provided the frame of prioritization of factors, grouping factors according to their importance and *recent dynamics*, requiring different policy response and level of attention. This year, an additional element - benchmarking results with the previous study, revealing the most prominent changes over the last year, was added. These factors were the worst performers between the two waves of the survey. This means that more companies in 2023 think that the situation has gone wrong, than the number of companies in 2022, and deserving special attention. Overall, the *biggest winners* between the two waves were: access to technology and knowledge, access to domestic market, access to supply chains, energy costs, whereas the biggest losers were labor costs, ease of doing business procedures and low tax rates.

Despite anything, businesses performed better this year and also gained more optimism about future

This year, the majority (54%) of the EU businesses report that their overall business performance improved. Business performance remained unchanged for 34% of the surveyed companies and another 12% report that their performance went negative. This represents considerable improvement compared to the previous year (e.g., 43% improved). Among all size groups, *large* companies were the among the most volatile conditions, with the *biggest portion of reported deterioration* of performance.

At the background of the geopolitical events in the region and internal political polarization, businesses remain optimistic about the future - 66% of the surveyed businesses plan expansion in the coming years, representing 10 percentage points growth from the previous year. However, at the same time, there are 3% of respondents who reported that they are planning to move a third country and 8% of the respondents who reported they would

not choose Georgia again as a preference. Not surprisingly, the smaller the businesses the less dynamic they are in terms of future expansion, indicating the implicit bottlenecks for the SMEs on their way to growth..

Exchange rates, inadequately educated workforce and political instability remain top obstacles to EU businesses

More than 90% of the surveyed businesses report these factors as either *major* or *minor* obstacles. However, if confined with the major obstacles, *transportation difficulties* stand out, concerning to 48% of the companies as a major obstacle to their business, coming into contradiction to Georgia's declared function as a transit country.

Compared to the 2022 results, in 2023 all the top three factors remain the same, however, their positioning has changed. Economic factors such as Exchange rates and inadequately educated workforce moved up to the top and political instability moved to the third position.

Beyond the list of indicated obstacles, known to all, a number of other cross-sectoral and sector-specific issues were mentioned

In terms of general infrastructure, practical issues such as urban mobility were mentioned as pressing concerns, as well as poor travel connections and amenities for overnight flights, making it difficult to persuade C-level executives to visit the country. For the construction industry, absence of Euro Codes in construction standards was mentioned to be an obstacle. Small businesses complain about monopolies, which make the competition exceptionally challenging. Negative comments made by the government officials sometimes damage Georgia's reputation among foreign clients, exacerbating problems for businesses based in the country. Lack of qualification of personnel within different branches of government lead to considerable unexpected costs, as well as delays for companies. The Phytosanitary Service was specifically mentioned in connection to this. Finally, the government's delayed and inflexible response to the needs of businesses exacerbates the overall challenging environment faced by entrepreneurs and investors in Georgia.

While in terms of access to finance, Georgia performs comparatively compared to its peers from the Eastern Neighborhood, common challenges remain

Access to finance for companies in Georgia, in light of the EU integration, has been chosen as the focus of this year report. According our European Business Climate Survey 2023, access to finance is a major obstacle for up to 40% of the surveyed enterprises, and a minor obstacle for another 34%, whereas the share of the businesses which perceive access to finance as an issue in the EU is only about 6%.

The legal and regulatory framework for better access to finance in Georgia has been advanced significantly, resulting in overall progress in the field. Due to relatively advanced commercial banking, businesses are far better supplied with credit than in some of the eastern partnership neighbors. However, soundness of the financial system, scarcity of funding for banks and risk assessment issues, leading to high interest rates and collateral requirements are identified as common deficiencies of the system.

As a result, the gap between the level of access to financing for Georgian enterprises and the enterprises in the EU countries is prominent. The main contributing elements of the gap are: a lack of diversity of the financial instruments for SMEs; high interest rates and cost of borrowing; insufficient collateral. While in Georgia, SMEs already received a number of financial benefits from EU financing, directly or indirectly, and opportunities are much higher for enterprises in member countries.

REFORMS SNAPSHOT AND EVALUATION

Relative success and relevancy with the reforms – requiring differentiated policy strategy

Since its inception, assessment of the relevancy and success of the economic reforms has been central to the EU Business Climate Report Georgia. It is pleasant news that the relevancy of all reforms grew in the last year since the previous wave. Businesses seem to be paying more attention to the economic reforms. The education sector reform has been the top gainer among all reforms, followed by the building regulations and judiciary system reforms. When it comes to the perceived direction of the reforms, among the positively perceived reforms, the e-commerce reform, the intellectual property reform, the state support to business, the customs reform are leading the list. It comes with no surprise that the judiciary system reform is the leader among reforms which are perceived to be going in the wrong direction, followed by the education sector reform. Overall, with the exception of two reforms - State support of businesses, the Insolvency reform and evaluation of reforms either did not improve by much or deteriorated in comparison to the previous report.

According to the prioritization map, the Education reform, the Judiciary system reform and the Capital market reform fall into priority Group A, requiring urgent attention and repair, because they affect many businesses and do not seem to be going in the right direction.

Licensing and permitting, procurement, employment and environmental regulations seem to be burdensome

Licensing and permitting (20%), contracting and procurement (15%), employment regulations (15%) and environmental regulations (13%) were named as the areas for which their regulatory frame should be changed or simplified. Among the specific suggestions were improvements in public procurement regulations, labor regulations, environmental regulations, licensing and permitting. Importantly, several comments were related to improving the execution, rather than changing the regulation or paying more attention to the substance, rather than the form.

EU CANDIDACY AND DCFTA

Whereas for the surveyed businesses the EU candidacy has a high level of legitimacy, obstacles in relation to the DCFTA are still profound

significantly improve (62%) the situation for their business. For EU businesses, relevancy of the EU integration does not come under doubt. However, low qualification and productivity of workforce, lack of standards and certification and reasonably high regulatory compliance costs for businesses still significantly hinder the full realization of the potential for Georgia. Since the 2022 report, there has been progress in all factors; however, the biggest improvements were made in approximation to the national legal frame, and with knowledge about the EU markets.

ROLE OF BSOS

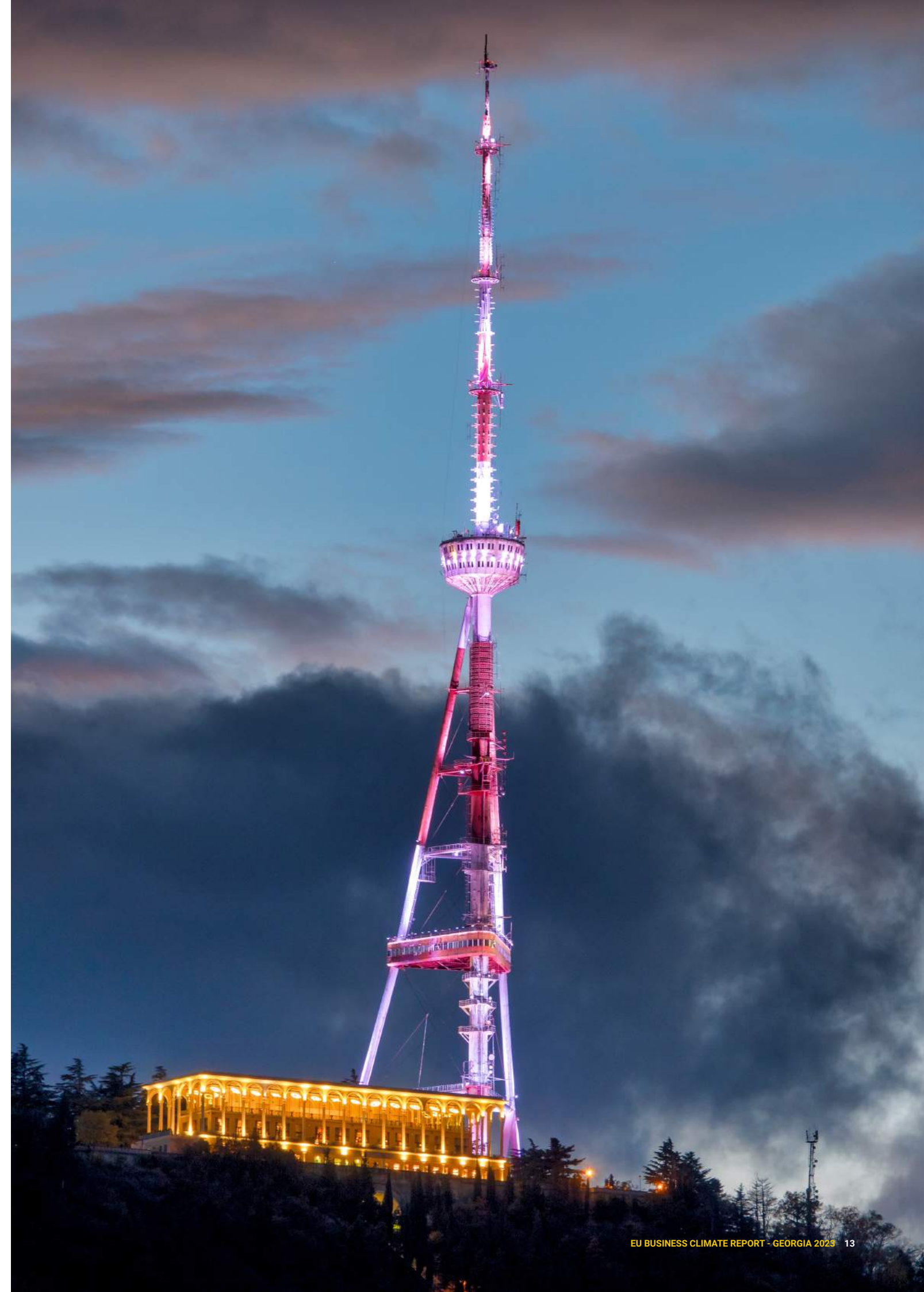
The role of BSOs in solving issues of business growth

In a healthy business environment, BSOs are places of first resort to carry out advocacy and to solve business issues that are beyond the capacities of individual businesses. However, businesses most frequently revert to the personal contacts and the responsible state body directly. Between the two waves of the survey, the effectiveness of these channels increased or remained the same. One of the frequently used parties for solving the issues is using specialized legal advisors. The effectiveness of business associations and chambers increased the most over the last year, providing a positive sign and hope for improvement.

ENVIRONMENTAL ACTIONS

Businesses embrace green growth paradigm and progress is clear

The span of planned activities include: applying energy efficient technology, conducting awareness-raising campaigns, adopting the use of renewable energy, using to use recyclable materials, applying technologies to reduce emissions, investing in environmental projects. It is twice as positive to see that the growth of adoption is significant, with a two-digit percentage point growth for all major environmental actions between the two waves of the survey.



1. GEORGIA AS A DESTINATION FOR EUROPEAN BUSINESSES

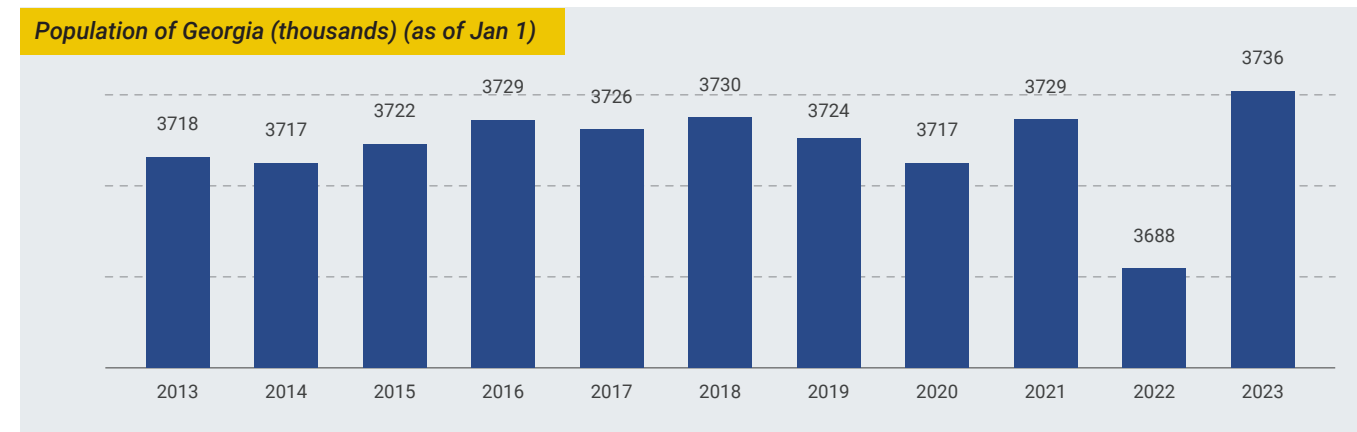
1.1. KEY FACTS ABOUT GEORGIA AND ITS ECONOMY

Located at the crossroads of Europe and Asia, Georgia's strategic location makes it a natural logistics and transit hub along the "New Silk Road", linking Asia and Europe via the Caucasus. Georgia represents a bridge connecting several important economic regions, including the European Union, Central Asia and the former Commonwealth of Independent States (CIS), and Turkey and the Caucasus. It is a key link in the shortest transit route between Western Europe and Central Asia for the transport of oil and gas, as well as dry cargo. Ports, railway systems and airports are playing an increasingly important role in linking the east and west.

Georgia	2022
Population, million	3.7
GDP, current US\$ billion	24.6
GDP per capita, current US\$	6,672
Unemployment rate	17.3%

GDP of Georgia.

After the population decline in 2021, over the course of 2022, Georgia's population grew by a little (by about 48 thousand people) and by January 2023 it made up about 3.7 million, because of the net positive migration of about 54 thousand people, most of which originated from the Russian Federation.¹



Source: Geostat.

The population of Georgia has a broadly shared consensus on national priorities, including participation in Euro-Atlantic integration, more efficient government and a better functioning welfare state. The signing of an Association Agreement with the European Union (EU) in 2014, including a Deep and Comprehensive Free Trade Area preferential trade regime and application for EU candidacy initiated in 2022 were notable events and a logical and continuation of the course. Free trade agreements with major trade partners, such as the EU and China, position Georgia well as a destination for attracting foreign direct investments.

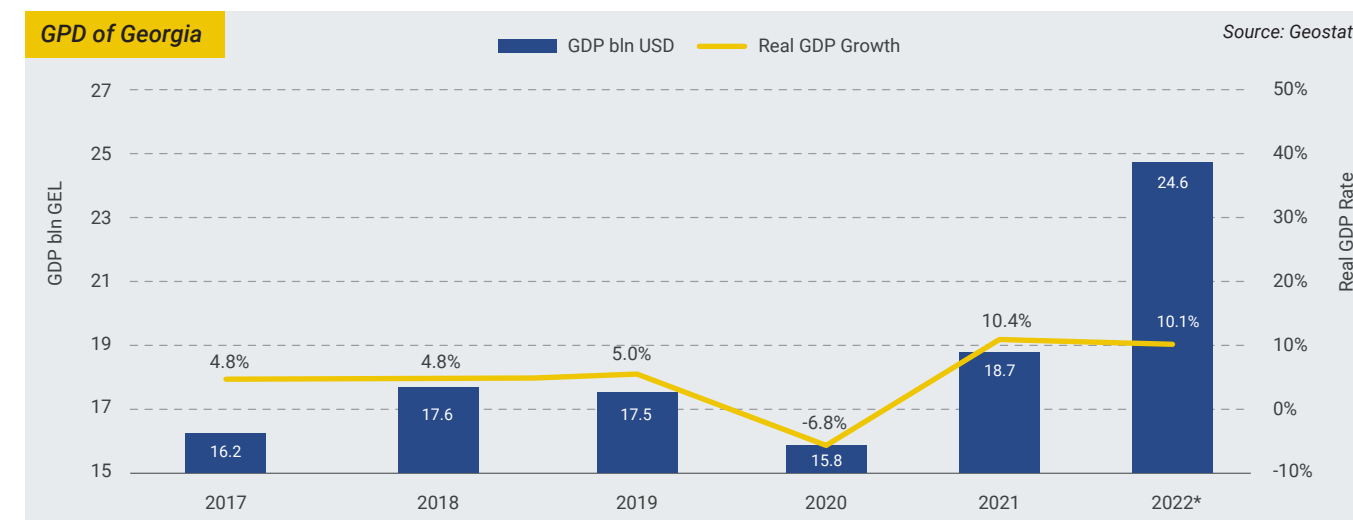
However, evidence suggests that years of sustained growth did not result in high quality job creation. A big part of the population continues to rely on low-productivity employment in agriculture. Informal sector employment remains high. Export volumes have increased but exports remain undiversified and high-value exports are limited. Companies face challenges which impede growth and the survival rates of new startups remain low. Regional and rural development inequalities remain challenging. Education outcomes remain poor and the skill gap is an unsolved issue for the labor market. Tensions between political movements lead to uncertainties for the private sector. This combined with the volatility of exchange rates hampers the potential of the firms to plan.

¹ www.geostat.ge.

ECONOMIC GROWTH AND OUTLOOK

With its economy, Georgia is one of the leaders of the region. The growth in the recent years was steady, if not fast. During the pre-COVID period from 2005 to 2019 Georgia's economy grew by about 5% annually. Rapid growth contributed to the halving of the national poverty rate between 2007 and 2022. Responsible macro policies, intensifying global integration, sound public investments, an attractive business environment, improving governance and rising public spending underpinned the progress.

The data from 2020 to 2022 reflects a remarkable economic turnaround, after the sharp contraction in 2020 due to the impact of the COVID-19 pandemic. Subsequent years exhibited sustained growth, indicative of fiscal and monetary interventions aimed at restoring economic stability and vitality. In 2021 and 2022, in real terms, Georgia grew by 10.4% and 10.1% correspondingly - a remarkable rate and one of the fastest growths in the region.



Source: Geostat.

Despite the lingering effects of COVID-19 pandemic and the impacts of the Russia-Ukraine war on the international economy, the first half of 2023 saw higher-than-expected economic activity worldwide. This trend had a positive impact on Georgia's economy as well. A notable increase in exports, remittances, and travel revenues was evident with strong external demand.

Georgia has managed to make considerable progress in reducing poverty rates and maintaining a stable economic outlook despite the ongoing Russia-Ukraine conflict. Rapid economic growth contributed to the decrease of the national absolute poverty rate from about 38.8% in 2007 down to 15.6% in 2022. The drop has been especially notable since 2020.

In the first quarter of 2023, nominal wages rose by 18.7%, total exports by 28.7% and real GDP rose by 7.7% compared to the same period in 2022. Gross national income rose from USD 3,210 in 2010 to USD 5,620 in 2022.

Strong external demand contributed to the rise in exports of goods. However, the overall export growth was slowed down by the decline of domestic exports. High external inflows from abroad and increased revenues from international travelers improved the current account deficit, which equaled USD 201 million in the first quarter of 2023 and was mostly financed by foreign direct investments and an increase in savings. In the second quarter of 2023, the number of foreign visitors rose by 59% annually, and even though it was lower than its corresponding period of 2019, revenues from internal travelers had a 34.8% annual rise and amounted to USD 1 billion. Instant money transfers had a 10.8% annual decline and equaled USD 1,108 million, slowing overall economic growth.

In the second quarter of 2023, the Lari nominal exchange rate appreciated against the US dollar and the euro by 3.0% and 1.5%, compared to the previous quarter. Inflation is decreasing faster than expected and is below the target, which is due to the elimination of exogeneous shocks. The appreciated nominal exchange rate, tightened monetary policy, and decrease in prices on international commodity markets reduced the prices of imported products. Inflation on domestically produced products has a downward trend but remains high, which is mainly caused by the increased number of immigrants who created pressure on prices and contributed to the increase in the price of the services.

According to the World Bank estimates, a reduction in cash flows from Russia, additional export restrictions, and a slowdown in economic growth are likely to impact the Caucasus region. Remittances from Russia are expected to decrease as developed countries tighten their monetary policy rates. Georgia's GDP will increase up to 3.3% in 2023 driven by high consumer spending, an increase in exports and cash flows, but will decline to 3.2% in 2024.²

The government of Georgia expects a 5.0% GDP increase in 2024-2027 years, an increase in current account deficit in 2024 but a decline in 2027 up to GDP's 3.5%. In case of a negative scenario that considers risks such as high dependence on oil, the war in Ukraine and internal political conflicts, GDP is expected to grow by 2.2% in 2024 and by 2.2% in 2024-2027. This scenario assumes that economic activity is lower than expected; a tighter monetary policy will be necessary and increased remittances and revenues from tourism sectors will have less of a positive effect than expected.³

² www.worldbank.org.

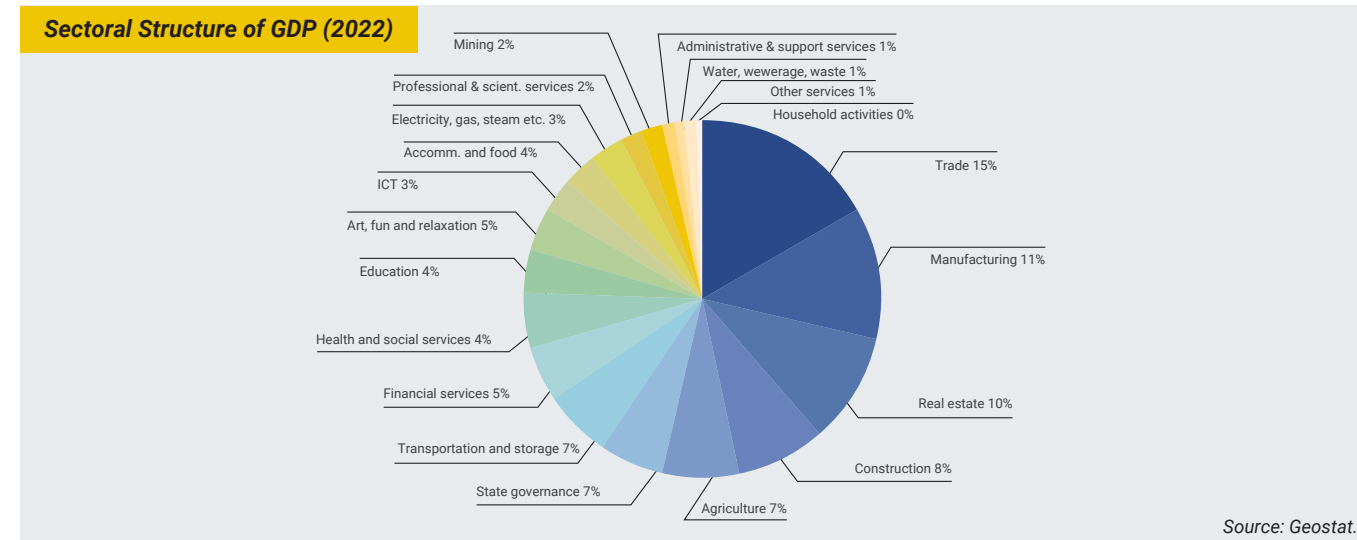
³ www.worldbank.org.

The National Bank of Georgia forecasts inflation as moderate and to remain below the target in the short term and converge to the target in the second half of 2024, because of strict monetary policy and improved supply chains. However, risks such as stronger than expected foreign flow could lead to higher inflation. As inflationary risks are mitigated, NBG expects the monetary policy rate to slowly normalize and approach the neutral level of 7%.⁴

The stability of the Georgian financial system has been recognized by the international community. However, the recent changes within the NBG may negatively affect Georgia's economic stability, related to the sanctioning the Georgian citizen, which was sanctioned by the US government, and stepping down by the senior officials of the NBG's in protest. From investors and businesses' perspectives, the current situation may be viewed as a sign of political instability that may result in a loss of credibility toward the NBG, and the trust towards the financial system may increase overall uncertainty of the business climate.

SECTORS OF ECONOMY

Georgia's economic structure is relatively diversified. According to the 2022 data, trade plays a significant role in the economy, accounting for 15% of the total GDP, followed closely by manufacturing at 11% and real estate at 10%. Tourism is one of the key sectors of the Georgian economy.



In 2022, 3.9 million international travelers arrived, which is 2.8 times higher than the previous year. Out of which 915.1 thousand visitors, 23.3% of total travelers, came from the Russian Federation.⁵

SME SECTOR

In highly competitive economies SMEs are considered key drivers of economy. At the a policy level, the SME sector receives due attention from the state. In 2021, the government of Georgia approved a renewed SME Development Strategy for 2021-2025, which represents a key policy document in the direction of promoting the SME sector in Georgia. The priorities of the strategy include: improving legislation, institutional and operational environment; improving the skills and entrepreneurship culture of SMEs; improving access to finances; promoting internationalization and export orientation and market access of SMEs; promoting electronic and ICT communications, innovations and R&D for SMEs; promoting women's entrepreneurship; promoting a green economy.

According to the SME Policy Index 2020 by OECD⁶, Georgia's rating and corresponding score (compared to the previous 2016 rating) improved in 12 of the 12 components of the rating, while in 9 out of 12 components the country was rated the highest among Eastern Partnership countries. According to the OECD report, Georgia has made further progress and achieved significant success with a more strategic approach to the development of small and medium-sized enterprises and the implementation of relevant targeted initiatives. At the same time, according to the study, Georgia has taken particularly impressive steps in areas of entrepreneurship training, as well as improving the operating environment of small and medium-sized enterprises. However, there are opportunities for further improvement in areas such as: insolvency, small and medium enterprises in the green economy, innovation in small and medium enterprises and internationalization.

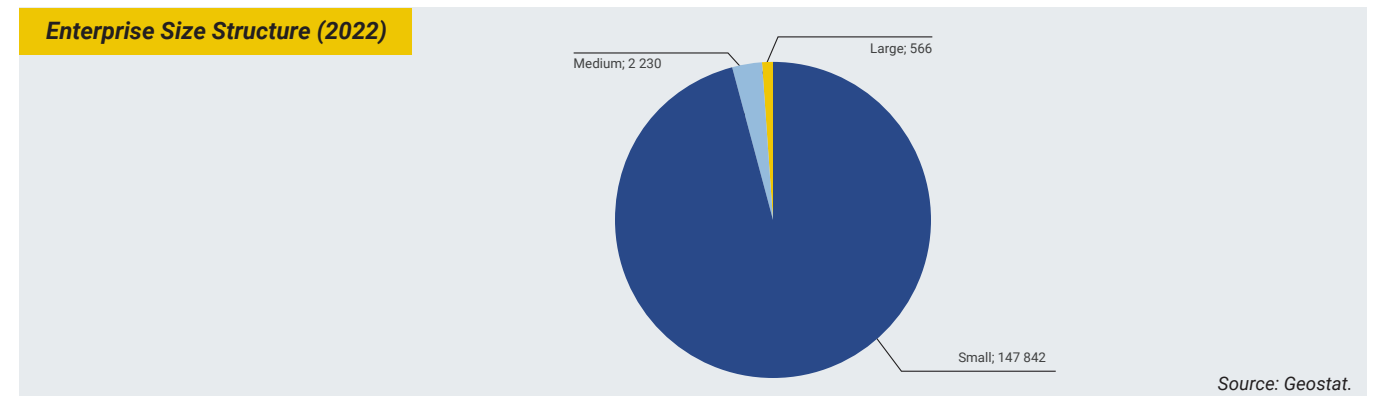
Georgia is characterized by a large number of SMEs but the SME sector is underrepresented in employment, value-added and contribution to GDP. Small and micro enterprises represent most firms in Georgia. However, despite recent robust firm creation numbers in Georgia, total employment growth is low because firms are mostly small, and employment is concentrated in larger and relatively older firms.

According to the data for June 2023, there are 150,638 business enterprises in Georgia, out of which 147,842 (99%) are small and medium enterprises.

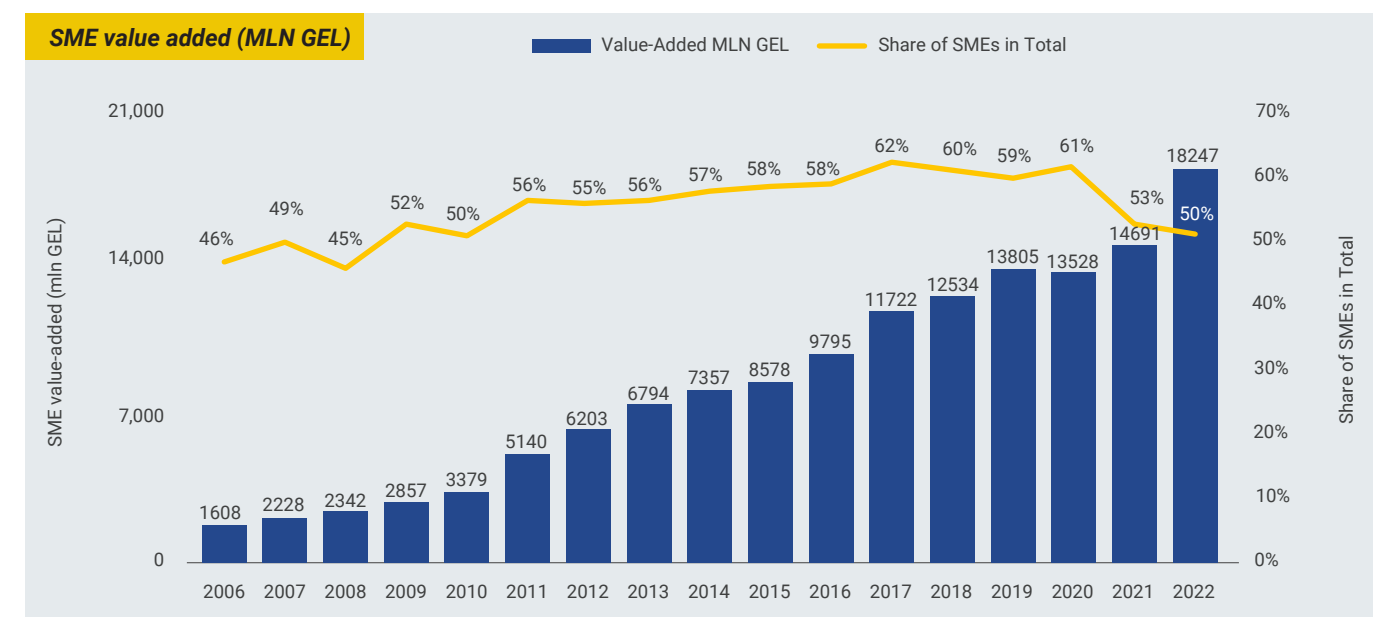
⁴ Monetary Policy Report August 2023, The National Bank Of Georgia, 2023.

⁵ International Visitor Statistics, Geostat, 2022.

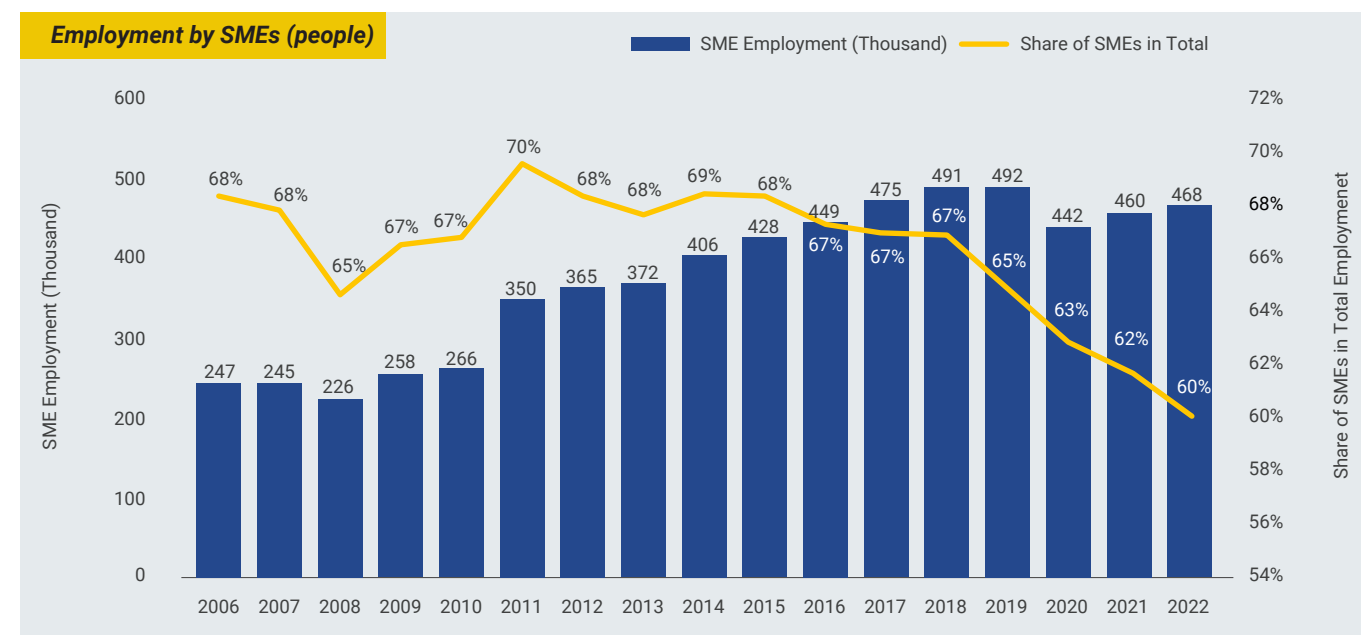
⁶ The SME Policy Index: Eastern Partner Countries 2020.



Notwithstanding the relatively large SME proportion of overall registered enterprises, the SME contribution to the overall economic value creation in the country is low. Despite growing revenues of SMEs over the last decade, the share of SMEs in the total business turnover and value-added has been consistently decreasing, implying that larger enterprises were growing faster, and SMEs were not reaping the full benefits of the improved business environment. The share of value-added SMEs in the total value-added business sector experienced a further drop from 61% in 2020 to 50% in 2022.



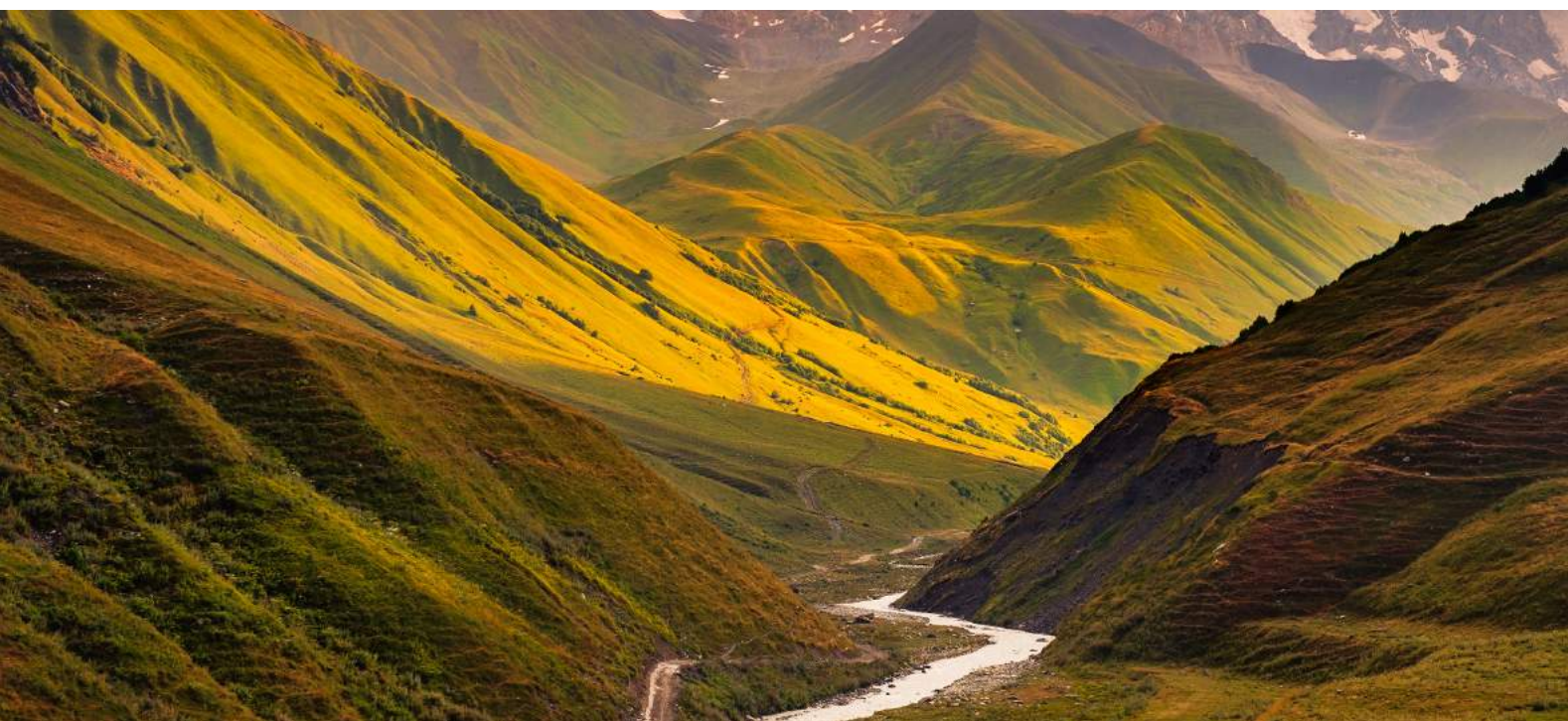
Despite the overall turnover growth, the employment potential of the SME sector has been weak, only employing an additional 8,000 people in 2022. As a result, the share of employment in the SME sector has been experiencing a downward trend in the last decade and further declined down to 60% in 2022.



Source: Geostat.

A range of critical constraints such as low productivity and export rates, low adherence to international standards and poor competitiveness still impede SME growth. Georgian SMEs are still not taking full advantage of the market opportunities provided by the European Union. Lack of adequate entrepreneurial dynamism and institutional infrastructure to develop foreign trade-oriented sectors are some of the root-causes to this. Most SMEs in Georgia predominantly operate in low value-added segments and demonstrate minimal export activities with low levels of product and market diversification and sophistication. Despite new business opportunities in view of the Deep and Comprehensive Free Trade Area with the EU, SMEs in Georgia face considerable challenges costs in complying with EU standards and enhancing sectoral competitiveness.

One of the key issues identified by economic studies is the size discrepancy among enterprises which indicates a high concentration of smaller and larger firms, whereas the middle group is underrepresented. This might imply institutional constraints impeding the transition of small firms to medium sized firms. Another important observation related to the enterprise sector in Georgia is that there appear to be numerous market distortions, as shown by the high variation in Total Factor Productivity (TFP) within sectors and low correlation between firm size and productivity. According to World Bank estimates, eliminating allocative distortions could increase TFP by up to 70%.⁷



⁷ Georgia at Work: Assessing the Jobs Landscape, the World Bank Group, 2018.

TRADE WITH THE EU

Signing the DCFTA between Georgia and the EU was meant to remove tariff and non-tariff barriers to trade and expand the trade between the parties. To facilitate this objective, Georgia embarked on a comprehensive strategy to align with EU practice, including the areas of sanitary and phytosanitary regulations, institutional infrastructure, better farming practices and implementation of the EU industrial product standards. However, trade analysis shows that these reforms did not yet translate into tangible outcomes in terms of trade volume.

Although in absolute terms, trade with the EU expanded, the share of trade with the EU in relative terms to other markets did not grow. In 2014 the trade turnover with the EU in value terms was about USD 2.9 Bln, reaching about USD 3,9 Bln in 2022. Exports to the EU grew by 27% and 21% and imports from the EU grew by 25% and 32% in 2021 and 2022, correspondingly. However, the total share of the EU trade in 2022 did not exceed 21% - down from 25% in 2014.

Trade between Georgia and EU countries (\$ million) 2014-2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total turnover	11,463	9,508	9,459	10,803	12,742	13,318	11,396	14,346	19,131
Growth (%)		-17%	-1%	14%	18%	5%	-14%	26%	33%
Turnover EU-GE	2,877	2,614	2,635	2,768	3,166	3,110	2,547	3,031	3,922
Growth (%)		-9%	1%	5%	14%	-2%	-18%	19%	29%
Share (%)	25%	27%	28%	26%	25%	23%	22%	21%	21%
Total exports	2,861	2,204	2,117	2,746	3,380	3,798	3,343	4,242	5,583
Exports to EU	599	623	550	642	713	806	697	717	862
Growth (%)		-23%	-4%	30%	23%	12%	-12%	27%	21%
Share (%)	21%	28%	26%	23%	21%	21%	21%	17%	15%
Total imports	8,602	7,304	7,342	8,057	9,362	9,519	8,053	10,104	13,547
Imports from EU	2,277	1,991	2,084	2,126	2,453	2,304	1,850	2,314	3,060
Growth (%)		-13%	5%	2%	15%	-6%	-20%	25%	32%
Share (%)	26%	27%	28%	26%	26%	24%	23%	23%	23%
Balance with the EU	-1,678	-1,368	-1,534	-1,484	-1,740	-1,499	-1,153	-1,597	-2,197

Source: Geostat.

The commodity structure of Georgia's trade with the EU in 2022 was dominated by industrial minerals (50% in the total export to the EU), followed by nuts with 8.6%. The share of other product groups remains limited in total EU exports. Overall, top 10 products in the export structure comprise up to 79% of the total imports from the EU.

EU-Georgia trade structure by commodity (top 10 products by value), exports to the EU, 2022

HS	Name of the group	\$ million	Share in total export
2603	Copper ores and concentrates	437.7	50.7%
0802	Hazelnuts and other nuts	74.0	8.6%
2204	Natural grape wines	30.7	3.6%
8703	Light vehicles	30.0	3.5%
7202	Ferroalloys	26.5	3.1%
2208	Ethyl spirits undenatured, alcohol concent. less than 80%, alcoholic beverages	23.7	2.7%
3102	Fertilizers, mineral or chemical, nitrogenous	18.6	2.2%
6307	Other finished goods, including patterns for clothing	17.7	2.1%
7112	Waste and scrap of precious metals or metals alloyed with precious metals	10.9	1.3%
2201	Mineral and fresh waters	9.5	1.1%
Total top 10 to EU		679.4	79%
Total export to EU		862.5	

Source: Geostat.

Less concentrated imports from the EU to Georgia have been dominated by petroleum products (14.4% in the total imports from the EU), vehicles and medication, with 9.5% and 6.7% share for each of these three commodity groups. Overall, the top 10 products in the import structure represent about 42.1% of the total imports from the EU.

EU–Georgia trade structure by commodity (top 10 products by value), imports from the EU, 2022

HS	Name of the group	\$ million	Share in total export
2710	Oil and oil products	440.1	14.4%
8703	Light vehicles	289.6	9.5%
3004	Medicinal products packaged	205.5	6.7%
8517	Telephone apparatus, incl. telephones for cellular networks or other wireless networks	74.2	2.4%
8704	Trucks	68.3	2.2%
8701	Tractors and semi-trailers	55.9	1.8%
8471	Computing machines and their blocks	49.0	1.6%
3302	Mixtures used in the production of beverages	38.5	1.3%
9018	Instruments and devices for medical or veterinary use	36.3	1.2%
3304	Cosmetics or make-up and skin care products	32.4	1.1%
Total top 10 to EU		1,289.7	42.1%
Total export to EU		3,060.4	

Source: Geostat.

Despite limited quantities and volume of exports in the EU, the number of exporting companies to the EU grew and reached about 956 companies by 2022. In the recent years, there was a systematic attempt to diversify the export commodity groups to the EU. This included starting to export several new products (pet furniture, honey, dried fruit, blueberries, kiwis, fruit jams, glass bottles). However, their quantities remain notably limited.

To unlock the full potential of the DCFTA in terms of growing exports to the EU, a number of challenges remain, proved by numerous studies and also confirmed by our survey. Along with reducing the obstacles that business face, other initiatives should be taken, such as promoting active diagonal commutation rules with Turkey, Ukraine and Moldova, a progressive approximation of EU legislation on SPS measures and technical barriers to trade, investing in quality infrastructure and promoting opportunities stemming from Georgia’s growing base of other free trade agreements, so that international businesses can move their locations to Georgia and export to the EU from here.

1.2. KEY ADVANTAGES TO INVEST FOR EU BUSINESSES

DOING BUSINESS AND INTERNATIONAL RANKINGS

Reforms and open-market policies have enhanced regulatory efficiency, improved transparency, and significantly reduced corruption within the country. This progress is reflected in Georgia's rankings in various international indexes. In the World Bank's 2020 Ease of Doing Business index, Georgia ranked 7th, while it ranked 35th in the 2023 Economic Freedom Index. According to the 2020-2021 Global Competitiveness Index report, out of 12 indicators, Georgia's rating improved in 6 areas, including the financial system, business dynamism and innovative opportunities.⁸

The "one-stop shop" principle created by the LEPL "National Agency of Public Registry" operates in the country and it is available to all persons. Anyone interested in registration services can apply to the LEPL National Agency of Public Registry territorial offices, houses of justice, community centers and other authorized users of the Public Registry. The unified portal of electronic services - my.gov.ge - offers all the services required for business registration. Entrepreneurs can register a business without leaving home or the office, make a change in the registered data without a visit to the Revenue Service, on a one-stop-shop basis, register as a value-added taxpayer, etc. Business-related procedures have been further simplified by the introduction of an innovative e-congregation service, including remote services for the registration. Since 2020, 184 public registry services have been remotely available on the my.gov.ge portal. However, although significant steps have been taken in recent years to develop online services, including the unified portal my.gov.ge, this area needs to be further refined in terms of simplicity and accessibility.

⁸ SME Development Strategy of Georgia, 2021-2025.



Georgia ranks 35th in the Heritage Foundation's 2023 Economic Freedom Index⁹. The index rates countries in terms of the rule of law, government size, regulation effectiveness and market openness. Georgia's overall score is 68.7, however the score has been declining over the past years. In the European region it is ranked 21st out of 44 and the overall score is above the regional averages.

In the Fraser Institute's 2021 "World Economic Freedom" ranking report, Georgia ranked 25th worldwide. The rank is determined by the number of factors such as size of government, legal system and property rights, sound money, freedom to trade internationally and regulations¹⁰

The World Bank's World Governance Indicators assess countries around the world in six areas of governance, including: governance effectiveness, quality of regulation and more. It should be noted that in 2020, compared to 2019, Georgia's score improved in two dimensions: Political Stability and Absence of Violations and Regulatory Quality, whereas in other areas its position slightly worsened.¹¹

In addition to the above, according to the OECD Investment Policy Review of Georgia¹² in the FDI Regulatory Restrictiveness Index, Georgia ranks 8th among more than 80 countries as one of the most open economies in the world in terms of attracting foreign investment.

As for gender equality, according to the Global Gender Gap Report 2022 by the World Economic Forum¹³, Georgia ranks 55 out of 146 countries and, according to the subindex of economic participation and opportunity, it holds 72nd place, indicating that gender constraints still exist in the labor market.

FREE TRADE AGREEMENTS

Liberal foreign trade policy is one of the major principles of the economic policy of Georgia. Georgia places no quantitative restrictions (quotas) on trade, except on ozone-depleting substances. Only medical products, firearms, explosives, radioactive substances, dual-use goods, industrial waste and a few types agricultural chemical products are subject to import/export licensing. In 2005, the number of permits required for import and export was reduced from 14 to 8, where it has remained until the present. Since 2006 tariffs on import decreased from 16 tariff rates to 3, on about 85% of goods the tariff on imports was cancelled; Excise taxes and value-added tax (VAT) is imposed based on the principle of country of destination, and is equal for local and imported goods.

The Majority of Georgia's trade partners are members of World Trade Organization (WTO). However, among 164 countries, trade relationships are based on the MFN principles. Georgia is the beneficiary of GSP regime and benefits from the low tariffs from the USA, Japan and Canada and gets access from goods from developing countries to the market of developed ones. The EU grants Georgia GSP+ treatment, with duty-free treatment for more than 7,000 products. Georgia has free trade regimes with CIS countries, Turkey, the EU, People's Republic of China and an Association Agreement with the EU and two members of EFTA, which are Norway and Iceland. Georgia signed a free trade agreement (FTA) with China in 2017, and with Hong Kong in 2018. Georgia has been negotiating with India on FTA after the feasibility study that was conducted in 2019. In addition, on October 10th 2023 Georgia signed FTA with UAE which will cover trade in goods.

⁹ Index of Economic Freedom, 2023, heritage.org.

¹⁰ https://www.fraserinstitute.org.

¹¹ World Governance Indicators - Georgia in the World Bank Ranking 2021.

¹² OECD Investment Policy Reviews: Georgia, 2020.

¹³ Global Gender Gap Report 2022, https://www.weforum.org.

Georgia's Free Trade Agreements

NAME OF THE AGREEMENT	BILATERAL / PLURILATERAL	COVERAGE	ENTRY INTO FORCE
CIS Agreement on the Establishment of a Free Trade Area (Azerbaijan, Armenia, Belarus, Georgia, Republic of Moldova, Kazakhstan, Ukraine, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan)	P	Goods	6 December 2002
Agreement between GUAM Countries on Establishment of Free Trade Area (members: Azerbaijan, Georgia, Republic of Moldova, Ukraine)	P	Goods	10 December 2003
Free Trade Agreement Between Government of Republic of Georgia and Government of Russian Federation	B	Goods	10 May 1994
Free Trade Agreement Between Government of Republic of Georgia and Government of Ukraine	B	Goods	4 June 1996
Free Trade Agreement Between Government of Georgia and Government of Republic of Azerbaijan	B	Goods	10 July 1996
Free Trade Agreement Between Government of Georgia and Government of Republic of Kazakhstan	B	Goods	16 July 1999
Free Trade Agreement Between Government of Georgia and Government of Turkmenistan	B	Goods	1 January 2000
Free Trade Agreement Between Government of Georgia and Government of Republic of Moldova	B	Goods	19 May 2007
Free Trade Agreement Between Government of Georgia and of Government of Republic of Armenia	B	Goods	11 November 1998
Free Trade Agreement Between Government of Republic of Georgia and Government of Republic of Uzbekistan	B	Goods	15 October 2010
Free Trade Agreement Between Georgia and Republic of Turkey	B	Goods	1 November 2008
Deep and Comprehensive Free Trade Area Agreement between Georgia and EU	B	Goods and Services	1 September 2014
Free Trade Agreement Between Georgia and the EFTA States	B	Goods and Services	1 September 2017 (for Georgia, Norway and Iceland) 1 June 2018 - full
Free Trade Agreement Between the Government of Georgia and the Government of the People's Republic of China	B	Goods and Services	1 January 2018
FTA Between Georgia and Hong Kong, China	B	Goods and Services	13 February 2019
FTA Between Georgia and UAE	B	Goods	10 October 2023

Source: MoESD.

FREE ZONES AND TAX REGIMES

Specialized tax rates and procedures have been adopted for four types of tax-free regimes in Georgia: free industrial zones (FIZs); free warehouse enterprises; entities designated as international finance companies; entities designated as international companies (for information and communication technology and for maritime services). These innovations are intended to establish new international institutions within the country, to attract inward investment and to encourage economic growth and sustainable development. The introduction of free warehouses and international enterprises into the tax and legal systems is intended to promote the trade-transit function within Georgia.

Free Industrial Zone legislation was introduced in Georgia in 2007 for the purpose of encouraging foreign investment, stimulating exports and transit activities. A favorable tax and customs framework for FIZ is intended to provide incentives for international firms to develop their production bases within such zones. At the time of writing, there were four FIZs in Georgia, which entitle FIZ-incorporated international companies to operate in a tax-free environment. In FIZs, firms can process, produce and export goods with minimal tax burden and export goods free of trade barriers to global markets.

Free Warehouse Enterprises are intended to be an integral part of international transit companies, and to benefit from exemptions from profit tax applied to income received from re-exporting goods from an independent warehouse, via a free warehouse enterprise. The VAT rate on the supply of goods by a free warehouse enterprise to a VAT taxpayer is 0 per cent.

In order to further improve the business environment in the country, to strengthen Georgia's potential as a regional hub, and to increase the interest of international companies, the Georgian government is allowing companies to obtain **international company status** and enjoy tax breaks. Profit and income taxes for enterprises with this status will be 5 per cent instead of 15 per cent and 20 per cent. These benefits apply to information technology and maritime services. In order to receive the status of an international company, the company must meet certain conditions.

GOVERNMENT SUPPORT PROGRAMS

The state budget for entrepreneurship development has substantially increased during the last few years. Correspondingly, Enterprise Georgia, Georgia's Innovation and Technology Agency, as well as the Rural Development Agency continued to performance of their programs during the last few years.

Programs by Enterprise Georgia (EG): EG has several support programs and activities for improving the overall level of entrepreneurship. More specifically there are three main directions that EG focuses on: 1) Development of businesses; 2) Investment promotion; 3) Export support.

Table: EG support programs implemented in the last few years

Program	Description
Business Universal	The program aims to enhance the competitiveness of private sector by offering comprehensive and universal mechanism. The program implies co-financing of the interest rate charged on the credit/lease given to the beneficiary, throughout the full term of the loan/lease. Within the framework of the program, over 300 economic activities are supported. The program encompasses several components, that beneficiaries can additionally apply to on the same loan. The mentioned components are as follows: <ul style="list-style-type: none"> Guarantee provision – the agency guarantees loans issued by commercial banks/micro financing organizations, covering up to 80% of the principal amount of the loan. Grant provision - EG issues grants to beneficiaries, amounting to 15% of the utilized loan. The term only applies to beneficiaries categorized under specific economic activity codes (61 economic activities fall under the criteria). International brand co-financing - the agency provides the reimbursement of the amount paid under the relevant agreement on the use of an international brand for the hotel industry.
Credit Guarantee Mechanism	The guarantee can be utilized for new loans, not exceeding 80% of the principal amount of the approved loan. The maximum warranty period is 10 years.
Produce For Better Future (implemented during 2019)	Grant financing from GEL 7,000 to 35,000 for people living across conflict lines.
Micro and Small Business Support	Financial assistance within the program amounts to 30,000 GEL, provided as a grant to program beneficiaries. The beneficiary is required to contribute 20% of the total grant, unless the project is being implemented in a mountainous region.
Growth Hubs	The mission of the regional consulting centers, known as Growth Hubs, is to boost local economic growth by helping individual businesses scale-up. Growth Hubs will offer three main services: Information Provision; Improving Business Skills; Consulting. In June of 2023, the first Hub opened in the Samegrelo – Zemo Svaneti region, while two more are scheduled to be opened by the end of the year in Adjara and Kakheti.
Export Support Mechanisms	Combines the following components: Technical Assistance Component (TA) - within the technical assistance component, EG provides grants, which cover the following 3 directions: Product licensing/certification; Branding/Product Packaging; Stimulation international sale/entry fee to the international chains; Trade Fairs - EG facilitates and co-finances the participation of Georgian export-oriented companies in international exhibitions, trade fairs, and conferences; Export Managers' Certification Program - As part of this initiative, the agency covers 90% of the course fee, facilitating access to the program for participants; and Tradewithgeorgia - www.tradewithgeorgia.com is an online catalogue and platform that enables local companies to showcase their company profiles to potential, international and domestic buyers, fostering business connections for trade and economic activities.

Source: Enterprise Georgia.

Investment Promotion includes identifying sectors that are interesting and attractive for investment, conducting feasibility studies and preparing investment proposals.

Programs by GITA: GITA is an agency set up within the Ministry of Economy and Sustainable Development. Its mandate is to coordinate and mediate innovation and technology development within the country. Objectives include: Coordinating the establishment and development of an innovation ecosystem in Georgia; Stimulating innovation, research and development, and adoption of new technologies; Supporting the commercialization and application of innovation; Connecting businesses with scientific research institutions to conduct R&D; Supporting the creation of start-up companies and enhancing their competitiveness; Developing broadband internet throughout the country and increasing connectivity; Developing skills required for innovation and technology transfer; Creating relevant infrastructure for the development of innovation and technology.

There are number of initiatives, implemented by GITA to achieve these objectives, including developing and running technoparks, fablabs, ILabs, Innovation Centers (including in the regions), business incubators; conducting workshops and training in the regions (e.g., internet literacy trainings, programming); mentoring and coaching programs.

¹⁴ The component can also be applied separately.

GITA support programs

Program	Description
The Matching Grants (MGs) Program (approx. USD 50 K)	The objective of the program is to stimulate innovation and the creation of innovative enterprises in the Georgian economy through the development/adoption and commercialization of innovative products and services with the potential for internationalization.
Innovation Matching Grants Program (approx. USD 250K)	The grant is a dollar-to-dollar co-investment in private equity financing that further facilitates access to finance in the formation of globally scalable startups. The project aims to stimulate innovation and the creation of innovative enterprises in the Georgian economy.
Small grants for Prototype Development (approx. USD 5K)	Grants are awarded for purposes of designing, testing, and refining prototypes in the field of innovation and technology. The deliverable of the project should be the application of new technologies or the development of existing ones, that can be marketed locally or globally.
Regional Grants Programme	Financed by the EU grant funding within the framework of the "Pilot Integrated Regional Development Programme 2020-2022", dedicated to 4 regions of Georgia. In line with the latest regional development policies and approaches to EU territorial planning, the project aims to develop a regional entrepreneurial innovative ecosystem, stimulate the creation of innovative enterprises, and integrate them into the country's economy.
Startup Promotion Projects	It includes two programs: Global 500, Startup Beats and Startup Friendly. The objective of these programs is to create and develop the Georgian startup community and strengthen the business relationship between various startups.
IT Training programs	Includes six different programs in the areas of IT, web-development and STEM training, available for school students and anyone who exhibits an interest in technology in Tbilisi and different regions of Georgia.
Technology Transfer Program	The objective of the program is to facilitate the commercialization of scientific projects that respond to market needs. Projects that are at the level of technological readiness level TRL4 or above will be selected and receive a detailed study from local and foreign experts.

Source: GITA.

GITA is currently implementing the Georgia National Innovation Ecosystem (GENIE) Project – a USD 40 mln project financed by the World Bank. The main objective of the GENIE project is to support development of innovation by MSMEs and promote their participation in the digital economy.

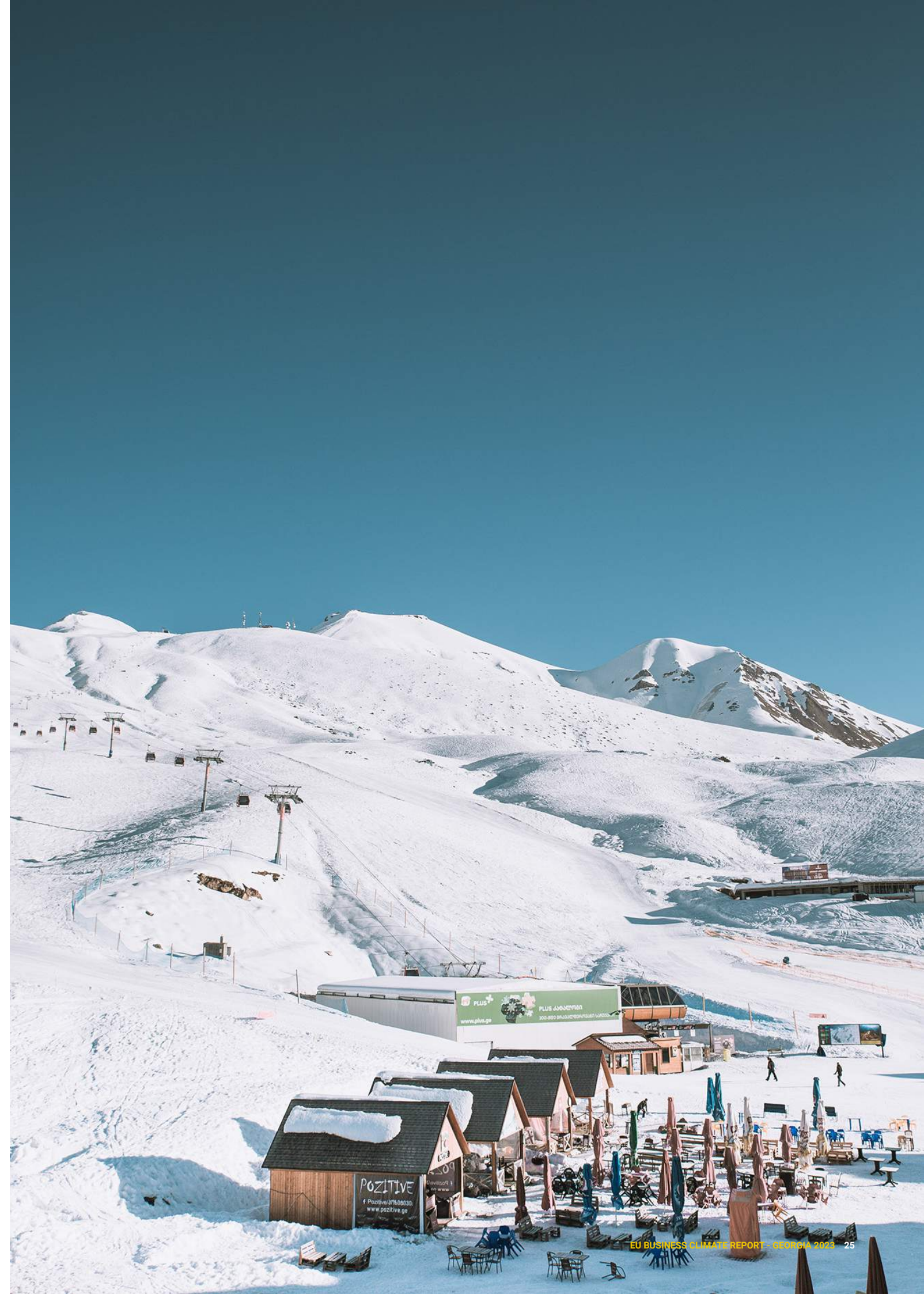
In 2022, GITA and the EU signed a cooperation agreement that launched Georgia's IT ecosystem development plan, according to which 5,000 Georgian citizens will receive training in programming, design, and project management. The aim of the program is to improve Georgia's IT sector and foster skill enhancement.

To raise the scale and quality of entrepreneurial skills, in 2020 GITA signed the Agreement with 500 Startups – a top world-class accelerator, which has established a fund with the local private sector. Herewith, for stimulating innovation services, GITA is running bootcamps, a pre-accelerator and internship programs, to help early-stage startups transform their ideas into business projects. In 2022, stakeholders renewed the agreement for another next 4 years.

Programs by the Agriculture and Rural Development Agency: The Rural Development Agency (RDA) was established in 2019 by the Ministry of Environmental Protection and Agriculture by merging the former APMA (Agricultural Projects Management Agency) and ACDA (Agricultural Cooperative Development Agency) in order to promote rural development in Georgia. The main purpose of the Agency is to promote and stimulate development of production-oriented agriculture in rural areas, and to take over the projects initiated by MEPA (Ministry of Environmental protection and Agriculture) in the areas of supporting the establishment and expansion of agricultural enterprises.

RDA support programs

Programs			
1	Integrated Development Program for Pilot Regions	11	Bioproduction Promotion Program
2	Plant The Future	12	State Technical Assistance Program
3	Tea plantation rehabilitation program	13	The Agroinsurance program
4	Program for promotion of Entrepreneurial Activity in Mountainous Regions	14	Agricultural cooperatives State Program for Co-financing of Storage Enterprises
5	Pilot Program for Women	15	Hazelnut production promotion program
6	State Program for Co-financing Refrigerators for Storage of Berry Crops for Agricultural Cooperatives	16	State Program for Support of Beekeeping Agricultural Cooperatives
7	Co-financing program of Agricultural Mechanization	17	State Program for Support of Dairy Agricultural Cooperatives, State Program of Dairy Modernization and Market Access (DIMMA)
8	Preferential Agrocredit		
9	Program of co-financing harvesting agricultural machinery		
10	Co-financing program for energy-efficient stoves		



2. SURVEY RESULTS

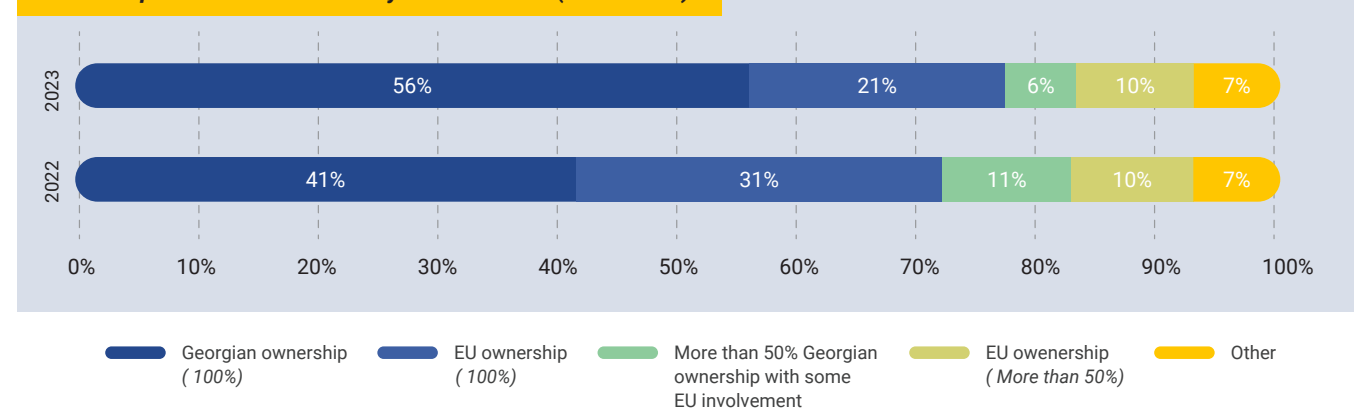
2.1. PROFILE OF SURVEY PARTICIPANT COMPANIES

Our survey primarily aimed to capture the opinions of EU companies in relation to business climate topics. Therefore, this target group was addressed in the first order. It is difficult to define an EU business, but certain rules were used to identify and reach EU businesses for the purpose of survey participation. Having the ownership of an EU country (both individual as well as corporate) in a company shareholding was used as a primary indicator. Beyond ownership of EU resident legal entities and individuals in a company, the other used criteria included business links with the EU, such as export and imports, European management and self-association of the businesses as such.

According to Geostat, by the end of 2021 there were more than 1,200 active companies operated in Georgia with at least some European ownership interests, in diverse sectors of economy and geography. Reaching some of those was possible, and impossible for others. For survey purposes, companies not having EU ownership but having the other connections or relations to the EU, or just having European values were also welcome to participate. The members of EBA Georgia were among them. Throughout this report, these companies are referred to as "EU enterprises". Detailed methodology of the survey is provided in the annex of this report.

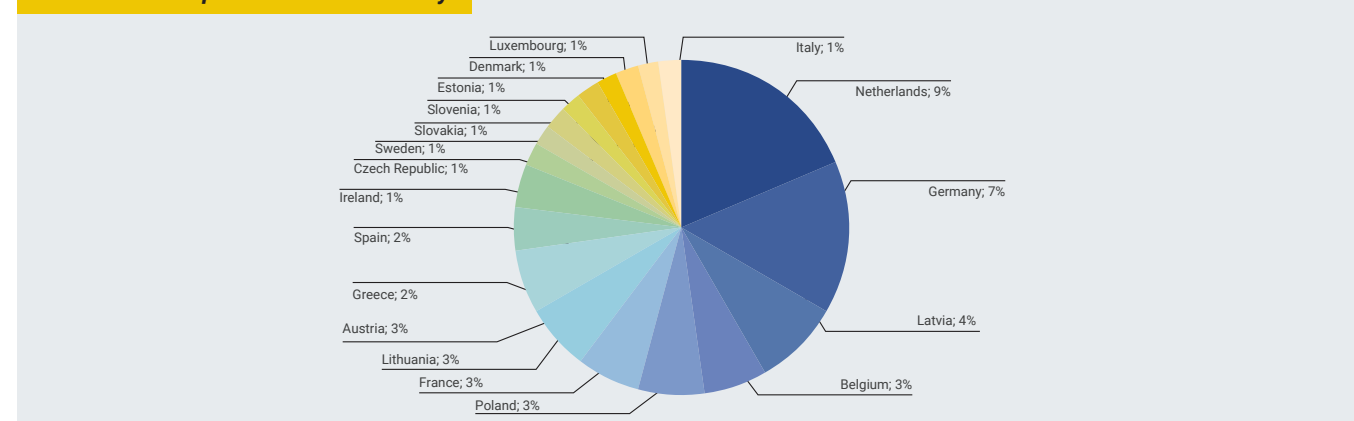
In total, 190 companies responded to the survey. Of these, 37% had some kind of EU ownership. 21% of the businesses were under 100% EU ownership. For another 10% of the responding companies, EU residents owned the controlling majority of more than 50%. In about 6% of the responding businesses, there were minority EU ownership. About 56% of the enterprises were 100% Georgian-owned, but otherwise related to the EU.¹⁵ For analytic purposes, later in the report, we differentiate between "EU-Owned" companies (the ones with at least some ownership from entities from the EU) and "Non-EU-Owned" companies (ones with no ownership from EU entities of individual persons but otherwise associated with the EU and Europe).

Ownership structure of the surveyed businesses (2022-2023)



Among EU firms, the biggest representation in the survey was from companies with ownership from the Netherlands (9%), followed by Germany (7%), Latvia (4%), Belgium (3%), Poland (3%), France (3%), Lithuania (3%), Austria (3%). Other EU countries represented in the surveyed sample were: Greece, Spain, Ireland, Czech Republic, Sweden, Slovenia, Slovakia, Estonia, Denmark, Luxembourg, Italy.

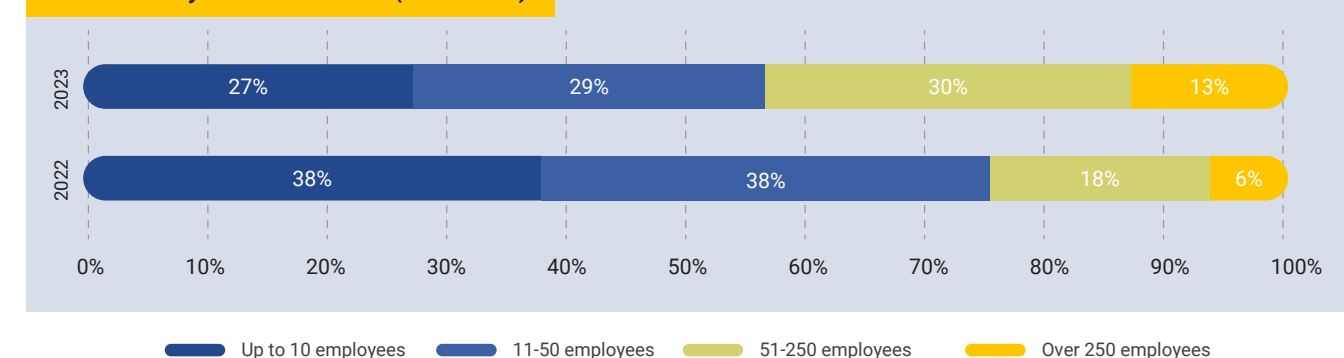
EU countries represented in the survey



¹⁵ Beyond ownership interests, businesses could feel themselves somewhat affiliated with the EU in several ways. This affiliation in some cases is very explicit and direct, in other cases indirect. Businesses could have a completely non-European ownership but perception of this affiliation makes Georgia's European way relevant to them. These ways of affiliation were explored in detail in the EU Business Climate Report Georgia 2022.

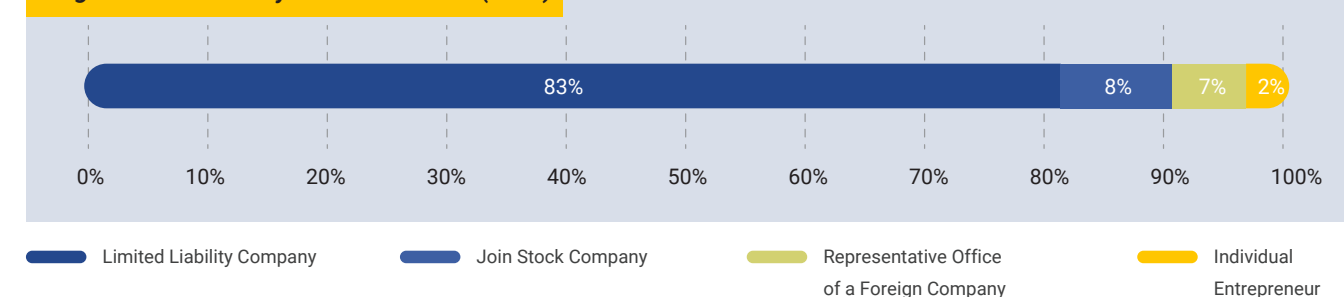
This year's survey was marked with a larger share of medium (with 51-250 employees) and large (Over 250 employees) companies in the sample, making up to 30% and 13% of respondents, correspondingly.¹⁶ Such size structure of the surveyed firms makes this year's results weigh higher, reflecting the views of largest employers in the economy of Georgia.

Size of Surveyed EU Businesses (2022-2023)



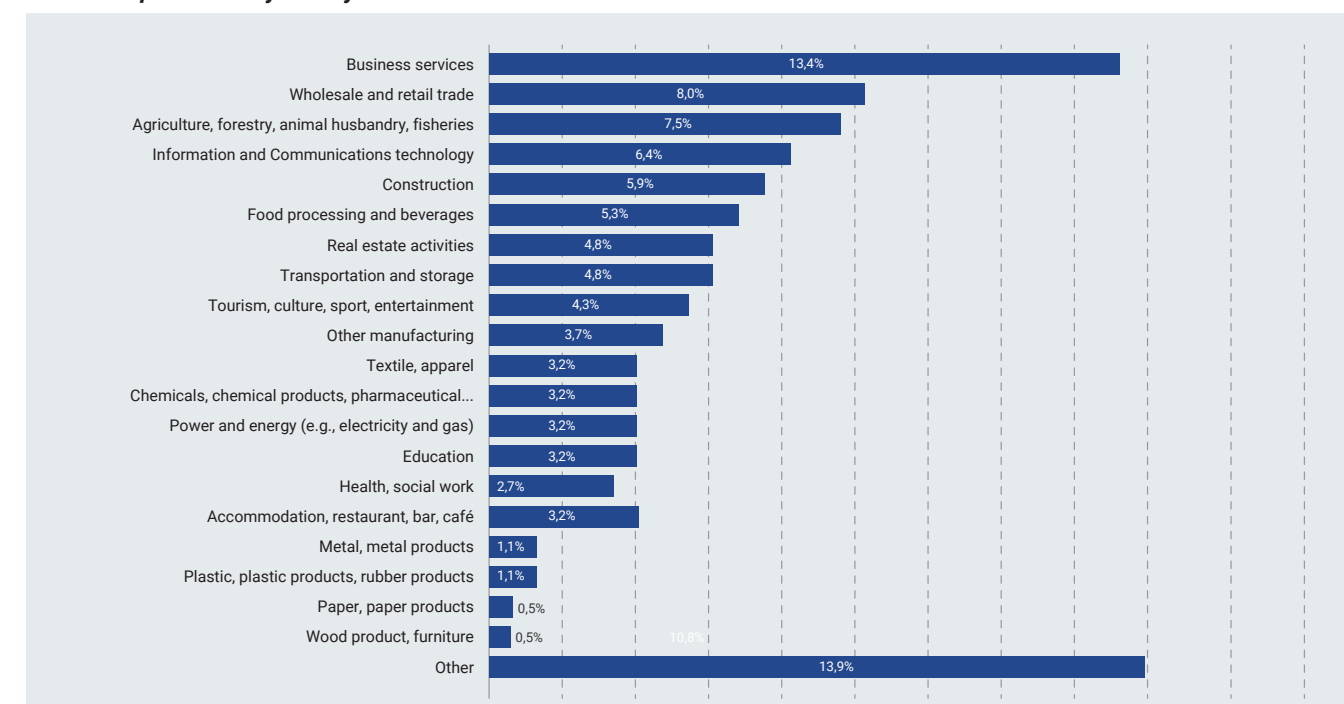
In terms of legal structure, most of the surveyed companies (83%) have legal status of a Limited Liability Company, followed by Joint Stock Companies (about 8%). Interestingly, 7% of the respondents were either Branch of a Foreign Office and/or Representative Offices. Only 2% among the respondents were Individual Entrepreneurs.

Legal Status of Surveyed EU Businesses (2023)



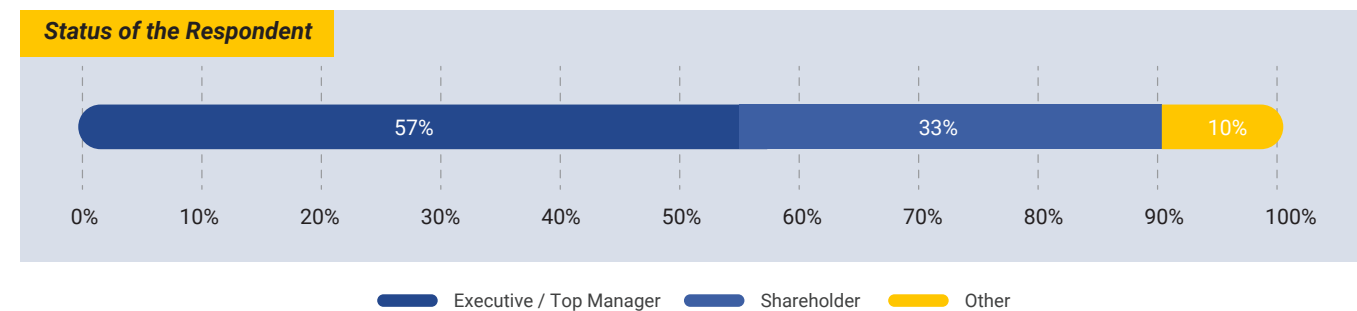
A wide variety of sectors was covered by the survey. Most of the responding enterprises (about 13.4%) were from the Business Services sector, Trade (8%), Agriculture (7.5%) and ICT (6.4%).

Sectors Represented by Surveyed EU Businesses



¹⁶ For simplicity reasons, we use only one criterion (employment), instead of two, for classifying companies by size. Therefore, our denotations of micro, small, medium and large are no way equivalent to the official classification. The definition of size buckets is based on the EU definition of the sizes of SMEs and therefore could not be matched to Georgia's definition and it could not be verified whether our sample is similar to the Georgian SME universe.

The survey is about the strategic issues related to business and its environment. Therefore, having the most informed and responsible person interviewed was a critical element of the validity of the survey results. 96% of respondents were of that type – either top executives (57%) or owners (33%) of the businesses - all indicating high validity of results.



2.2. BUSINESSES CLIMATE CHALLENGES AND OPPORTUNITES FOR EU BUSINESSES

Businesses in Georgia navigate through a quite challenging and evolving political and business environment, reflecting the dynamics of internal and external drivers. European businesses also are part of this ecosystem. Economic reform agenda compels dynamic approximation of the business climate in Georgia to the business climate of the EU. However, often, this very process of change causes uncertainties and disruptions of the established status quo, often not welcome by businesses. Sometimes, the end in itself - a better business environment - is not also clear to businesses, and opinions diverge on that subject. This section overviews perceptions of EU businesses towards some of the key elements of the ecosystem, such as key dynamics of key business climate factors, major obstacles to do business, recent performance and future optimism of enterprises, attitude towards economic reforms, the DCFTA and key obstacles to its implementation, established ways to solve issues in relation to the state and an environmental dimension.

MOST IMPORTANT BUSINESS ENVIRONMENTAL FACTORS (BEFORE AND NOW)

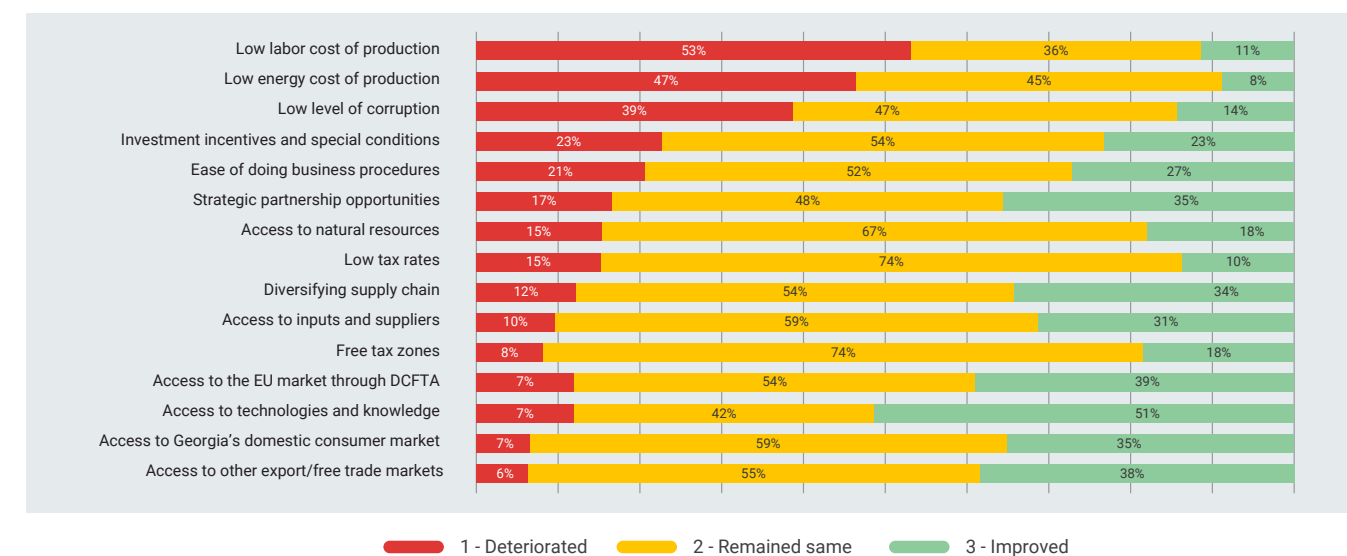
Understanding such major drivers for EU businesses in the beginning and how these important factors evolved will help policymakers set priorities to increase the commitment of existing business as well as making improvements to attract others.

The 2022 survey addressed the question of the most important business climate factors until recently. For the last few years Georgia was among the top performers in terms of critical ingredients of the climate of doing business. These were often main decision factors to invest or to do business in the otherwise small domestic market of Georgia. Some of these important factors were: easy procedures of doing business in Georgia (21.2%), followed by low tax rates (11.6%), low labor costs of production (10.4%), access to local domestic market (10.4%), and diversification of the supply chain (9.6%).

Business factors change over time, independently of how important they are to individual businesses. Therefore, once again this year, businesses were asked to evaluate whether this dynamic was positive or negative in relation to each of the factors.

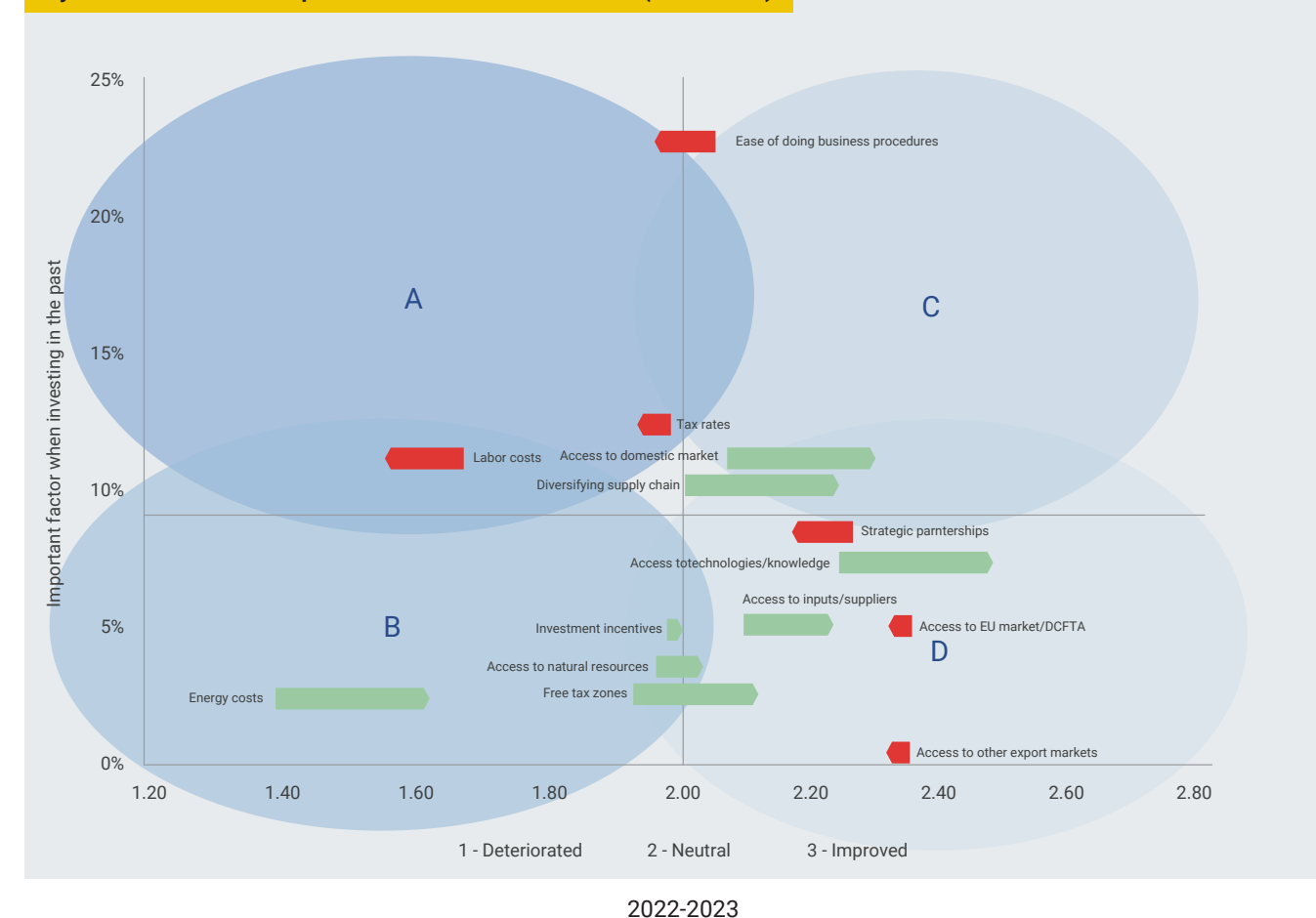
Several findings emerge. First, there is some divergence of perceptions (or a level of consensus) on whether a particular factor deteriorated or improved. In relation to the most listed factors, most respondents (more than 50%) agree that the factor conditions remained the same. Access to technologies and knowledge was the best performing factor, with more than 50% of respondents reporting *improvements*. Although with less progress than technology/knowledge factors, access to markets (domestic, the EU and other export markets/free trade agreements) were among the best performing factors, with the *smallest ratio* of respondents who thought that the situation *deteriorated*, compared to the ones who believe that it improved or remained the same. Labor costs, cost of energy and corruption were among the ones with a notable portion of respondents who *report deterioration*.

Recent dynamics in business climate factors (2023)



Comparing the results with the previous survey may provide additional signals on the dynamics for policy-making purposes. The 2022 report provided the frame of prioritization of the factors. The factors were grouped according to their importance and the recent dynamics (positive or negative direction). Four conditional groups (Group A, B, C and D) were distinguished, which require different policy responses and levels of attention. This year, an additional element was introduced - benchmarking the results with the previous study, revealing the most prominent changes over the last year.

Dynamics of the most important business climate factors (2022-2023)



Definition of the Priority Groups:

Group A: the business climate factors with *high importance* (more than average score) for making business in Georgia and *negative direction* in the recent years. This is the most problematic area, which requires urgent attention in order to maintain or improve business climate in the country. Policy response for this group is understanding the root-causes of this perceptions and mitigate the risks. These could be meaningful reasons but also could be a matter of wrong perceptions of the businesses, which could be solved through the right level of communication.

Group B: Second priority group, with *less than average level of importance* for doing business, with *negative dynamics*. The policy measure to this group might be same as for Group A, but as a second priority, if there is a need to make a tradeoff between resources.

Group C and Group D: These factors are the ones in which Georgia's *positioning improved* according to the EU businesses. They only differ in terms of importance to do business and priorities must be set according to their perceived importance (first C and then D). The policy response for these groups include: capitalizing on these strong perceptions, learning from successful cases and building the communication to the potential investors about these factors more profoundly.

While the numbers are generalized and averaged, the individual perspective should not be neglected. Despite in overall positive perception about a particular factor, individual businesses might face certain problems, and vice versa, on average negative perception does not exclude many individual enterprises who positively assess the progress. Therefore, individualized, customized approach, especially when it comes to the important international companies, still applies as a desirable policy.

Labor costs, Ease of doing business procedures and Low tax rates, which used to be in *Group A*, showed a further negative trend (meaning that more companies think that the situation went wrong) between the two waves of the survey 2022-2023, deserving special attention.

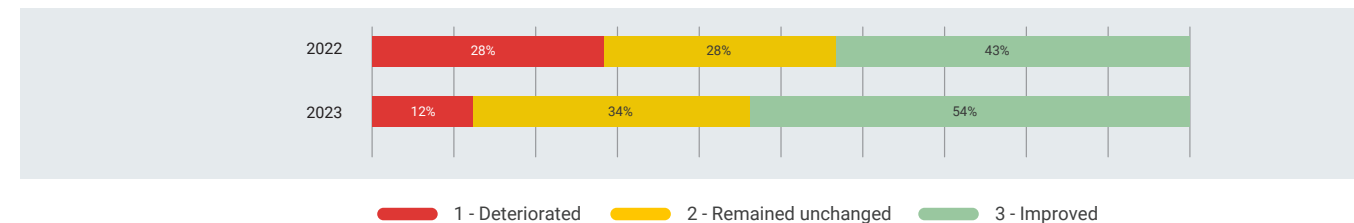
On the other hand, dynamics of *Group B* factors was positive. This is the second priority group. All of the factors, which used to be in this group have seen a positive trend between the two waves, indicating improving conditions. The right interpretation is that, although the more companies consider that the situation went wrong, the share of such companies, compared to the previous wave, went down.

Overall, the *biggest winners* between the two waves are: Access to technology and knowledge, Access to domestic market, Access to supply chains, Energy costs.

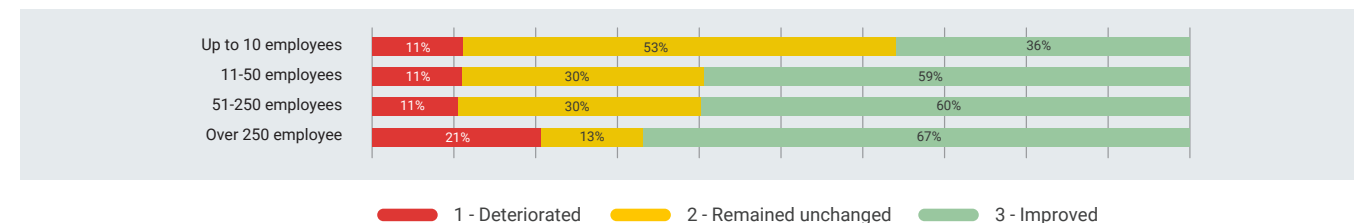
BUSINESS PERFORMANCE AND OPTIMISM

Over 2022 and the majority of 2023, businesses in Georgia had multiple reasons to worry. The geopolitical events in the region on the one hand and economic performance inside the country, on the other, may have affected business performance as well as optimism for the future. **The majority (54%)** of EU businesses report that their overall business performance *improved*. Business performance remained unchanged for 34% of the surveyed companies and another 12% report that their performance went negative. This represents a considerable improvement compared to the previous year (i.e., 43% improved), indicating the health of the enterprises.

Business performance over the past year (2023)

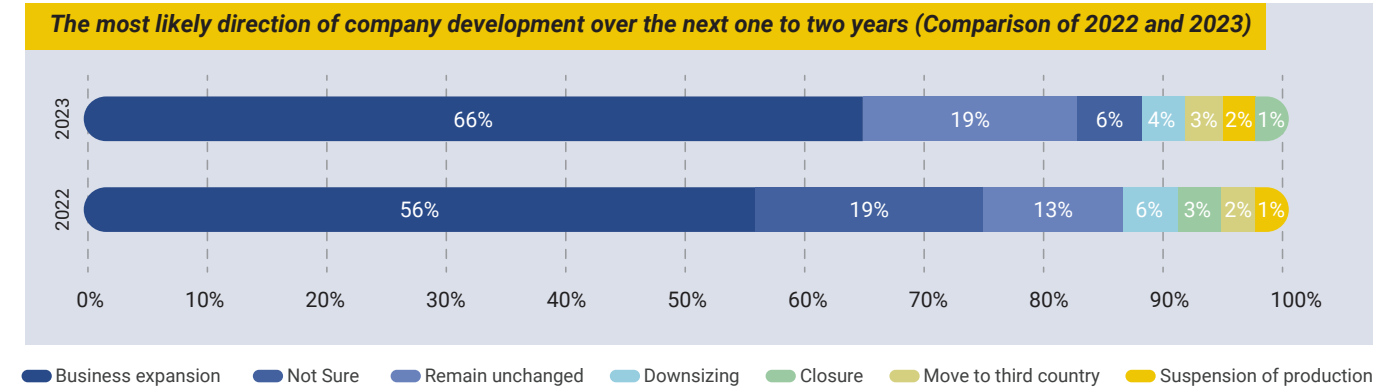


Among all size groups, large companies were the among the most volatile conditions, with the *biggest portion of reported deterioration* of performance (21%), and at the same time, the *biggest portion of the enterprises who reported improvement* (54%). The situation for micro companies was the most static, with the share of the highest portion of the companies for which the situation remained the same.

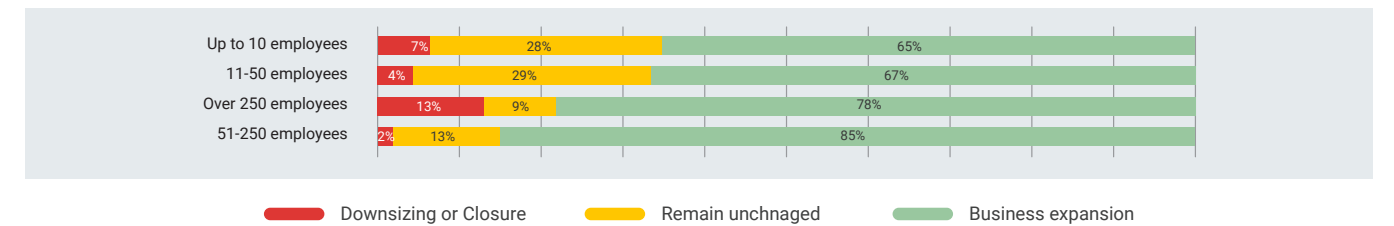


In the background of the geopolitical events in the region, as well as internal political polarization, business optimism for the coming year clearly overshadows past performance - **most of the surveyed businesses (66%) plan expansion** in the coming years. This represents a 10 percentage points growth from the previous year - a notable move. This could imply that economic growth in the country is a determinant factor for optimism.

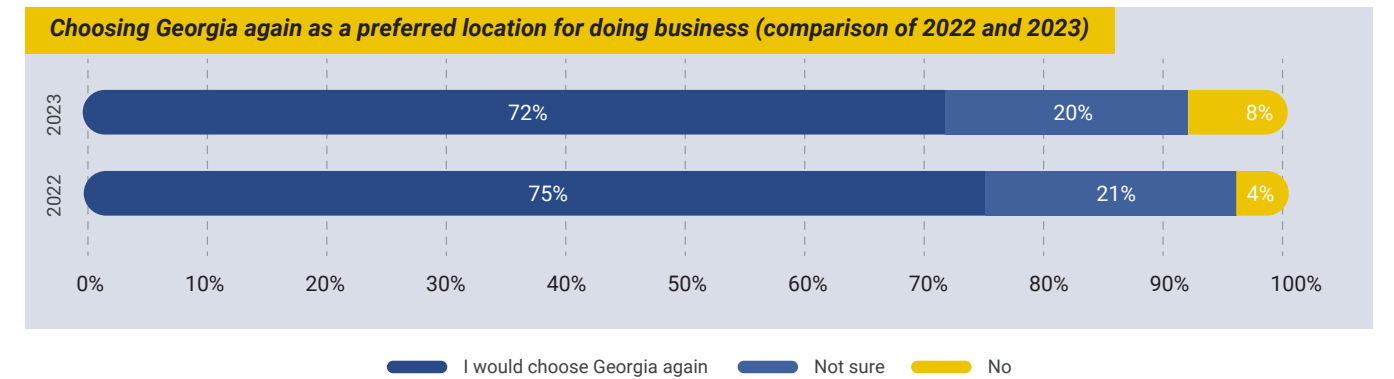
19% of the enterprises think they will remain unchanged. For 6% of enterprises, development prospects are unclear. The remaining part of the sample plans either downsizing (4%), moving to other country (3%), suspension of their activities (2%) and closure (1%). Although small in numbers, it is interesting to understand the reasons of the pessimistic outlook of this group, to take measures to prevent this from happening. Some of them might represent a source of high-value employment and value-added in the economy.¹⁷



Not surprisingly, smaller businesses are less dynamic in terms of future expansion than larger ones, as they face more obstacles and bottlenecks to growth.



In an integrated global economy, with free flow of capital, it is not difficult to relocate business, as conditions change. If conditions are not favorable, this may result in a particular opinion of businesses about an economy as a preferred location of doing business. If they had to, **72% of the surveyed businesses would choose Georgia again** as a preferred place to do business, down a bit from the previous year. 20% would be uncertain and 8% would not choose Georgia again. This 8% segment of enterprises is an interesting one to explore, since retaining an investor is more economically reasonable than finding a new one.



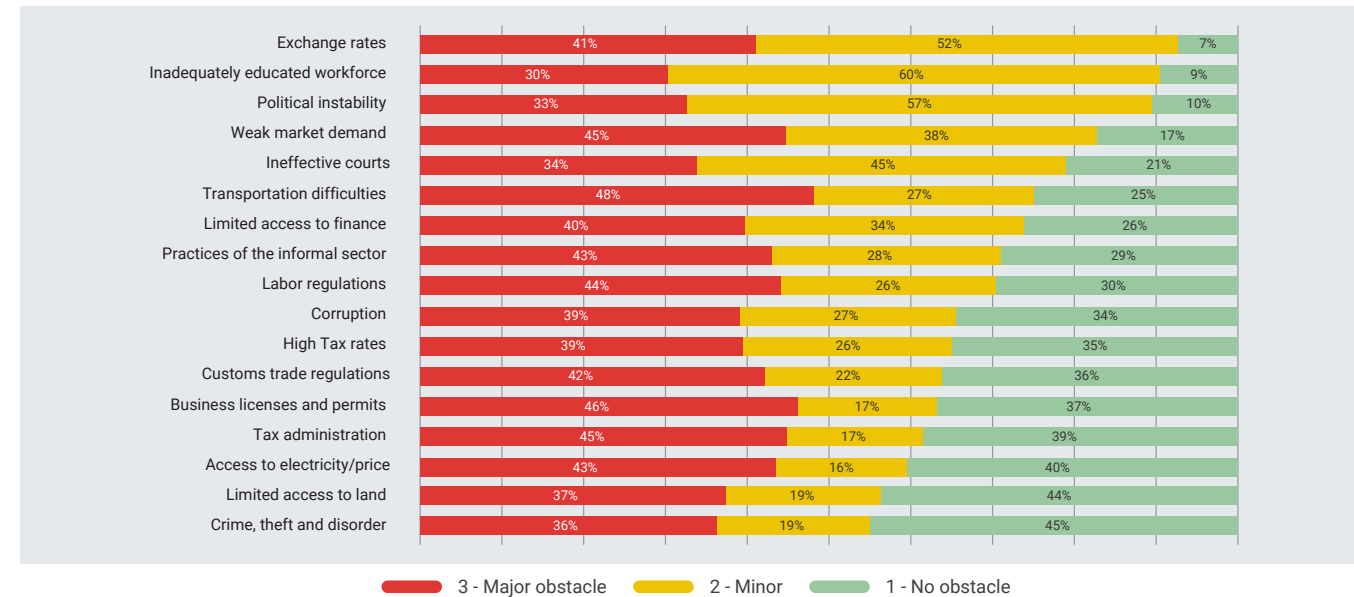
¹⁶ EBA stands ready to take steps towards further exploring these root-causes from individual companies and individual cases, if these companies made themselves identifiable during the survey or do so during the discussions of the results.

MAJOR OBSTACLES TO EU BUSINESSES

Obstacles to businesses in Georgia have been often been addressed by many reputable parties in the past. Our study revealed some of those, related to the EU and EU-related businesses operating in Georgia. The rankings reflect a relative magnitude of the impacts of the obstacles on the business operations of the surveyed businesses.

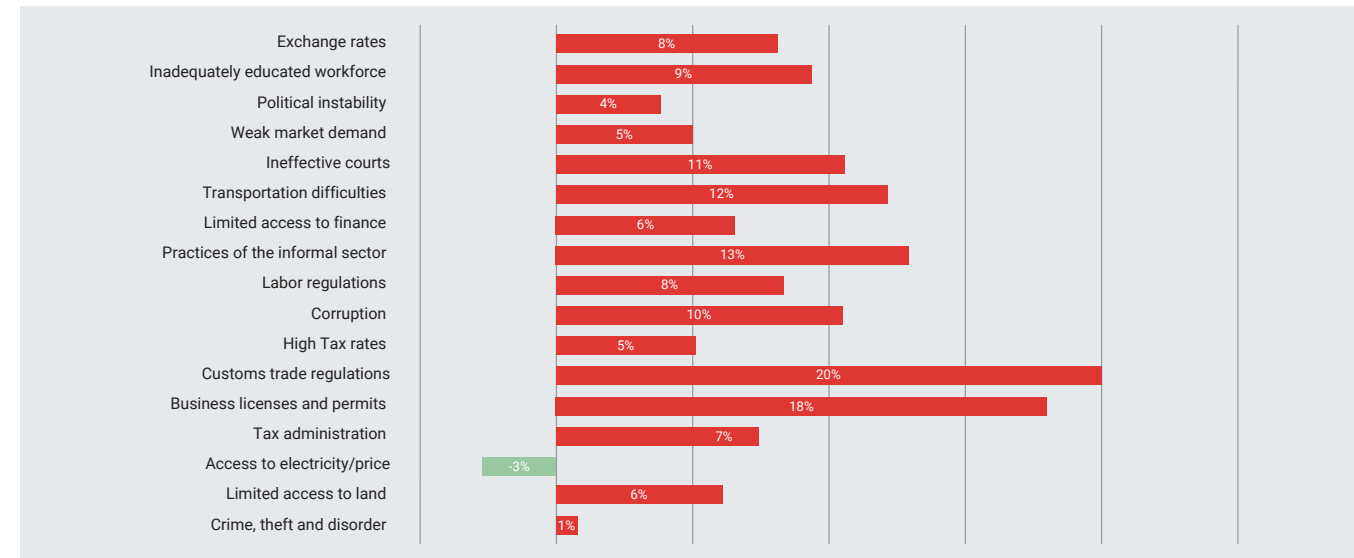
Exchange rates, inadequately educated workforce and political instability are named as top obstacles to businesses as more than 90% of surveyed businesses report these factors as either *major* or *minor* obstacles. If judging only by the biggest major obstacle, Transportation difficulties is the top factor, with 48% of companies reporting this a major obstacle to their business. This comes against the positioning of Georgia as a hub between the east and west, and hence deserves attention.

Major obstacles to businesses (2023)



Compared to the 2022 results, in 2023 all the top three factors remain the same, however, their positions have changed. Political instability moved to the third position and economic factors such as exchange rates and inadequately educated workforce moved up to the top. Among the biggest losers (i.e., the ones which became bigger obstacles as a combination of minor and major obstacles, taken together) compared to the previous year were customs regulations and business licenses and permits.

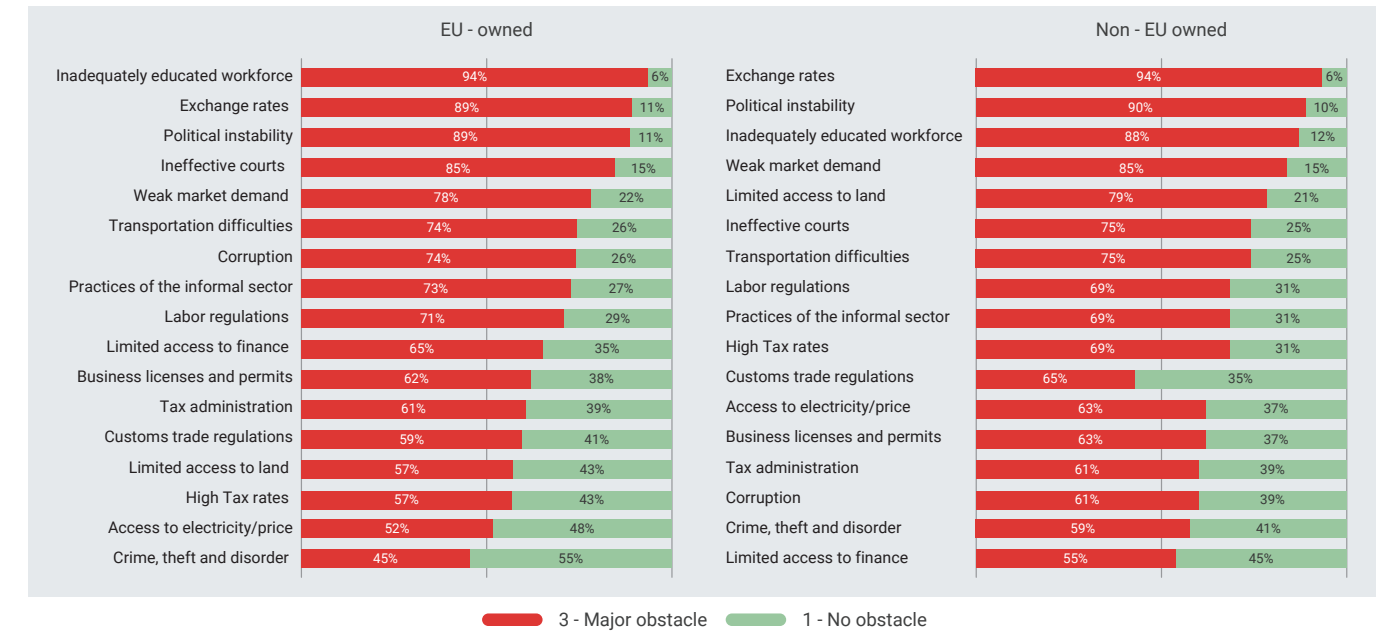
Major obstacles to businesses (Recent dynamics 2022-2023) (red indicates to the increase level of the obstacles)



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minor and major obstacles, taken together) compared to the previous year were customs regulations and business licenses and permits.

Major obstacles to businesses in 2023 (EU-Owned vs Non-EU Owned)



Different size companies face different obstacles and concerns. However, these differences seem to be small and inconsistent. Exchange rates and inadequately educated workforce are among the top three issues for all size groups.

Rankings of the perceived obstacles among by firm size (2023)

#	Micro (up to 10 Employees)	Small (11-50 Employees)	Medium (51- 250 Employees)	Large (Over 250 Employees)
1	Exchange rates	Political instability	Exchange rates	Exchange rates
2	Inadequately educated workforce	Exchange rates	Inadequately educated workforce	Inadequately educated workforce
3	Political instability	Inadequately educated workforce	Weak market demand	Weak market demand
4	Weak market demand	Ineffective courts	Political instability	Political instability
5	Limited access to finance	Weak market demand	Transportation difficulties	Transportation difficulties
6	Ineffective courts	Transportation difficulties	Limited access to finance	Limited access to finance
7	Tax administration	Business licenses and permits	Access to electricity/price	Access to electricity/price
8	Labor regulations	Limited access to finance	Practices of the informal sector	Practices of the informal sector
9	Corruption	Practices of the informal sector	Labor regulations	Labor regulations
10	Transportation difficulties	Customs trade regulations	High Tax rates	High Tax rates
11	Practices of the informal sector	Corruption	Ineffective courts	Ineffective courts
12	Customs trade regulations	Labor regulations	Customs trade regulations	Customs trade regulations
13	Crime, theft and disorder	High Tax rates	Business licenses and permits	Business licenses and permits
14	Limited access to land	Limited access to land	Tax administration	Tax administration
15	High Tax rates	Tax administration	Crime, theft and disorder	Crime, theft and disorder
16	Business licenses and permits	Crime, theft and disorder	Corruption	Corruption
17	Access to electricity/price	Access to electricity/price	Limited access to land	Limited access to land

Individual businesses reported their major concerns, related to overall business environment. Several qualitative insights can be generated based on comments and evaluations.



EXCHANGE RATES

Fluctuation of exchange rates, often mentioned in combination with political instability, represent a major obstacle for businesses. Under exchange rates, businesses mean volatility and unpredictability of rates, making planning and business operations challenging. Strong exchange rates also have negative implications for exporters. This fluctuation also makes it difficult for businesses to make long-term commitments.

"As export accounts over 70% of production GEL appreciation impacted company profitability."

"Strengthening of Lari is decreasing the benefits of our project as labor gets more expensive etc."

"Exchange rate fluctuations has significant effect on our company's profitability since our products mostly are imported and sometimes it causes increase of our expenses."

The fact that exchange rate is a top-rated severe obstacle should have some consequences for policy purposes. For that reason, macro-financial policy, rather than institutional environment, is the most obvious area to look into, would the country decide to significantly improve the perception of businesses around obstacles, let them plan ahead and grow. Measures should also be taken to protect the reputation of the National Bank of Georgia from unintended consequences.

INADEQUATELY EDUCATED WORKFORCE

The skills mismatch on Georgia's labor markets aggravates each year and translates into important practical issues in doing business in Georgia. The importance of this factor increased for EU enterprises, as they consider this factor more important than political instability. Low quality outcomes of the educational system combined with outbound migration aggravate this issue every year.

"For the hospitality business in Georgia, the main obstacle is labor force. Unfortunately, today it is very hard to find educated or most importantly motivated staff"

"Lack of educated specialist without any positive moves from government during coming 10 years"

"General quality of university graduates is falling"

"The main challenge for today, is the huge lack of workforce. The migration is too high. Its hard to find new employees"

"In our service company, the main value comes from the workforce, therefore there are many issues that do not directly affect us, only those related to the hiring of professionals"

"Uneducated workforce created some difficulties for the local subcontracts"

"Not easy to find educated staff and some regulations are just about supporting local people"

POLITICAL INSTABILITY

Future uncertainty is the number one challenge businesses seek to avoid. Political instability is the key contributor to this uncertainty. EU businesses consider political instability the third most important obstacle, making it difficult to plan the future. Tensions related to political polarization as well as frequent change in economic policy vector translate into risks for businesses. Frequent change in decision-making positions among state agencies makes doing business difficult. This instability is also related to the change of vision of the government towards various strategic economic projects. External political events which shook an already shallow political background for the enterprises in Georgia contribute to such uncertainties.

"Major national, regional and worldwide political economical and social uncertainties, coupled with weakened internal demand and growing HR cost and inflation yields a very harsh short-term outlook."

"The degree of unpredictability of public practice and administration is increasing."

"Why should someone invest in a politically unstable country when there are more stable countries available?"

"Instability in the country is the main obstacle for our organization, as well as the government's inefficiencies to meet EU requirements."

WEAK MARKET DEMAND

Georgia is a small country, with a small internal market. Consumer businesses suffer from the weak purchasing power of the population, due to weak exchange rates and high unemployment.

"Market is small and lacks technological readiness our company products require"

"Very low demand from the market"

83% of the surveyed firms report the weak market demand as an obstacle (major or minor). Georgia itself is a small country. If not considered in the context of a wider free trade area, regional partnerships, and export markets, naturally for a growing company Georgia's domestic market could not be sufficient. More internationalization strategy should be universally adopted.

INEFFECTIVE COURTS

Ineffective court system is reported as the fifth most important obstacle in rank. Protracted decisions by the court, which take several years, make doing business impossible, influencing both Georgian companies and foreign investors, inflicting damage to the reputation of Georgia as an investment destination. Insufficient progress of the court system reform and weak alternative dispute resolution mechanisms (e.g., mediation and arbitration) are at the root of this issue.

"Court is deteriorated and no guarantee that one can win the case if confronting some 'influential' persons."

"Unclear legislation, deadlines of litigation, lack of communication with business sector or illusory communication."

LIMITED ACCESS TO FINANCE

Limited access to finance is reported as the seventh obstacle in rank. This topic is highlighted in more detail in the Featured Topic section of this report. According to the surveyed businesses, extremely high interest rates on short-term borrowing, cumbersome procedures to arrange any type of loan with a bank, limited financing products for startup entrepreneurship and collateral requirements impede business growth. There are very limited leasing opportunities. The absence of a stock market leads to the domination of expensive bank financing.

"From our company's perspective, there major obstacles, which leads to the uncertainty of our company's future operations, which is the mostly limited source of financing, since our main financing source is bank credit limit, which is limited and which sometimes is limiting our company's ability to grow more exponentially."

"Political instability and currency exchange rate fluctuation influences the business development."

"Businesses like us, who try to operate responsibly, consider customers and employees needs, struggle to be profitable. These unstable political and economical situation really affects our day-to-day business."

"Local market is small and competition is high"

"Major obstacle is again the system of Justice, timing in Courts and not clear economical strategy."

"Capital market deficiency limits growth of Georgian companies."

OTHER OBSTACLES

Among other obstacles, notable comments were made in relation to
- **Corruption:**

"Public procurement system must be updated and suited to modern requirements and chance of corruption decrease."

"Corruption (or non-transparency) within tenders by donor projects"

"Corruption in public tenders is a major obstacle to develop that market channel"

Other notable comments were related to:

- **Low qualification of the staff in the government system:** Ineffectual personnel within different branches of government, such as the Phytosanitary Service, who are responsible for considerable unexpected costs, delays, and losses at border posts for companies.
- **Standards:** Absence of Euro Codes in construction standards impedes progress
- **General infrastructure:** Practical issue such as urban mobility is a pressing concern, as well as poor travel connections and amenities for overnight flights making it difficult to persuade C-level executives to visit the country.
- **Monopolies:** Small businesses find it exceptionally challenging to compete with monopolists.
- **Image of the government:** Georgia's reputation among foreign clients suffers, attributed to negative comments made by government officials, exacerbating the problems of businesses based in the country.
- **Lack of flexibility:** Finally, the government's delayed and inflexible response to the needs of businesses exacerbates the overall challenging environment faced by entrepreneurs and investors in Georgia.

- **Customs trade regulations:**

"Import tax payments time must be extend to at least 1 month."

"Customs, justice house and other government services should be fully digitized to eliminate the need for physical presence in order to get a service and make relevant procedures."

- **Tax administration:**

"From our point of view, tax administration is mainly not supporting business and their duty is to make as much as possible fines for companies. they are not confident as i mentioned their duty is to make more fines from companies, which is very bad."

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- **Lack of flexibility:** Finally, the government's delayed and inflexible response to the needs of businesses exacerbates the overall challenging environment faced by entrepreneurs and investors in Georgia.

2.3. FOCUS FOR THIS YEAR - ACCESS TO FINANCE

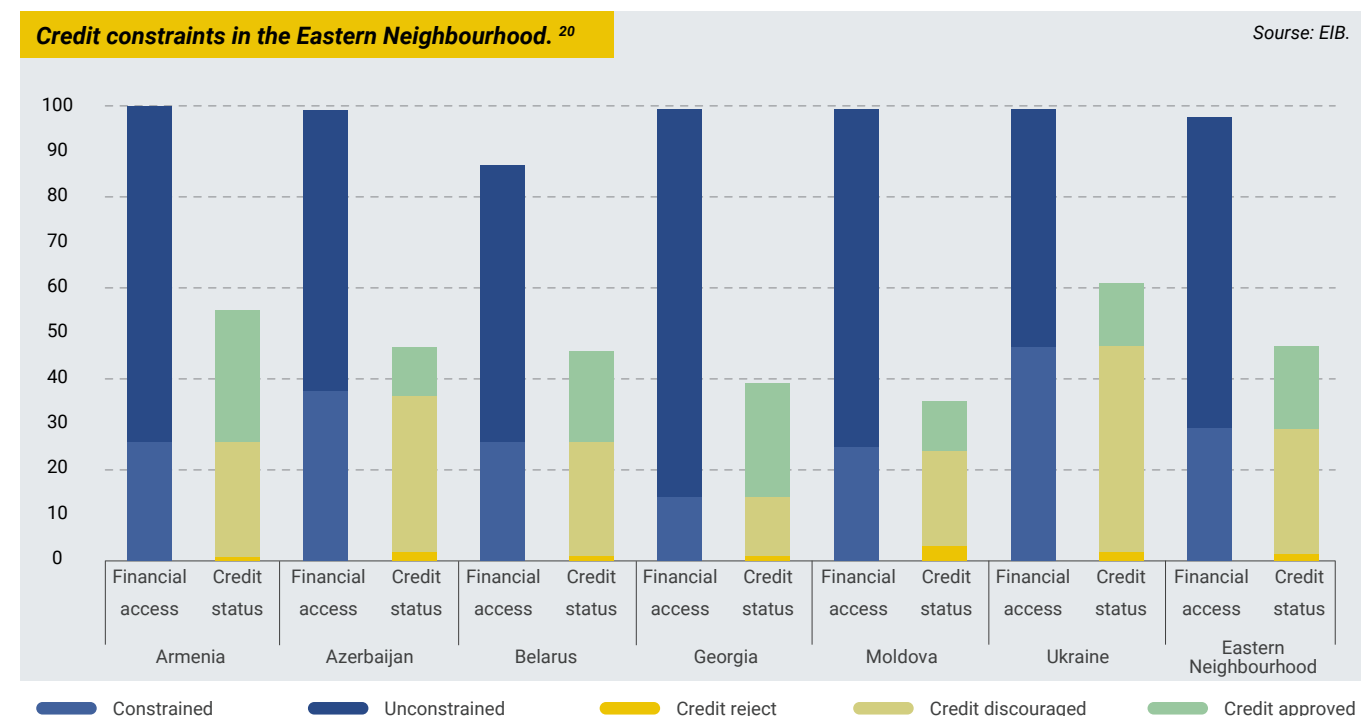
If private sector companies, SMEs in particular, get any benefit from EU integration, first of all, it is greater access to financing. Among numerous other benefits, SMEs in the EU enjoy greater access to and more diverse opportunities for external financing. For that reason, the focus of this year's report and its featured theme is **access to finance** for companies in Georgia, in light of the EU integration. This section analyses the challenges related to access to finance for enterprises in Georgia and benchmarks the situation in the EU as a potential to come along with the integration.

GEORGIA IN AN EASTERN NEIGHBOURHOOD CONTEXT

The legal and regulatory framework for better access to finance in Georgia has been advanced significantly, resulting in overall progress in the field. The steps in recent years to improve the system included the introduction of the Basel III framework for capital and liquidity and Corporate Governance Code for financial institutions, amendments to the Securities Market Law, the enactment of the Funded Pension Law, the Law on Covered Bonds, and the Investment Funds Law, adoption of Capital Market Development Strategy in 2022, adoption of the sustainable finance agenda, the sustainable finance roadmap and a new sustainable finance taxonomy. In addition to this, the regulatory framework for non-bank credit institutions has been improved. Steps were taken to reduce the level of dollarization in the banking system and strengthening the supervisory framework for the National Bank of Georgia.

As a result, access to financing in Georgia improved significantly. Domestic credit to the private sector increased significantly from 55% of the GDP in 2016 to 64% of the GDP in 2022%.¹⁸

Georgia performs comparatively well in relation to its peers from the Eastern Neighbourhood. It should be mentioned that, compared to its peers in the eastern partnership space, Georgia's private sector is far less constrained. Due to relatively advanced commercial banking, businesses are far better supplied with credit than in some of the eastern partnership neighbors. According to EIB report, few numbers of enterprises in Georgia, compared to the other regions, report they are not constrained. In this indicator, Georgia leads the region. Georgia also leads the region in terms of the indicator of credit approval and the proportion of credit approval to credit rejected.¹⁹



NOTE: The chart shows two bars per country. The first bar divides the population into constrained and unconstrained firms. Credit constrained firms either had their loan application rejected or were discouraged from applying in the first place. Unconstrained firms either had no need for finance or had their loan application approved. The second bar displays the composition of the subgroups. The height of the second bar shows overall credit demand.

However, at the system level, Georgia shares common challenges with its neighbors... In handling the issue of access to finance, EIB identifies several common issues in the Eastern Neighbourhood region, such as: soundness of the financial system driven by the exchange rates, threatening financial stability; scarcity of funding for banks, driven by dollarization of liabilities (e.g., deposits by physical persons), forcing them to revert to external financing; risk assessment issues, caused by the asymmetries of information required for risk assessments, leading to high interest rates and high collateral requirements.

¹⁸ National Bank of Georgia, official statistics published at www.nbg.gov.ge, 2023.

¹⁹ Access to Finance in the EU Neighbourhood and Enlargement Countries; European Investment Bank Group, 2018.

²⁰ Access to Finance in the EU Neighbourhood and Enlargement Countries; European Investment Bank Group, 2018.

According to our interviews with key informants/experts from local financial institutions, funds are mostly available in foreign currency (USD/EURO). Mismatch in currencies of asset and liability in the banking system is usually the result of saving in a foreign currency, driven by the high volatility of local currency and dollarization of the market. Attracting local currency funding from IFI/DFI-s is usually expensive and typically involves a third-party for hedging the currency risk. Formalization level of SMEs in low, the proper bookkeeping systems is not often implemented, which makes it challenging to access the needed financial documentation for proper risks assessments.²¹

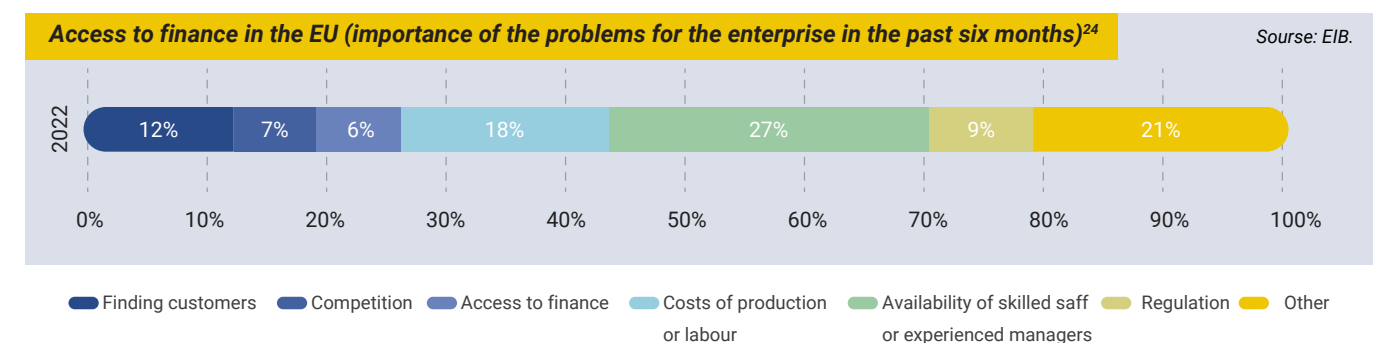
But the access to a finance gap with EU member countries is significant. In the 2019 Enterprise Survey, access to finance was perceived as the second-largest constraint by firms, after political instability.²² According to European Business Climate Survey 2023, access to finance is a major obstacle for up to 40% of the surveyed enterprises, and minor obstacle - for another 34%.

"The major obstacle is limited access to finance"

"Capital market deficiency limits growth of Georgian companies"

"From our company's perspective, there major obstacles, which leads to the uncertainty of our company's future operations, which is the mostly limited source of financing, since our main financing source is bank credit limit, which is limited and which sometimes is limiting our company's ability to grow more exponentially"

According to the 2019 EIB-EBRD-WB Enterprise Survey, firms in Georgia consider access to finance to be the second most significant obstacle to doing business.²³ For comparison, the share of businesses which perceive access to finance as an issue in the EU is only about 6%.



Lack of diversity of the financial instruments for SMEs... While a bank credit line and overdraft are commonly used (47%) instruments among EU firms, usage of other instruments such as lease or hire-purchase (47%), bank loans (46%), trade credit (31%), grants and subsidized loans (42%) are also quite common. In addition, equity capital is also used in 11% of the cases.

Facility	EU (2022) ²⁵	Situation in Georgia
Sources of financing	<p>Usage:</p> <ul style="list-style-type: none"> • Bank credit line, overdraft, credit card overdraft (47%) • Lease or hire-purchase (47%) • Bank loan (46%) • Trade credit (31%) • Other loans (18%) • Equity use (11%) • Factoring (9%) • Other types of financing • Grants or subsidized loan (42%) • Retained earnings or sale of assets (26%) 	<p>Only basic financial services are offered: accounts with overdraft facilities, working capital loans and only a few long-term investment products. According to the expert interviews of a commercial bank: bank loans, credit lines and overdrafts represent about 90% of the portfolio. According to the EIB-EBRD-WB Enterprise Survey 2019, among SMEs roughly 67% of investment or working capital is financed with internal funds, followed by bank credit financing. Credit from suppliers and advance payments finance working capital more (about 11%) while a small but visible contribution from equity supports investment activity.²⁶ According to the recent country diagnostic update by the World Bank Group, a lack of diversity of other financial products and services (such as asset-based financing, Fintech, early-stage financing for start-ups, growth equity for SMEs, access to capital markets for large corporates) limits the ability of the financial sector to meet the diverse needs of firms throughout their lifecycle and hinders firm growth.²⁷ According to the Financial Sector Assessment Program by the World Bank Group, a well-developed banking sector and progress on financial access in Georgia mask a lack of diversity in financial products and services and disparities in financial inclusion.²⁸</p>

²¹ Based on Key Informant Interviews from Banking Sector.

²² Georgia: Keeping the Reform Momentum, Systematic Country Diagnostic Update, the World Bank Group, 2023.

²³ Georgia Country Diagnostic, EIB, Oct 2021.

²⁴ Survey on the access to finance of enterprises (SAFE), Analytical Report 2022, Kantar, a research company, in cooperation with GDCC (Global Data Collection Company).

²⁵ Survey on the access to finance of enterprises (SAFE), Analytical Report 2022, Kantar, a research company, in cooperation with GDCC (Global Data Collection Company).

²⁶ Georgia Country Diagnostic, EIB, Oct 2021.

²⁷ Georgia: Keeping the Reform Momentum, Systematic Country Diagnostic Update, the World Bank Group, 2023.

²⁸ Georgia - Financial Sector Assessment. World Bank Group, 2021.

Interest rates being the major obstacles for accessing the finance. A number of reasons limit SMEs access to the finance. Interest rates are one of the critical elements of access to finance. In the EU, the average interest rate reported by companies is 3.4%. Although SMEs pay higher interest rates than large enterprises, the maximum for rate does not exceed 4.1%. For comparison, average interest rates on business loans in 2022 Georgia ranged between about 13%-14% on national currency loans and from 6.6% -9.1% on foreign currency loans.²⁹

Reasons for being discouraged from applying for a loan by SMEs have changed considerably over time. A significant share of firms in Georgia do not apply for a loan in the belief that their loan applications would have not been approved. Interest rates are still a major discouragement factor, albeit with a decreasing effect between 2013 and 2019, while collateral requirements increased marginally in importance.³⁰

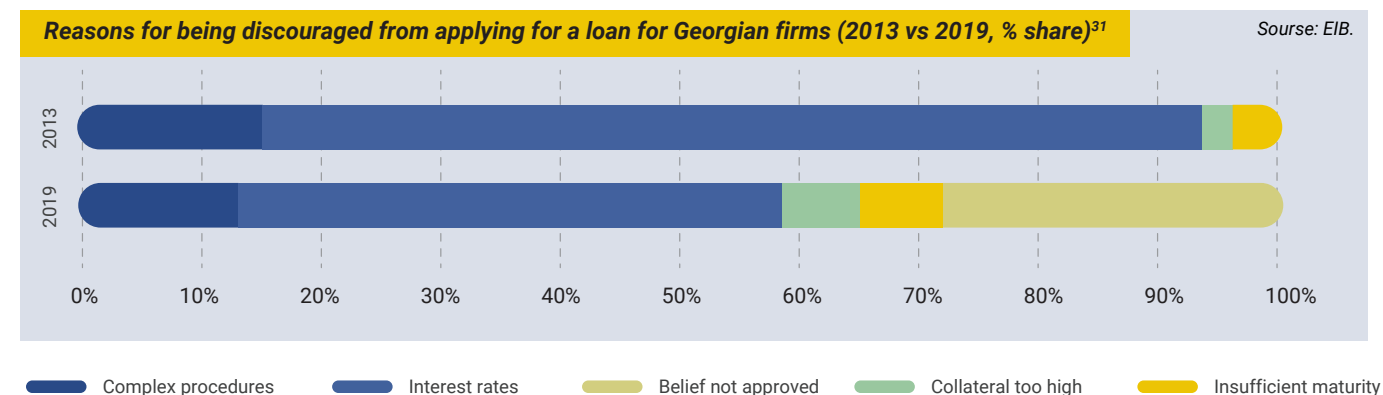


Table below provides comparison of the access to finance for SMEs in the EU and the situation in Georgia, in terms of the key limiting factors.

Limitation to financing for SMEs in the EU (2022) ³²	Georgia's perspective
1. Interest rates or price too high (26% of the SMEs report this as a primary limitation)	According to expert interviews, recent increase of reference rates negatively affected the final price for business especially in foreign currency loans. Subsequently some SME clients have become temporarily hesitant about making new long-term investments. Average net profit margins in SME business in Georgia vary from 5-15%, indicating the tightness to carry loan burden.
2. Insufficient collateral or guarantee (10% of the SMEs report this as a primary limitation)	Insufficient collateral is usually an obstacle for the loan disbursement in the SME sector. Land (65%) and personal assets (60%) are the most commonly requested type of collateral in Georgia compared to other Eastern Partnership region. In addition, in Georgia, higher collateral value is requested. ³³ In recent years, Georgian banks offered different guarantee programs to SMEs, including Government-supported programs, demand on which grew consistently. However, certain limitations still remain.
3. Too much paperwork (7% of the SMEs report this as a primary limitation)	One of the core segments for Georgian banks is SME clients, therefore granting criteria for business is well designed, and competition on the market is high. If the company has implemented a proper accounting system in place, access to finance is not a complicated procedure.
4. Financing not available at all (5% of the SMEs report this as a primary limitation)	Generally, banks are cautious granting loans to start-up companies, however, SME clients having experience and solid business model finance is available from the market.
5. Reduced control over the firm (2% of the SMEs report this as a primary limitation)	No evidence
6. Other limitations (10% of the SMEs report this as a primary limitation)	Combination of absence of proper bookkeeping system within the company, on the one hand, and lack of specific knowledge of the sector by the financial institution, on the other hand, might become major challenges leading to limited access to finance in Georgia.
7. There are no obstacles (36% of the SMEs report this as a primary limitation)	NA
8. Do not know (5%)	NA

According to the key informants, there is a lack of information and awareness regarding the availability of funds and processes necessary to access funding.

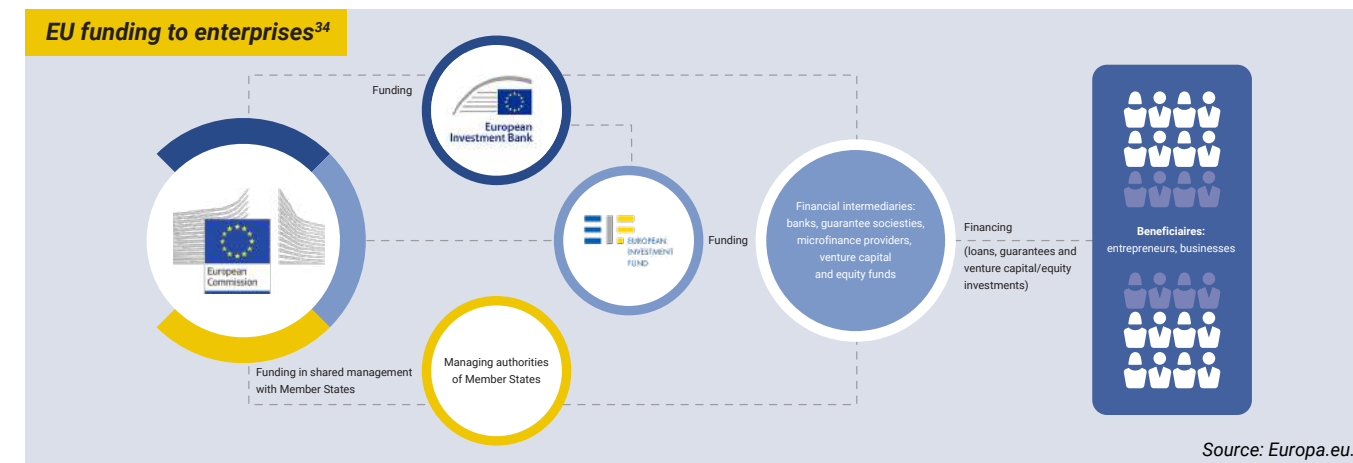
²⁹ National Bank of Georgia, official statistics published at www.nbg.gov.ge, 2023.

³⁰ Georgia Country Diagnostic, EIB, Oct 2021.

³¹ Georgia Country Diagnostic, EIB, Oct 2021.

AVAILABILITY OF FINANCIAL INSTRUMENTS IN THE EU

Provision of finances to enterprises in the EU come in several different ways. Funds become available either through the European Investment Bank and European Investment Funds or through shared management together with the governments of the member states. A wide range of EU Funding, such as loans, microfinance and venture capital is available for enterprises from different sectors and of different sizes. The decision to provide EU financing is being made by local financial institutions such as banks, venture capitalists or angel investors. The exact financing conditions – the amount, duration, interest rates and fees – are determined by these financial institutions.



Every year the EU supports more than 200,000 businesses. The EU also supports businesses with grants and contracts.

Multiple EU funding instruments had provided billions of euros in financing to enterprises since their establishment. Funds become available either through the European Investment Bank and European Investment Fund.

EU funding instruments³⁵

Facility	Description
InvestEU	Supports sustainable investment, innovation and job creation in Europe. The InvestEU programme consists of three components: the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. The InvestEU Fund is implemented through financial partners that will invest in projects, benefitting from the protection of EU budget guarantee.
European Structural and Investment Funds	Over half of EU funding was channeled through the 5 European structural and investment funds (ESIF). They are jointly managed by the European Commission and the EU countries. The European structural and investment funds are: 1) European regional development fund (ERDF); 2) European social fund (ESF); Cohesion fund (CF); European agricultural fund for rural development (EAFRD); European maritime and fisheries fund (EMFF)
European Investment Bank (EIB) and European Investment Fund	EIB is the lending arm of the EU. The focus of its activities, among others, small and medium-sized businesses. Since its establishment in 1958, the EU bank has invested over a trillion euros. European Investment Fund is a part of the EIB Group and provides risk finance to benefit small and SMEs across Europe. The shareholders are the EIB, the EU, represented by the European Commission, and a wide range of public and private banks and financial institutions. Over its existence, the fund helped over 2 million small businesses with access to finance.
European Fund for Southeast Europe (EFSE)	By investing in local financial infrastructure that provides dedicated financing to micro, small and medium enterprises, the fund supports the backbone of these regions' economy. EFSE helps create the conditions for local businesses to thrive by building the capacity of local financial institutions or facilitating knowledge-sharing through its Development Facility, and by providing on-the-ground training and mentorship through its Entrepreneurship Academy.
Recovery and Resilience Facility	A temporary instrument that is the centrepiece of NextGenerationEU -the EU's plan to emerge stronger and more resilient from the current crisis. Through the Facility, the Commission raises funds by borrowing on the capital markets (issuing bonds on behalf of the EU). These are then available to its Member States, to implement ambitious reforms and investments.
Financing Digital Transformation	The COSME Loan Guarantee Facility (LGF) supports the financing of digital transformation projects by SMEs in all sectors of the economy, regardless of their current level of digitalisation.

Source: Europa.eu.

³² Survey on the access to finance of enterprises (SAFE), Analytical Report 2022, Kantar, a research company, in cooperation with GDCC (Global Data Collection Company).

³³ Georgia Country Diagnostic, EIB, Oct 2021.

³⁴ <https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance>.

³⁵ Based on: <https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance>.

In Georgia, although not yet a candidate country, SMEs already received a number of financial benefits from the EU. Overall EU support to Georgia's focuses on three major directions: access to finance, business development services and business enabling environment. Along the lines of access to finance, Georgian SMEs benefited (or continue to benefit) from various financial instruments, which come with significant technical assistance, much needed for enterprise growth and development.

Table below provides comparison of the access to finance for SMEs in the EU and the situation in Georgia, in terms of the key limiting factors.

List of projects with Access to Finance elements in Georgia as of 2022-2023³⁶

#	Start date	Total budget (EUR)	Start date	End date	Type of project
1	Clusters 4 Development – Better Business Sophistication in Georgia	5,300,000	2019	2023	Bilateral
2	Green Economy: Sustainable Mountain Tourism and Organic Agriculture (GRETA)	3,000,000	2019	2023	Bilateral
3	EU innovative action for private sector competitiveness in Georgia	5,000,000	2019	2023	Bilateral
4	Increasing Institutional Capacity for Innovation Project	2,700,000	2019	2022	Bilateral
5	Improving Rural Development in Georgia (ENPARD III)	10,000,000	2018	2022	Bilateral
6	Improving the Agriculture Sector in Georgia (ENPARD III)	12,000,000	2018	2022	Bilateral
7	Promoting European business and economic interests in Georgia	119,701	2021	2022	Bilateral
8	The DIGITAL RE4M Programme to foster COVID-19 recovery of SMEs	1,850,000	2020	2022	Bilateral
9	European Neighbourhood Programme for Agriculture and Rural Development in Georgia, phase III (ENPARD Georgia III)	44,500,000	2018	2022	Bilateral
10	DCFTA Initiative East (EIB) (can also be referred to as DCFTA Facility by EIB)	62,746,000	2016	2031	Regional
11	EU4Business EBRD Credit line (EU Deep and Comprehensive Free Trade Area (DCFTA) Facility, EBRD DCFTA Programme)	38,900,000	2017	2027	Regional
12	EU4Business EBRD Credit line (SME Competitiveness Programme in Eastern Partnership)	95,584,000	2019	2026	Regional
13	DCFTA SME Direct Finance Facility	10,220,000	2014	2024	Regional
14	Green for Growth – Extension to Neighbourhood East II	6,157,151	2018	2040	Regional
15	2018 NIP decision share – Green for Growth – Extension to Neighbourhood East II	5,162,849	2018	2040	Regional
16	Promoting Green Lending in the Eastern Partnership	42,855,000	2020	2040	Regional
17	EU4Business – The EU Local Currency Partnership Initiative: the European Fund for Southeast Europe (EFSE)	50,320,000	2018	2039	Regional
18	EIB-04 SME Finance Facility – EIB window	5,100,000	2010	2030	Regional
19	Finance and Technology Transfer Centre for Climate Change (fintecc) – Eu4Climate window	15,400,000	2020	2027	Regional

Source: EU4Business.

Total of EUR 139.37 mln was allocated to unlock the access to finance to Georgian SMEs in Georgia in 2021, representing about 50% of the total support budget.

Special loans under its EU4BUSINESS initiative through local partner financial institutions in Georgia³⁷

Loan Facility	Facilitating Institution	Description	Max. Funding size (EUR)
DCFTA SME Direct Finance Facility	EBRD	The Facility helps SMEs from various sectors identify quality projects, introduces best practices and assists in the implementation process. SMEs can get business advice that would enhance their technical, managerial, market knowledge and investment project development skills and help them become more competitive on local and international markets.	5 000 000
EU4Business-EBRD Credit Line (EU Deep and Comprehensive Free Trade Area (DCFTA) Facility.	Georgian Commercial Banks	- Standard approach for simple equipment upgrades up to EUR 300,000, based on the List of Eligible Technologies. A cash-back incentive of up to 10%. - Simplified fast track process for SPS and food safety for investments up to EUR 300,000. A cash-back incentive of up to 15%. - Complex approach for investments up to EUR 3 million for almost any business in almost any sector. A cash-back incentive of up to 15%.	300 000
DCFTA Initiative East (EIB) (can also be referred to as DCFTA Facility by EIB)	Georgian Commercial Banks	Guarantee Facility for: a) Georgian SMEs with no more than 249 employees who need credit for investments in fixed assets and working capital can apply for Guarantee Facility; b) Micro-entrepreneurs including self-employed individuals, sole-proprietorships and micro-entrepreneur groups geared to women-led, youth and rural enterprises can apply for Microfinance.	220 000
EU4Business – The EU Local Currency Partnership Initiative: the European Fund for Southeast Europe (EFSE)	Georgian Financial Institutions (Banks, Leasing companies and MFOs)	Loans in local currency for micro entrepreneurs; rural enterprises; private households.	-
2018 NIP decision share – Green for Growth – Extension to Neighbourhood East II	Georgian Financial Institutions (Banks, Leasing companies and MFOs)	Loans are available in local currency for: Agricultural SMEs investing in water storage and irrigation technologies; Retailers investing in new boilers and insulating their properties; Businesses carrying out major energy efficiency investments.	60 000
Promoting Green Lending in the Eastern Partnership	Georgian Commercial Banks	Loans are available in local currency for: Agricultural SMEs investing in water storage and irrigation technologies; Retailers investing in new boilers and insulating their properties; Businesses carrying out major energy efficiency investments.	60 000
EIB-04 SME Finance Facility - EIB window	Georgian Commercial Banks	Interest-free co-financing to the SMEs passed on by PFIs getting loans and credit enhancement support in the form of interest-free loan co-financing of up to 10% of a traditional EIB loan to the PFIs.	-

³⁷ Based on EU4Business Website.

³⁶ Country Report Georgia, EU4Business, 2022.

2.4. REFORMS SNAPSHOT

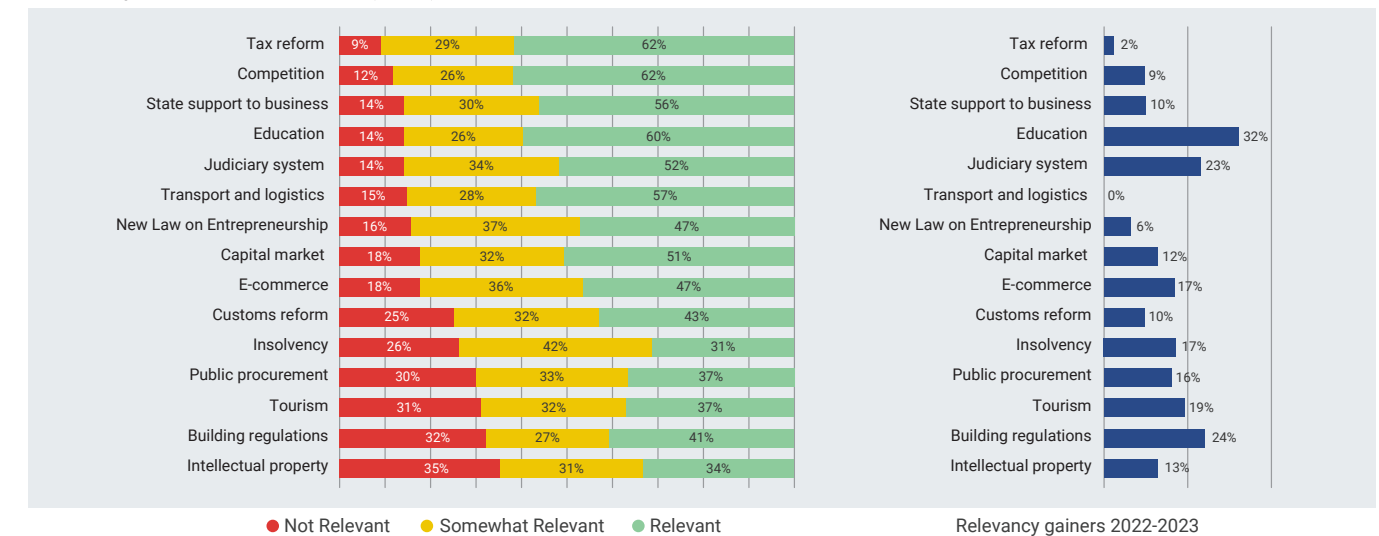
Largely driven by Georgia's European future and its EU association agenda, Georgia has been one of the top reformers in a number of areas in the past. However, regardless of their intentions and objectives, the reforms have not been duly and unequivocally accepted by the private sector, the major complain being that the reforms are too fast or negligent of the interests of the business sector. The government and the donor community, on their side, point fingers to businesses and complain about their lack of ownership of the reform process.

For this purpose, starting since 2022, the EU Business Climate Report Georgia examines two important dimensions of the reforms: a) *how relevant* these reforms are for businesses as they perceived them; b) which direction these reform head to positive or negative.

It should be noted that both questions are subjective and might have little to do with the true relevancy or perceived success of a particular reform. Such perceptions are at the very roots of the limited involvement of the private sector in the reform process and should be handled in the first order.

The survey shows that the Tax reform is the most relevant cross-sectoral reform affecting 91% of the respondents. At the other extreme, intellectual property reform and sectoral reforms such as budling regulations and tourism, are the least relevant for the sample.

Relevancy of economic reforms (2023)



It is pleasant news that the relevancy of all reforms grew in the last year, since the previous wave. Businesses seem to be paying more attention to the economic reforms and start to realize that are being affected by them. The education sector reform has been the top gainer among all reforms, followed by the building regulations and judiciary system reform.

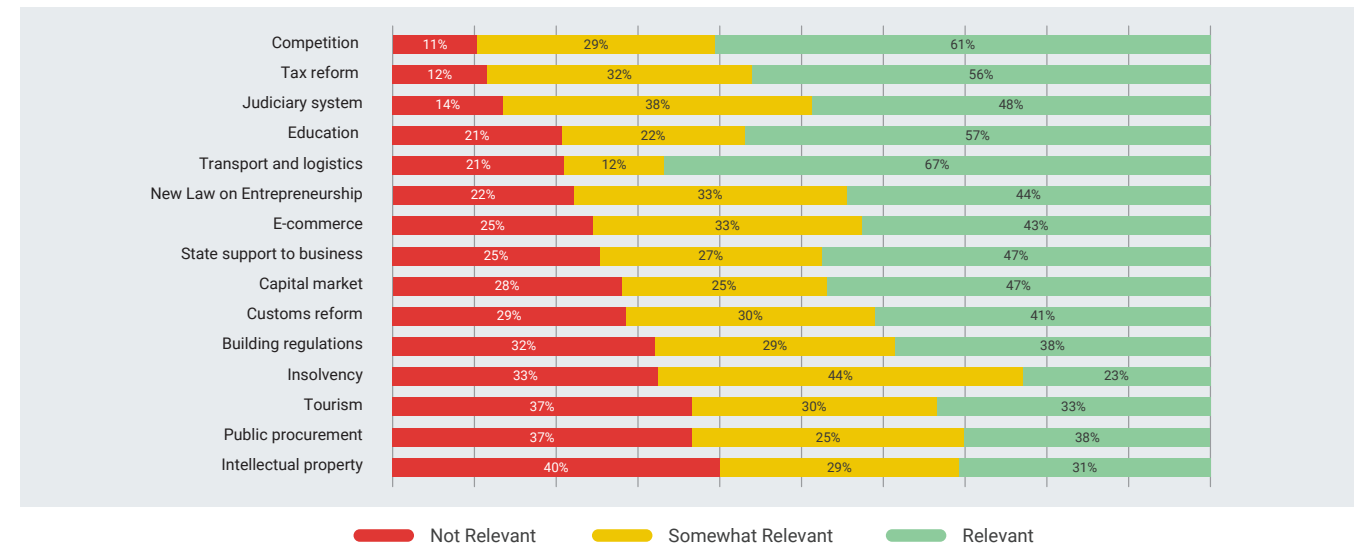
"Government should actively involve business and public in reforms in order to understand what business/country needs now. Also government should actively invest in new technologies and systems in order to simplify and automate interaction with public."

"Needs more public / private dialogue."

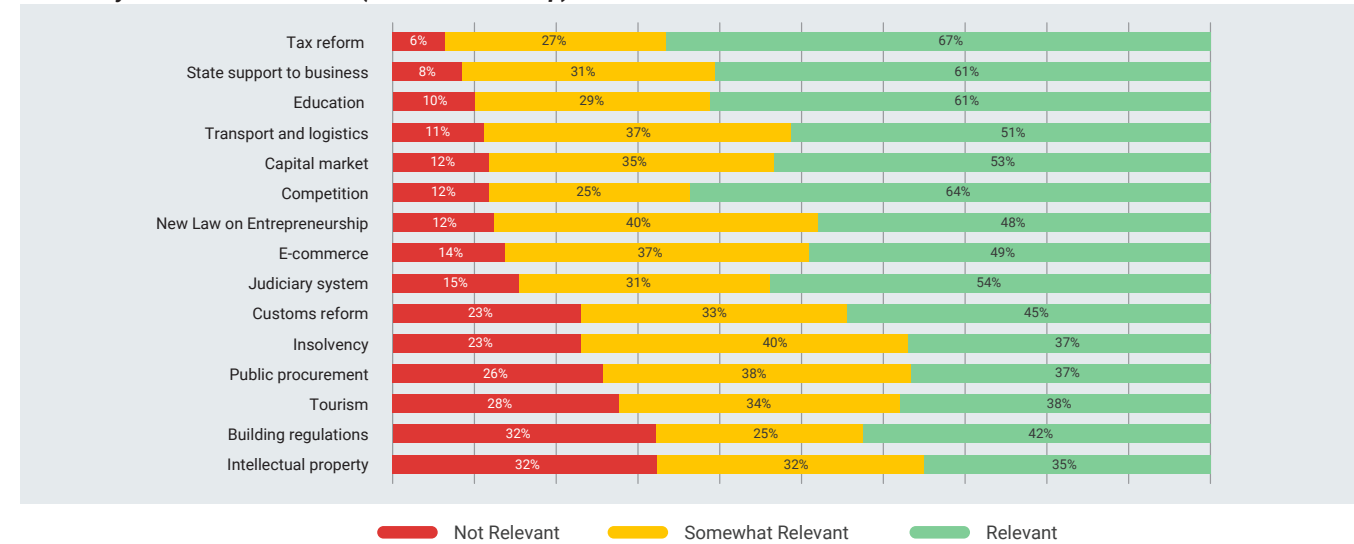
"Lack of coordination between government bodies and the private sector makes economic growth slower."

Overall, non-EU businesses are more likely to rate reforms as relevant or somewhat relevant than EU owned ones. However, there are notable differences in the order of perceived relevancy of different reforms, which may reflect differences in culture and approach to making business. For instance, EU-Owned enterprises rate competition as the number one relevant reform, affecting or somewhat affecting their operations, whereas for Non-EU-Owned companies, the competition reform is not that relevant compared to other reforms. Clearer differences are, for instance, in priority of the judiciary system reform, which in terms of priority of the relevance is number 3 for EU-owned companies, whereas for non-EU-Owned businesses it places ninth. A fair, fast and transparent court system is also foundational to doing business in the European way.

Relevancy of economic reforms (EU-owned enterprises)

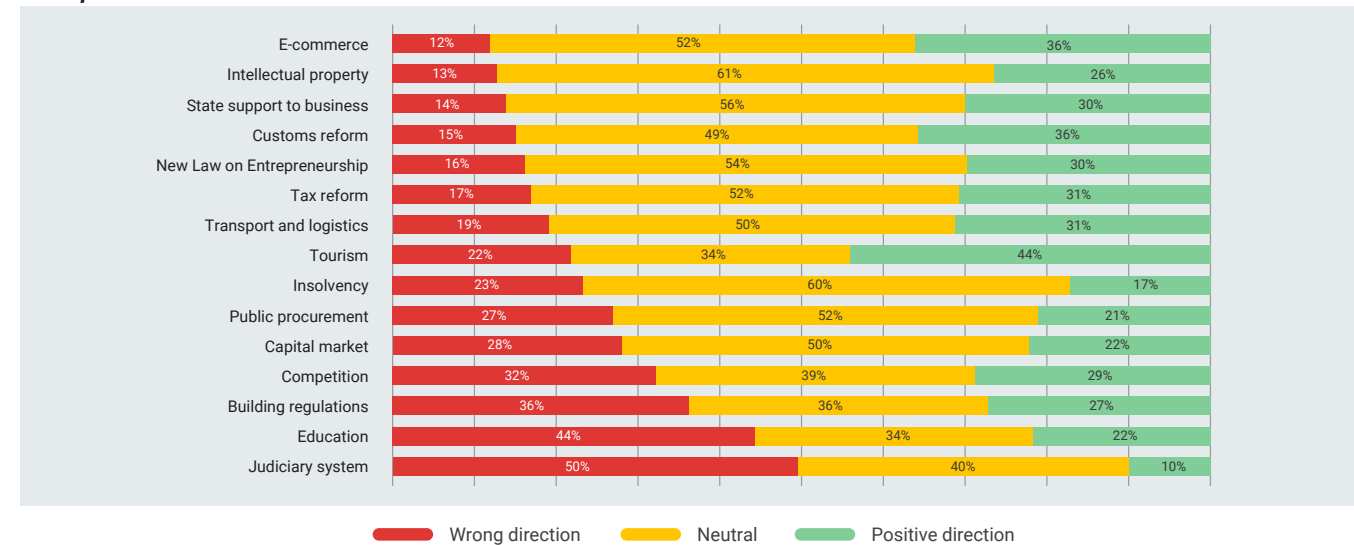


Relevancy of economic reforms (non-EU ownership)



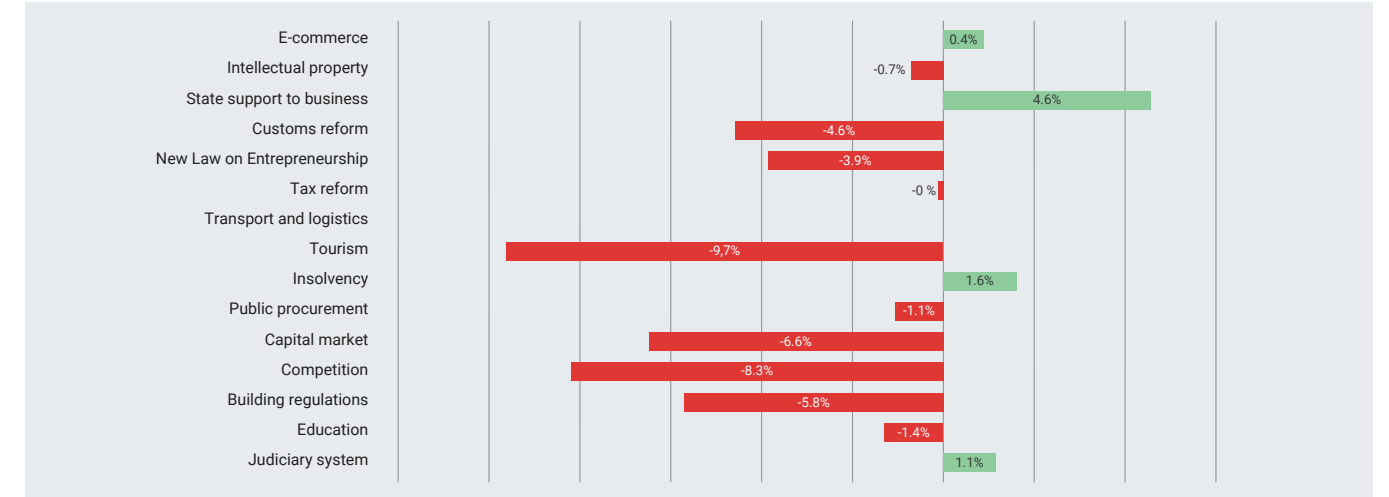
When it comes to the perceived direction of reforms, among positively perceived reforms, the E-commerce reform, the intellectual property reform, state support to business and the customs reform are leading the list. More than 85% of respondents evaluate the flow of these reforms as either positive or neutral. It comes as no surprise that the judiciary system reform is the leader among reforms which are perceived to be going to the wrong direction, followed by the education sector reform. 50% and 44% of the respondents, correspondingly, report that the reforms are going to the wrong direction. The result of the rankings is consistent with the previous year's report.

Perceptions of economic reforms



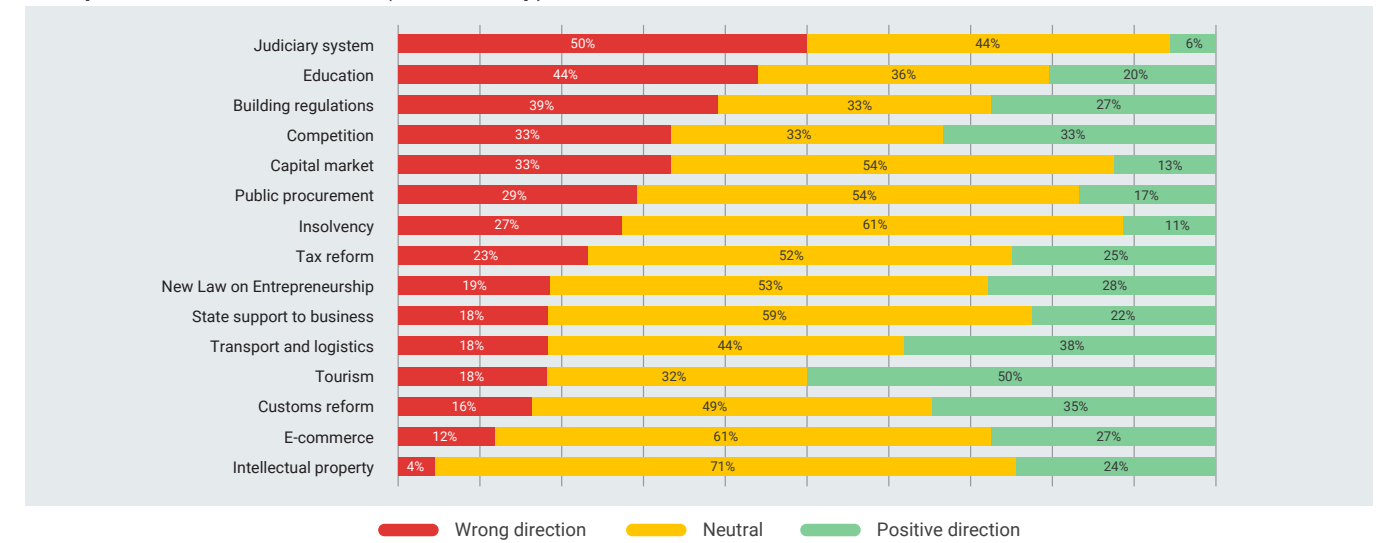
The notable fact is that overall, with the exception of two reforms - State support to business and the Insolvency reform, the evaluation of reforms either did not improve by much or deteriorated in comparison to the previous report.

Biggest gainers and losers 2022-2023

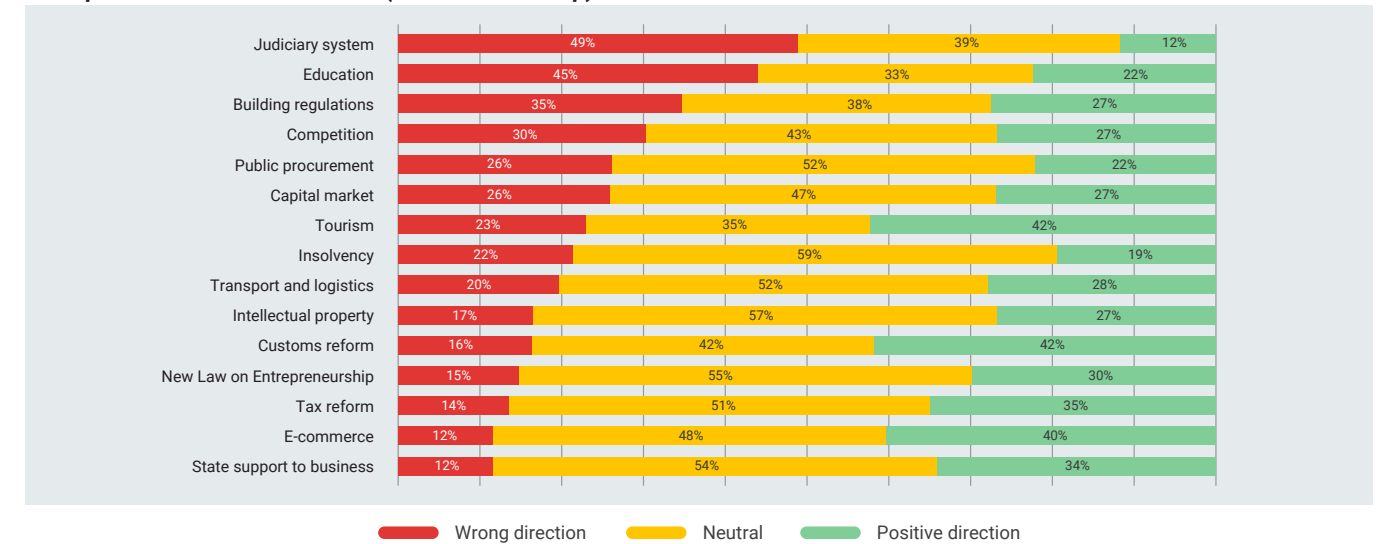


There are not many meaningful differences in terms of the results of the two groups the EU-owned and Non-EU owned companies. EU and Non-EU companies both share the same opinion on top ranked reforms.

Perceptions of economic reforms (EU ownership)



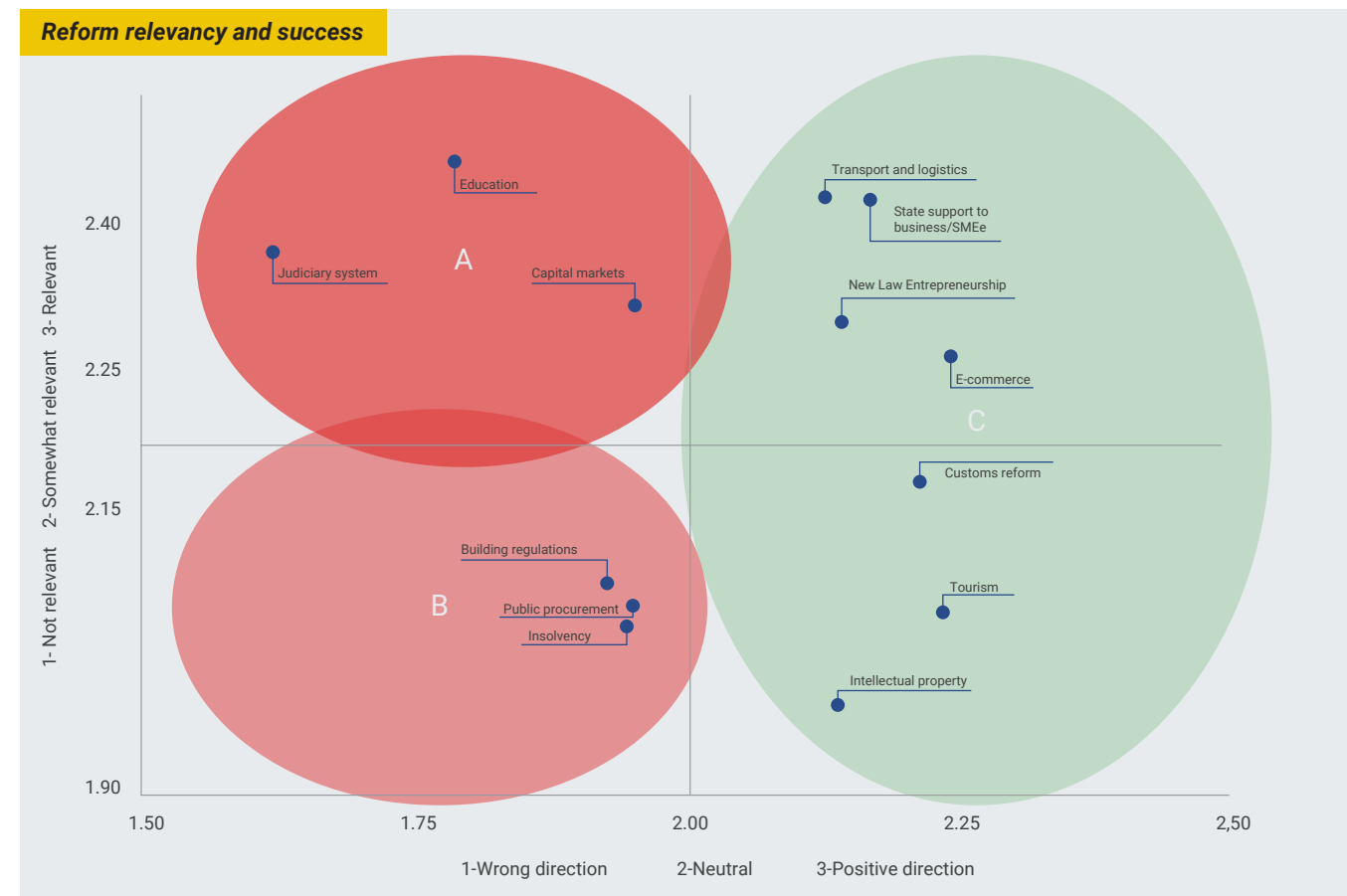
Perceptions of economic reforms (non-EU ownership)



Overall, these evaluations indicate to mostly the same picture and they clearly indicate the best and worst performers among the ongoing economic profile reforms of the country.

REFORM PRIORITIZATION MAP

Overall, evidence-based policymaking should ensure that priorities are set in the right order. Addressing challenges will require making a trade-off between relevancy of reforms and whether the reform is on the right or wrong track. For this reason, the EU Business Climate Report Georgia 2022 introduced the reform prioritization map - grouping reforms into several different segments according to their *relevancy* and *recent dynamics* (positive or negative direction), each requiring special policy responses and levels of attention, in order to make the reform implementation successful and widely accepted. The reform prioritization map for 2023 looks as follows:



Definition of the Priority Groups:

Group A: This is the first level priority group, which includes reforms which are generally accepted as relevant (affects or somewhat affects) to big part of the business universe and at the same time perceived as moving towards a *negative direction*. The policy response for this group is to explore and solve major root-causes and make significant changes to the reform process.

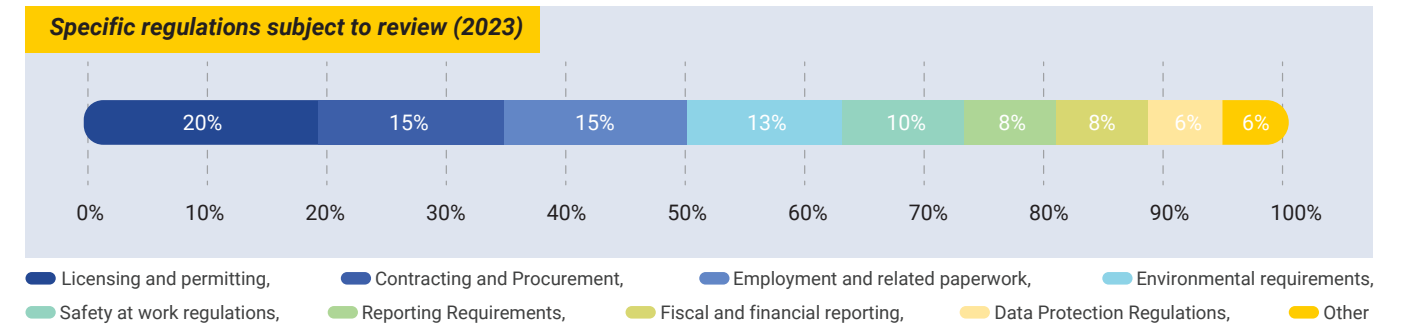
Group B: These are the reforms which enjoy *less involvement* (very few businesses think that these reforms affect them) and at the same time are perceived as going mostly towards a *negative direction*. The policy response for this group is, on the one hand, to understand the root-causes of the negative perceptions and address them. On the other hand, raising the awareness about and involvement in these reforms from the business community remains a critical step.

Group C: This group include reforms which are generally accepted as moving towards a *positive direction* and at the same time could include *relevant* (affects or somewhat affects) and less relevant reforms. This is the least problematic area, since both involvements in these reforms are high, positive progress is validated by the business. The policy response towards such reforms includes better communication strategy to win the attention and then buy-in of the private sector into the reform process (especially in the least relevant reforms).

According to the prioritization map, the Education reform, the Judiciary system reform and the Capital market reform fall into priority Group A, requiring urgent attention and repair, because they affect many businesses and do not seem to be going in a direction which business would like.

REGULATORY BURDEN

Among the regulatory issues, there are things to be changed or simplified, from the business perspective. Businesses have specific views on what needs to be changed (or simplified). Most notable of these areas requiring changes include: licensing and permitting (20%), contracting and procurement (15%), employment regulations (15%) and environmental regulation (13%).



Among the specific mentions provided by businesses center were several key themes related to regulatory and administrative improvements.

First, there is a complaint about the execution of the existing regulation. The current regulations are often mismanaged and overly complex. More attention is paid to the form rather than substance. General suggestions were to simplify administrative processes, as well as aligning more with European Union (EU) regulations. Additionally, there is a strong call for streamlining bureaucratic procedures, such as licensing and permitting, through digitization and simplification (e.g., using the digital signing instruments to simplify process).

Many comments were related to the need to update the public procurement legislature. The need to shift public procurement away from solely prioritizing low prices and towards considering quality was stressed as a critical factor. Comments highlighted concerns about the bureaucratic nature of these processes. Suggestions include strengthening contractual obligations and conducting prior research on company experiences before granting the contract. Additionally, there is an emphasis on adopting best practices from developed countries to improve efficiency, as well further digitalization/automatization of the procurement system.

Another specific field subject to change was in relation to labor regulations, specifically the obligation related to administering the time sheets.

In the area of environmental legislation, there was a suggestion to involve packaging industry representatives in the processes of upcoming regulation regarding waste management and the need to conduct the public and private sector dialogue on these issues.

In the area of licensing and permits, the complaint is that it takes lot of time. On top of this, in case of a negative answer, there is not much information and explanation provided to the businesses in case of rejection and government uses its discretionary privilege.

In terms of the data protection regulation, the specific issue named was limited knowledge of businesses about data protection legislature and limited implementation of the copyright laws.

The need for greater transparency and collaboration between public and private sectors, especially in fields like planned changes in waste management legislation, is highlighted.

One specific comment was related to the importance of certifying all health-related products.

TAX REFORM

According to the survey results, this reform also belongs to the priority Group C reforms, which include the reforms perceived as both positive and relevant to the private sector.

In today's globalized business landscape, understanding taxes and opportunities is crucial for all companies. The European Union and Georgia, according to their Association Agenda, are intensifying their collaboration to enhance and fortify Georgia's tax system to meet EU and international standards.

Starting in October 2021, the Revenue Service of Georgia introduced a special platform, VAT Portal on Digital Services, where foreign taxable persons can undergo a simplified registration procedure and conduct reporting. Furthermore, a new mechanism related to registration as a VAT taxpayer was launched – "Status of a Qualified VAT Taxpayer", which aims to improve the tax administration process, manage the risks of fraudulent schemes, as well as reduce false VAT registration and misappropriation of relevant documents.

In 2022, the Revenue Service implemented important measures, including the launch of infohub.rs.ge, an information and methodological hub designed to meet the latest digital requirements. This hub centralizes various types of constantly updated information and documentation related to tax and customs issues; the update of the Compliance Improvement Plan for 2022-2023³⁸ and the respective implementation of tax risk reduction measures, which involve informing taxpayers at an early stage about possible inconsistencies related to economic activity. Furthermore, the following compliance programs were refined and developed in 2022: registration database completeness, data quality control, the register of hired persons, inventory management, validation of declaration information, and management of taxable tax documents, along with declaration correctness control.

In 2022, the updated strategy for the administration of large taxpayers for 2022-2024 was approved. Within the framework of large taxpayer administration, a standard reporting system was introduced to monitor various types of information on a daily basis, including the main tax data of large taxpayers. Additionally, as part of the debt management reform, procedural documents for tax debt management were approved in 2022 and corresponding structural changes were made in the debt management department.³⁸ Furthermore, as a result of the full implementation of measures of the medium-term action plan of the Service, the information security policy document of the Revenue Service is in full compliance with the main requirements of the Law of Georgia on Information Security.

Within the broad tax reform, reforming the tax dispute resolution (TDR) system was a primary focus of business, especially for small and medium companies, as delays and uncertainty related to dispute resolutions frequently result in severe consequences for the companies involved. Recently, significant progress has been made in this direction, resulting in a notable reduction in the number of appeals. The appeals process now typically takes 65 days, a marked improvement from the past. Nevertheless, to ensure a transparent and efficient process of resolving tax disputes, there is still a need to build trust within the private sector regarding the TDR system. This can be achieved through various different approaches, including formalizing a fully dedicated, qualified TDR body and ensuring accurate and effective communication with businesses.

Despite this, there were specific comments from companies, both positive in relation to the overall reform as well as complaining about specific obstacles, which might require individual attention.

"Tax reform is going well. Estonian Model should be mentioned as a positive move."

"Mostly changes in the taxation code had significant effect on our companies cash flow, especially advance VAT reform."

"Most affected by lack of communication from tax office. Tax office retrospectively changed interpretation of law. For a very long time tax office did not give any instructions on the special tax zones."

COMPETITION REFORM

This reform belongs to the priority Group A reforms, which are perceived mostly slightly below neutral, but its perceived relevancy is above average for businesses.

Fair competition plays a pivotal role in fostering innovation, efficiency, and economic growth. In accordance with the Association Agenda between the EU and Georgia, both parties are encouraged to collaborate in implementing the Competition Chapter of the Association Agreement and its associated reforms, while also enhancing dialogue on the enforcement of competition-related laws.

The Georgian National Competition Agency (GNCA) is an independent enforcement authority with a mandate encompassing three key areas: the enforcement of competition policy, the enforcement of anti-dumping policy, and a more recent addition to its mandate, the enforcement of consumer protection, introduced through the adoption of the "Law on Consumer Protection." Furthermore, it's worth noting that, within the context of consumer protection, the "Law on E-commerce" has been adopted and will come into effect in January 2024. As a result, starting in January, the GNCA will be responsible for enforcing the provisions of this law.

Since June 1, 2022, Lithuanian and Austrian competition authorities have been actively involved in the EU Twinning project titled "Strengthening Capacity of the Competition Agency of Georgia." Based on the guidance and support of EU experts from the Twinning project, several GNCA bylaws have been amended, with more currently in the process of being revised to better align with relevant EU regulations. In parallel, continuous collaboration with the USAID's HICD project facilitates the implementation of several successful initiatives and activities aimed at enhancing the efficiency and effectiveness of the GNCA's organizational structure.

On January 1, 2021, the anti-dumping legislation came into effect, and the corresponding department within the Agency commenced its operations. Furthermore, the 'Law on Protection of Consumer Rights' took effect on June 1, 2022, designating the GNCA as the authority responsible for safeguarding consumer rights throughout Georgia. The process of reviewing consumer complaints began on November 1, 2022. Over the course of one year, until November 1, 2023, the Agency received

³⁸ The official website of Revenue Service - www.RS.ge.

a total of 462 applications and commenced case studies on 251 of them. In addition, in the realm of consumer protection, the 'E-Commerce' law was adopted and will be enforced starting in January 2024, with the GNCA being entrusted with its enforcement.

In 2020, significant amendments were introduced to the legislation, which, among other things, delineated the competencies of sector regulators and the competition authority in the enforcement of competition policy. Consequently, throughout 2022, the GNCA actively collaborated with regulators, including the Georgian National Energy and Water Supply Regulatory Commission and the Communications Commission.

In 2022 the GNCA completed 3 instances of market monitoring – pharmaceutical market monitoring, auto fuel market monitoring, and glass market monitoring. As a result of market monitoring into the pharmaceutical market, the implementation of 13 recommendations issued by the GNCA to increase competitiveness and transparency in the pharmaceutical market is successfully underway. Following market monitoring in the auto fuel market, the GNCA initiated and completed an investigation into a potential anti-competitive agreement, specifically price-fixing, among major market participants.

In 2023, the GNCA launched an investigation within the pharmaceutical market, focusing on the substantial price increases by importers and distributors of oncological medicines and the alleged establishment of uniform pricing. The results will be published by the end of 2023. In 2023, the GNCA will be finalizing another important investigation into the e-tickets sector, an investigation which was initiated following a complaint.

In 2022, the National Competition Agency launched a market assessment of the supply/offer of insurance products in the process of realization of banking products. The report is in its final stages and the GNCA will be providing relevant recommendations to all participants of this market.

Additionally, to strengthen mutual cooperation, in 2022 the GNCA signed memorandums with the investigation service of the Ministry of Finance of Georgia, the Revenue Service of the Ministry of Finance of Georgia, and several universities.³⁹

"It is very difficult for the small businesses to compete against monopolists, most of the time new laws and regulations are don't consider the size and resources of the small companies. Businesses like us, who try to operate responsibly, consider customers and employees needs, struggle to be profitable."

STATE SUPPORT TO BUSINESSES

State support programs clearly belong to the priority Group C reforms, perceived as both relevant and positive/successful by the private sector. Overall, the surveyed EU businesses evaluate government support programs for SMEs as very successful (i.e., going in the right direction) and highly relevant reforms. Continued state assistance for micro and small businesses is critical. At the same time, it is important to raise awareness about the programs and the process. This is because, despite the overall positive background, alternative opinions also exist about overall transparency of the granting the support.

"Enterprise Georgia programs helps the sector in the export managements"

"The state support to SMEs looks to selective and unfair"

EDUCATION SECTOR REFORM

Overall, according to the surveyed businesses, the education sector reform is one of the most relevant ones. This reform belongs to the priority Group A reforms (highly relevant reforms perceived to be moving towards a negative direction), requiring a correspondingly urgent policy measure.

According to the Association Agenda between the European Union and Georgia, the Parties should cooperate on the overall modernization and reform of Georgia's education, training and youth systems, particularly by encouraging a strategic approach to all levels of education – general, vocational, and higher education and research. This field was marked by several important strategic policy documents such as the Vocational Education Reform Strategy (2013-2020) and Unified Strategy of Education and Science (2022-2030) as well as the legislative changes related to the introduction of a new law of Georgia on Vocational Education, adopted in 2018.

The 2022-2030 Unified National Strategy and Action Plan for Education and Science of Georgia will reinforce the results achieved within the framework of the implemented reforms. It also aims to support the holistic and sustainable development of the system, providing universal and lifelong learning opportunities. The strategy considers the recommendations developed by the European Union, the World Bank, the Organization for Economic Cooperation and Development, UN agencies and other authoritative international organizations to solve the challenges identified in the education and science sectors in the following main directions: improvement of the monitoring and evaluation in the education system; provision of high-quality teaching and

³⁹ <https://gnca.gov.ge/index.php?m=2>.

learning; improvement of the financing system of higher education; renewal of science, technology and innovation system and development of research and innovation activities of Georgia.⁴⁰ The Strategy is aimed at ensuring equal access to inclusive and quality education, as well as to improve lifelong learning opportunities, which is closely related to the principles of the United Nations Economic Commission for Europe strategy "Education for Sustainable Development," as well as United Nations Sustainable Development Goals.

Vocational education system has undergone fundamental changes in recent years since it plays a most critical role in addressing the skills gap established on the labor market. Georgia's TVET system faces several challenges at the sectoral level. These include a need to make the system more demand-led and responsive to industry needs. So far, there is a mismatch between the industry's skill needs and existing TVET provision, which needs a development of the mechanism to involve industry representatives in initiatives, intended to ensure that labor market needs are met.

Within the framework of the Vocational Education Reform of Georgia (2013-2020), the Ministry of Education and Science of Georgia developed systematic approaches to enhance the alignment of vocational education with the labor market demands and harmonize it with the European educational space. A new law regulating the field was introduced, a new national qualifications framework and new standards for quality assurance of vocational education were developed and introduced, and mechanisms for recognizing non-formal education and a systematic approach to vocational training and retraining of adults were developed. VET institutions were renovated and equipped with modern equipment; more than 150 VET qualifications were developed in active cooperation with the private sector; the integration of a general educational component in vocational education, opened up possibility of continuing studies at the higher education level with a vocational diploma; forms of work-based learning were introduced, which helped to increase the interest of the private sector and the transition of graduates to the labor market.⁴¹ As a result, public interest in vocational education has grown significantly, which is evidenced by the growing number of people registered for vocational education programs.

To better address this limitation and the existing skills gap on the labor market, in 2021 the Georgian Ministry of Education and Science, in collaboration with the Chamber of Commerce and Trade, established a Professional Skills Agency. It aims to facilitate the introduction of vocational programs in the labor market, support innovative training, increase competition and provide better employment opportunities. The agency provides the basis for the country's public-private partnerships and human capital development. According to the Georgia Government Program 2021-2024, access to vocational education and training/retraining programs will be enhanced and mechanisms will be developed for identifying vulnerable groups outside vocational education and engaging them in vocational education.

The role of donor support in the development of vocational education system was crucial, including the European Union, United Nations Development Programme, Asian Development Bank, United States Agency for International Development, German Agency for International Cooperation, KfW Development Bank, European Training Foundation, the Swiss Agency for Cooperation and Development, etc. supporting gradual modernization of the vocational education system in accordance with international standards and recommendations.

In the higher education sphere, the new model for financing, which includes basic funding for state universities, will be introduced. The project also aims to facilitate the implementation of a new model of performance-based funding by creating a HEIs information management database system, to measure the institutional effectiveness of HEIs and statistical processing of all relevant information, for a new funding formula.

Significant progress was made in terms of quality assurance as part of an ongoing wave of higher education reforms including the membership to European Association for Quality Assurance in Higher Education in 2019, that was followed by securing the registration in European Quality Assurance Register for Higher Education. In terms of success in higher education, it is important to mention Georgia's successful participation in the Erasmus+ higher education component over the years.

The Ministry, through its Agency - Shota Rustaveli National Science Foundation of Georgia - is the beneficiary organization of the EU Twinning project "Supporting Inter-sectoral Collaboration Perspectives Between Research and Industry", which aims at bridging science and industry. Georgia has achieved tangible progress in research by being fully associated to large-scale EU framework programs such as "Horizon 2020" and "Horizon Europe" by aligning its policy and program framework to European standards.

Despite the past and ongoing reform agenda, multiple concerns remain for businesses, which are reflected in the severity of comments provided by individual businesses during the survey.

" We don't see any positive change in education sector. Without qualified, educated, motivated, fit and healthy, both physically and mentally, labor force / society, it's not possible to develop any future activity in Georgia. Middle, technical, professional education of 17-20 year-old youth are critical for the country's economic future!"

" No movements to improve education quality."

"Education level is still at low level. Computer science bachelors often does not know basic math."

⁴⁰ 2022-2030 Unified National Strategy of Education and Science of Georgia.

⁴¹ 2022 Report on the Action Plan of the Unified National Strategy for Education and Science of Georgia.

" Quality of university graduates is falling; this is as much about attitudes as knowledge. The practice of nearly all fourth-year university students in fulltime jobs, plus many younger students in similar situations is an emerging disaster for Georgia; a whole generation of university graduates will have an extra year or two of employment (extra 5 percent) but a 25 percent-plus reduction in university-level education. The short-sightedness of the business community (smart employees who are not yet fully educated) is responsible for this situation."

JUDICIARY SYSTEM REFORM

Overall, 50% of surveyed businesses evaluate the judiciary system reform as going in wrong direction and only 10% of businesses consider it to be going to a positive direction. This reform belongs to the priority Group A reforms. These are the reforms which are rated below average both in terms of perceived relevancy and success, requiring corresponding policy measures.

Reliable, skilled and efficient courts are of paramount importance to the business sector. From 2013 to 2021, extensive reforms were undertaken to align the operations of the judiciary with international standards and best practices. The implementation of these "four waves" of judicial reform led to substantial improvements in the institutional structure and operations of Georgia's general courts, effectively addressing various issues.

While significant progress has been made, it remains imperative to sustain reforms in advancing the Georgian justice system, as there are ongoing challenges that, once resolved, would greatly enhance the quality of justice and further pave the way for Georgia's accession to the European Union. Hence, the goal of the current judicial reform is twofold: to enhance and refine the institutional framework of Georgia's general courts and to fulfill a priority task outlined in the European Commission's conclusion of June 17, 2022. This reform ultimately contributes to Georgia's pursuit of EU accession as a crucial objective.

In this context, in August 2022, the Legal Affairs Committee of the Parliament of Georgia made the decision to create a working group under the committee aimed at preparing legislative changes, including a judicial reform strategy, action plan and Amendments to the Organic Law of Georgia on Common Courts. The establishment of the aforementioned working group is directly connected to the preparation of necessary legislative changes required to secure EU membership candidate status for Georgia.

As a consequence, the following legislative initiatives were introduced in the Parliament: Drafts of Organic Laws of Georgia: "On Amendments to the Organic Law of Georgia on Common Courts"; "On Amendments to the Organic Law of Georgia "On Common Courts" About Amendments to the Organic Law of Georgia" and the draft of the Regulation of the Parliament of Georgia "On Amendments to the Regulation of the Parliament of Georgia"(14.12.2018) and were adopted following three hearings. In this context, additional initiatives on the amendments to the same draft Organic Laws and the draft of Regulation of the Parliament were introduced to the Parliament in September 2023 (N07-3/356; 21.09.2023). The Legal Department of the Parliament of Georgia considered it expedient to start the review procedure and currently, in response to the request, the Bureau of the Parliament of Georgia has extended the committee's deliberation period by an additional 60 days from October 24th to ensure the comprehensive preparation of these draft laws.

Despite progress, it is imperative to continue efforts in further developing Georgian justice due to existing challenges. Addressing these challenges is vital for enhancing the quality of justice on the path to Georgia's accession to the European Union. Some of these challenges include: ensuring an optimal number of judges and court officials, reducing the flow of cases in court and solving the problem of overcrowding in the court, improving the quality of justification of court decisions, improving the mechanisms for implementing the approaches of the European Court of Human Rights, strengthening social security guarantees of judges, further strengthening of the jury court institution, expanding the practice of using electronic means in court proceedings. It is advisable to refine and improve certain issues related to the procedure for electing judges of the Supreme Council of Justice, taking into account the current norms of the Constitution of Georgia.

Time-consuming business disputes and court proceedings have been identified as one of the main challenges to the Georgian business environment. One of the reasons for this problem is the incorrect functioning of alternative dispute resolution mechanisms (Mediation and Arbitration) in the country. The development of Mediation and Arbitration institutes will ensure access to justice for businesses and will help the country fulfill its obligations under the Association Agreement with the European Union. Mediation and arbitration releases courts from excessive caseloads and brings justice closer to businesses.

" Judicial reform is of the utmost importance"

"Political and juridical systems require the reforms"

⁴² <https://web-api.parliament.ge>.

⁴³ <https://web-api.parliament.ge>.

⁴⁴ <https://info.parliament.ge>.

⁴⁵ <https://info.parliament.ge>.

⁴⁶ <https://web-api.parliament.ge>.



"Judicial reform is of the utmost importance"

"No movements to improve education quality."

"Education level is still at low level. Computer science bachelors often does not know basic math."

"Major obstacle is again the system of Justice, timing in Courts"

TRANSPORT AND LOGISTICS

The reform in the transport and logistics sector belongs to the priority Group C reforms, characterized by a relatively high level of relevancy, but also considered successful by enterprises. Despite this, a number of challenges remain and also turned out to be important for businesses (also discussed in the business obstacles section of this report).

"Access to the land is big issue in Georgia, which makes difficult to attract investment confidently"

"Demand on logistics grows"

Georgia is developing a new deep seaport that is intended to have 100 mln tons capacity (around 7,8 mln tons in Phase I). Railway modernization is nearing completion which shall increase the annual capacity of the main railroad from 27mln to 48 mln tons. In addition, the remaining works continue to fully operationalize the Baku-Tbilisi-Kars railway line. In parallel, the country's main road network, the East-West Highway, is being constructed intensively for automotive travel. These projects are aimed at increasing the main geopolitical asset of Georgia – transit potential, unlocking new global markets, and confirming the country as a logistic hub in Europe.

The railway traffic flows through the Trans-Caspian International Route - Middle Corridor have been increasing in recent years. The establishment of direct feeder/ferry connections at the Caspian and Black Seas has further improved regional connectivity and competitiveness for the Middle Corridor.

Road cargo is the only transport mode that has demonstrated a steady increase in the past 10 years in Georgia.

According to the World Bank's Logistics Performance Index (LPI), Georgia ranks 79th among 139 countries in the LPI 2023. Compared to 2018, Georgia has improved its performance in all areas except infrastructure. The average LPI score of the Europe & Central Asia region is 3.01.

Despite the progress made in recent years, Georgia still faces several challenges to becoming a regional transit and logistics hub. Inefficient supply chain management, outdated infrastructure and equipment, lack of workforce organization and qualified staff and low-quality service are among the challenges that need to be addressed in the field of transport and logistics.

Key Policy Documents of Georgia towards a coherent transport and logistics policy include Vision 2030 - Development Strategy of Georgia, adopted in November 2022, Maritime Transport Strategic Development Concept adopted in June 2023, National Road Safety Strategy for 2022-2025 and its Action Plan (2022-2023) adopted in July 2022 and Georgia's National Transport and Logistics Strategy for 2023-2030 and its 2-year action plan - adopted on 15 August 2023. The Strategy was elaborated according to the Rules of Policy Planning, Monitoring and Evaluation approved by the Georgian Government in December 2019 and is partly based on the logistics sector study conducted by EGIS International under the East-West Highway Corridor Improvement Project in 2017. Furthermore, the Interagency Commission for Transport and Logistics Development has been established.

The vision of the strategy is for Georgia to become a Regional Transport and Logistics Hub. Three Strategic Goals and ten Objectives have been defined, including increasing the effectiveness and competitiveness of the Logistics Sector; developing human capital in Transport and Logistics; and promoting sustainable development in Transport Sectors, Safe Transport Connections, and Corridors. Thus, high priority is given to improving transport and logistics infrastructure, establishing an effective legal and institutional framework in the transport field, developing efficient and quality transport and logistics services, reducing the carbon footprint from transport and integrating Georgia into the EU transport system and global value chains. The 2023-2024 action plan envisages 48 activities including legal reforms and amendments, infrastructure projects, education and awareness-raising activities, transport digitalization projects, etc.

Whilst the Middle Corridor is gaining traction as a viable alternative, its potential remains untapped due to the following challenges: Operational difficulties; Traffic imbalance between East and West; Instability of block train services; Absence of container tracking systems; Insufficient feeder/ferry services across the Black Sea; Navigation problems on the Caspian Sea.⁴⁷ To address these challenges, a roadmap for the simultaneous elimination of bottlenecks and the development of the Middle Corridor for 2022-2027 was signed in Aktau, Kazakhstan on November 25, 2022.

Completed & Ongoing/Planned Transport Infrastructure Projects include the Anaklia Deep Sea Port; PACE Terminal (Phase I); Expansion of Poti Seaport; Batumi Carbamide Terminal; Baku-Tbilisi-Kars Railway; Tbilisi Logistics Centre; East-West Highway; Railway Modernization; Kutaisi Logistics Centre.

In addition, Georgia is part of the extended Trans-European Network (T-ENT). The indicative TEN-T Investment Action Plan for the EaP region was published in 2019, which identifies key transport infrastructure projects to be completed by 2030 and aims at assisting the EaP countries in mobilizing necessary investments.

The digitalization of Georgia's Transport Sector is of significant importance, and a railway digitization plan is currently in development. Feasibility studies have been completed for the development of the Maritime Single Window (MSW) and Port Community System (PCS). The deployment phase of the MSW commenced in 2023.⁴⁸

⁴⁷ Georgia's National Transport and Logistics Strategy for 2023-2030.

⁴⁸ MOESD Presentation at our event.

ENTREPRENEURSHIP LAW REFORM

Surveyed businesses evaluate the entrepreneurship law reform as one of the successful reforms, also belonging to the priority Group C reforms, with high relevancy and positive perceptions by businesses.

In order to further assist Georgia's transition into a well-established market economy and establish a secure environment for investments and trade, the Association Agreement contains a concise section on company law, corporate governance and accounting and auditing. This section primarily articulates Georgia's intention to collaborate with the EU in these domains.

The new Law of Georgia on Entrepreneurs became effective on January 1, 2022. The goal of the law is to establish a consistent and transparent legal framework for corporations, their shareholders, directors, creditors, and other stakeholders. The new law was developed in conjunction with revisions to other normative acts, including the Law on Securities Market, the Law on Accounting, Financial Reporting and Auditing, etc.

While the legislative changes are progressive, the implementation of the law has revealed the need for further refinement, particularly concerning the process. It is desirable to specify several issues more clearly. Within the scope of the new law of Georgia on Entrepreneurs Implementation Monitoring Platform, several recommendations were proposed that would serve as a basis for amendments to the law. These recommendations cover various topics, including registration proceedings, the burden of proof in piercing the corporate veil, a more detailed description of the procedure for winding up of a company, convening the general meeting, subscribed capital currency and subscription procedures, and the clarification of terms. In this context, Business support organizations, registry and court representatives are actively collaborating with the USAID Economic Governance Program to develop a package of recommendations.

Furthermore, working meetings are taking place in Parliament with private sector representatives involved in discussions regarding potential modifications to the transitional provisions of the Law of Georgia on Entrepreneurs.

CAPITAL MARKET REFORM

The capital market reform belongs to the priority Group A reforms, which are evaluated as highly relevant, on the one hand, but below average in terms of reform success (i.e., mostly going in the wrong direction), necessitating corresponding policy measures to improve its effectiveness. The importance of a robust domestic capital market in the overall ecosystem of access to finance for the SMEs was discussed in the previous section in detail.

One of the main reforms in past several years is related to the local financial market regulations. The Law of Georgia on Financial Collateral Arrangements, Netting and Derivatives was adopted on December 20, 2019. A notable step in the capital market development included the adoption of the Law of Georgia on Investment Funds by the Parliament of Georgia in 2020. Also, significant amendments have been made in the law of Georgia on Securities Market in 2020. The Law of Georgia on Covered Bonds came into force in December 2022 and the respective NBG regulation, based on this law, was issued in March 2023.

It should be noted that the size of the economy and the financial indicators of the corporate sector are two of the factors determining the state of the capital market. The current size of the economy limits the issuance of securities, resulting in a lack of both financial instrument issuances and investors in the market. The majority of emissions originates from the government securities market, which has a relatively inactive secondary market. Additionally, the equity (stock) securities market is characterized by its small size and low liquidity. Furthermore, the domestic institutional investor base is limited in size and lacks diversification. Foreign investors are also relatively inactive, and retail investors tend to prefer products denominated in foreign currency. The small size and low liquidity of the capital market are also attributed to the dominant position of commercial banks in the financial sector and high dollarization indicators.⁴⁹

To address these obstacles, the Georgian Government approved the '2023-2028 Capital Market Development Strategy of Georgia' and the accompanying '2023-2024 Capital Market Development Strategy Action Plan' in December 2022.⁵⁰ The vision announced by the mentioned strategy is as follows: by 2028, the capital market of Georgia will turn into an advanced capital market in the region. The market of state and non-state securities among the countries of the region will be outstanding in terms of volume and liquidity. The capital market of Georgia will become an important pillar of the economic growth of Georgia. The strategy aims to increase access to finance through capital market instruments (development of the local bond market; development of the local equity capital market), as well as to stimulate and mobilize capital for local securities (development of the base of institutional investors; increasing engagement of professionals and retail investors; attracting more foreign investment in the local capital market).

The development of the legal and regulatory framework for securitization is one of the most important directions in the growth of the local bond market. The draft law on Securitization has been submitted to the Parliament of Georgia and has been adopted during the first reading. As a part of the strategy for developing the local stock capital market, it includes the development of a tax framework to stimulate real estate investment funds.⁵¹

⁴⁹ <https://reformeter.iset-pi.ge>.

⁵⁰ <https://www.economy.ge>.

⁵¹ <https://reformeter.iset-pi.ge>.

In addition, the following activities are planned for 2023 - 2024: development of a private equity instrument to support the financing of small and medium-sized businesses; development of the law of public corporations; preparation of the Legal and Regulatory Framework for Voluntary Private Pensions; expanding the investment mandate of the Pension Agency by preparing and submitting to the Parliament the draft law and regulatory framework on cumulative pension; development of a supporting instrument to stimulate the investment funds market for establishing venture capital and private capital funds; establishing an alliance of market intermediaries, financial advisors holding and insurance brokers to enhance the participation of retail investors;⁵² preparation and adoption of the Legal and Regulatory Framework the law on dematerialized securities holding. In this context, on June 29, 2023, the Draft Law on Holding of Dematerialized Securities passed its first reading at the Parliament of Georgia.

Under the lead of the MoESD, a Securitization law editing group was created for discussion and drafting. The draft securitization law has been submitted to the Parliament of Georgia and it passed the first reading on June 30, 2023. The actively discussed planned actions for the capital market further development include the development of factoring, Crowdfunding, Trust, Real Estate Investment Trust, Commodity Trading and Financial Centers.

Diverse issues faced by businesses in terms of access to finance in general and in relation to the capital reform are all described in the access to finance section of this report.

"Capital markets reform has been failing which undermines Georgia's private sector potential."

E-COMMERCE REFORM

E-commerce reform belongs to the Group C reforms, according to our priority classification, which include reforms perceived as both relevant and positive/successful by the private sector.

In the previous survey, E-commerce showed to have played an important role in overcoming the impacts of the COVID-19 crisis and fostering economic development as well as promoting international trade and exports, resulting in the growth of the local e-commerce market. The study also showed some anecdotal evidence suggesting that, after the pandemic, there has been a significant slide back, with consumers switching back to the traditional offline channels, demonstrating the need for further advancement of reforms to maintain the momentum.

Georgia significantly advanced its e-commerce reform in recent years in order to ensure its obligations under the Association Agenda. However, the most crucial reform package is currently in its initial phase of implementation. The e-commerce reform aims to enhance the legal and regulatory framework within the e-commerce sector.

The Ministry of Economy and Sustainable Development of Georgia developed the draft Law of Georgia on Electronic Commerce based on the EU Directive on Electronic Commerce (2000/31/EC). On June 14, 2023, the Parliament of Georgia has adopted the law on electronic commerce. The primary objective of this law is to establish a legal framework for e-commerce, safeguarding the rights of users engaged in e-commerce transactions, delineating the rights and responsibilities of intermediary service providers, defining a liability exemption regime and protecting them from general monitoring obligations for illicit content on websites.

Furthermore, the Law on Protection of Consumer Rights, which was adopted on March 29, 2022, outlines the fundamental principles governing the protection of consumer rights and the legal relationships between consumers and traders.

According to the law on E-commerce, the National Competition Agency will develop rules and procedures for the settlement of disputes. Furthermore, this law envisions the expansion of the National Competition Agency's authority to oversee matters related to consumer rights protection within the electronic commerce domain. Adequate budgetary allocations will also be made to support these additional functions. Moreover, as part of the e-commerce reform, there are plans to modify the legal framework concerning personal data protection and copyright and related rights.⁵³

CUSTOMS REFORM

Efficient, simplified and streamlined customs procedures are key to businesses who are involved in international trade. The surveyed businesses evaluate the customs reform as one of the most successful reforms in terms of a positive direction. This reform also belong to the Group C reforms (classified above), which are perceived mostly as positive or neutral, with its perceived relevancy being less than average.

The relevant chapter of the DCFTA envisions facilitating operational cooperation between the customs services of the EU and Georgia. According to the Association Agenda between the European Union and Georgia, parties should cooperate in preparing for the approximation of Georgia's legislation to EU acquis and international standards, be listed in the relevant Annex to the Association Agreement and be based on the Union Customs Code.

⁵² <https://reformeter.iset-pi.ge>.

⁵³ Evaluation Report of the E-commerce Reform Progress, ISET, 2023 - <https://reformeter.iset-pi.ge/>.

In order to fulfill obligations under the Association Agenda, Georgia has implemented a number of customs reforms in recent years. Specific steps included increasing transparency and the set-up of e-services with full automatization of all customs operations; the establishment of modern customs-clearance zones significantly simplified the clearance of goods at the border and covered the whole chain of customs clearance.

In 2019 the Parliament of Georgia adopted the new Customs Code, which brought it in line with the Union Customs Code. The new code includes a number of novelties and simplifications for all stakeholders. All customs procedures, declarations, and functions used by economic operators have been simplified. In 2020, corresponding procedural norms were developed to make the customs processes more business-oriented and properly administered.

The EU technical assistance twinning project “Supporting the Accession of Georgia to the Conventions on Transit Area and Launching of the New Computerized Transit System (NCTS)” was completed in 2020. The project was funded by the European Union and envisaged the creation of a new electronic transit module. As a result of the project, a single transit document and guarantee issued by the Customs Department is sufficient for continuous transit through the European Union, the European Free Trade Association (EFTA), the United Kingdom, Turkey, Serbia and Macedonia. Georgia has developed NCTS P5 and since 3 April 2023 the country is using the system as a national application. The Accession to the CTC will be a major change for Georgia and the country will be directly connected to the EU and transit will take place in an easier and faster way. Georgia is progressing with legislative changes, and the customs service is preparing big and small companies on what potentially NCTS means for each of them.

The Revenue Service launched an information and methodological hub corresponding to the latest digital requirements - infohub.rs.ge, where various types of constantly updated information/documentation related to both tax and customs issues are presented. The information posted on the online platform is available both for employees of the service and for tax payers.⁵⁴

The system of an Authorized Economic Operator (AEO) has been introduced. The concept of an Authorized Economic Operator is based on the partnership between customs and business. A taxpayer who voluntarily meets the requirements will continue to work closely with customs to ensure the safety of the international supply chain and will benefit from various simplifications. Georgia has reported 8 AEO authorizations, two of the AEOs are wine producers, five are importers of food products and one is the importer and exporter of cable products. In addition, 3 other companies are interested in becoming AEOs and are working accordingly.⁵⁵

The new legal framework for the full digitalization of the TIR system (eTIR) entered into force in May 2021, with the support of the United Nations Economic Commission for Europe - UNECE TIR Secretariat. This landmark change allows for completely paperless cross-border transit of goods, under the customs guarantee of the TIR system. Within the framework of this initiative, in 2020-2021, the Revenue Service was involved in the implementation of the eTIR project, which involves the electronic exchange of TIR information between Georgia and the United Nations Server.

Significant simplification happened in 2021 through the introduction of a one-window principle for issuing licenses related to electronic licensing. The interested party can submit an electronic application to the relevant licensing, permit and/or certification bodies via the Revenue Service website (eservices.rs.ge), using the one-window principle, and then receive electronic information about the decision made on their application via the same system.

The modern electronic licensing information system STRATLINK was transferred to the Revenue Service with the assistance of the US Embassy Export Control and Border Security Program (EXBS). By logging on to the Revenue Service website www.rs.ge, various business operators will be able to fill out an application in order to obtain a permit for dual-use products, as well as determine the need for a permit.

The project of an automated custom declaration using AI is being actively developed. Instead of a customs officer, this software based on cutting-edge technology is supposed to carry out a variety of critical procedures related to the completion of the customs declaration.

In 2022, the Revenue Service took important steps towards strengthening compliance and tax risk management. In 2022, the "2022-2023 Law Compliance Improvement Plan" was updated, which is based on the strategy of the service and 4 fundamental obligations of the taxpayer: registration, timely declaration of tax obligations, correctness of declared data and timely payment of due taxes. The measures envisaged were aimed at improving and creating a healthy tax environment.⁵⁶

Despite the measures Georgia has implemented in the area of customs services, there are still some issues that must be addressed. The government should work with GCCL to support the practical implementation of conventions, particularly on A.T.A. Carnet for temporary admission of goods. The A.T.A. Carnet simplifies and expedites the temporary export and re-import of goods, making cross-border trade more efficient and cost-effective. Businesses request to extend the payment obligation of customs duties up to one month, which represents a cash-flow related challenge for large companies. Comments related to need of further digitalization of the system and increasing efficiency of the processes.

⁵⁴ Revenue Service Report 2022 (www.rs.ge).

⁵⁵ EU-Georgia Association Agreement 9th Meeting of the Customs Sub-Committee 6 June 2023, Tbilisi Joint Report.

⁵⁶ Revenue Service Report 2022.

INSOLVENCY REFORM

This reform belongs to the priority Group B reforms, which are evaluated below average both in terms of perceived relevancy and reform success, requiring corresponding policy measures to increase its relevancy as well as improve its effectiveness.

Efficient and business-friendly insolvency processes in the country enhance flexibility for businesses and substantially improve the attractiveness of the business climate. In September 2020, the Parliament of Georgia passed the Law on Rehabilitation and Collective Satisfaction of Creditors, which became effective in April 2021. This novel legislation embodies a distinct philosophy that prioritizes the rehabilitation of a company in trouble over allowing it to go bankrupt.

According to ISET, in 2021, there was a slight increase in the indicator of the number of insolvency cases brought to court, although it remained low compared to the period from 2012 to 2019. This trend was likely influenced by the introduction of strict quarantine and social distancing measures in the country to curb the spread of COVID-19, which also disrupted the functioning of courts. There has been no improvement in the indicator of completed cases in 2021, even after the adoption of the new law. This lack of improvement is not surprising, as the 2021 figures are likely a result of cases initiated under the previous legislation.

Under the current legal framework, 35 percent of insolvency cases are initiated under the rehabilitation regime, compared to only 10 percent under the previous law. The average duration of cases initiated under the new law is significantly shorter than that of cases initiated and completed under the previous law.⁵⁷

The Ministry of Justice established a procedure for certifying and appointing insolvency practitioners through a random selection process, along with the creation of a specialized registry. This process is conducted in collaboration with the Business Rehabilitation and Insolvency Practitioners Association (BRIPA), the founders of which were main contributors to the insolvency system reform in Georgia and a co-author of the new draft law on Rehabilitation and Collective Satisfaction of Creditors.

BRIPA has established a hotline service called INSOLAID and developed a code of professional ethics for insolvency practitioners. Additionally, the association actively organizes various professional development and awareness-raising training courses and seminars.

Despite the success achieved in the implementation of their activities, there are some obstacles in the process of reform. For example, the National Enforcement Bureau has not yet established an electronic system for insolvency proceedings. There are procedural challenges with the Revenue Service of Georgia related to the enforcement of the new law. The system development process has not yet commenced. Additionally, the Insolvency Practitioners Register operates with minor flaws; its algorithm places an uneven burden on certain insolvency practitioners. To fully harness the benefits of the new law, significant awareness-raising efforts are required within the private sector.

As for future activities, defining categories of insolvency practitioners and authorizing legal entities to act as insolvency practitioners remains on the agenda of the relevant and responsible institutions. There are several ongoing challenges, including a limited awareness within the private sector regarding the benefits of this law, the regulation of insolvency for individuals, and gaps in the formation of infrastructural/professional institutions supporting the reform. Stakeholders like BRIPA are planning to initiate legislative changes in the current insolvency law to address certain obstacles.⁵⁸

PUBLIC PROCUREMENT REFORM

Overall, this reform belongs to the priority Group B reforms, which are evaluated below average both in terms of perceived relevancy and reform success, requiring corresponding policy measures to increase its relevancy as well as improve its effectiveness.

To fulfill the obligations outlined in the Association Agreement with the European Union, the State Procurement Agency of Georgia developed the draft law of Georgia on Public Procurement with an accompanying legislative package that was approved by the Government of Georgia and submitted to the Parliament of Georgia as a legislative initiative on 8 June 2022. On 9 February 2023, the Parliament of Georgia adopted the Law "On Public Procurement".⁵⁹ It is noteworthy that while the new Public Procurement Law of Georgia provides different dates for implementation, in particular, the main provisions of the law will come into force on 01 January 2025, while other separate issues will come into force between 2027 and 2029.

The adopted law creates a predictable and flexible environment for business entities' participation in public procurement procedures while also defining effective mechanisms for the rational, transparent and legal implementation of budgetary funds. The new Public Procurement Law serves to implement the EU directives and aims to fulfill the Association Agreement and the Substantial NATO-Georgia Package (SNGP) commitments in the area of public procurement. Additionally, the adoption of the Public Procurement Law will assist the Georgian authorities in meeting their duties under Georgia's international free trade agreements. The changes implemented as a result of the approximation to the European directives will, in turn, facilitate Georgia's accession to the World Trade Organization (WTO) Agreement on Government Procurement.

⁵⁸ <https://reformeter.iset-pi.ge>.

⁵⁹ <https://matsne.gov.ge>.

It's worth noting that the market for procurement of goods (supplies) by the central government authorities of the European Union is now open to companies registered in Georgia. The Georgia-EU Association Council's decision (N 2/2021; October 8, 2021) regarding this news was published in the Official Journal of the European Union on July 22, 2022. This event is significant because any business registered in Georgia will now have the right to participate in tenders announced by central government authorities of the 27 EU member states for supply of goods, enabling fair competition with other global suppliers in this market.

The Law of Georgia "On Public Procurement" and its legislative package calls for considerable reform of the current legal framework governing public procurement as well as the introduction of new institutions and a number of other procurement-related concerns, in particular, due to the relevant regulations of the EU directives, a number of approaches or aspects related to public procurement have been changed, including the introduction of new public procurement procedures, tools and innovative approaches. The new Public Procurement Law creates the legal basis for the implementation of the Sustainable Public Procurement concept in Georgia and promotes practical aspects of sustainable-related purchasing in various ways, in particular in the cases stipulated by the Government of Georgia's decree, contracting authorities will be obliged to take into account the characteristics necessary for sustainable development in the purchasing conditions.

It's worth noting that the novelty of the law lies in the introduction of two-stage procedures such as restricted procedure, competitive dialogue, negotiated procedure with prior publication and innovative partnership. Moreover, when conducting a procurement through competitive dialogue and innovative partnership, it will be mandatory to consider the criterion of the best price-to-quality ratio. Additionally, the law introduces new public procurement instruments, namely the framework agreement, dynamic procurement system, electronic reversed auctions and electronic catalogues, which aim to enhance the flexibility of the public procurement process and ensure the continuity of procurement organizations' operations.

The Law of Georgia on Public Procurement introduces several innovations in the preparation of public procurements. These innovations aim to enhance the participation of small and medium-sized businesses and improve the planning of procurement processes. The market research procedure will be established and described by the decree of the Chairperson of the Agency and contracting authorities must conduct market research as prescribed. Additionally, where the annual value of similar objects of procurement equals to or exceeds the monetary thresholds established by the EU directives, a contracting authority shall be obliged to provide a justification in the terms of procurement for a decision not to divide contracts into lots and conduct procurement through this method. Additionally, the contracting authority has the right to disseminate information about a planned procurement through the publication of a prior information notice (PIN) in the Georgian Electronic Government Procurement (Ge-GP) System. PIN published according to determined procedures shall entitle a contracting authority to decrease minimum time limits for getting acquainted with the terms of procurement and will certainly facilitate more active business participation and competitiveness.

It's worth noting that, starting in 2027, the Government of Georgia will establish a central procurement body (LEPL) under its control. This body will also have the authority to conduct centralized purchases upon request from purchasing organizations. Starting in 2029, public procurement specialists will be required to obtain a certification issued by the SPA based on the certification process.⁶⁰

As a result of the reforms, Georgia's legislation got one step closer to the EU directives. However, businesses have concerns related to numerous issues.

"Public procurement processes should be improved"

"Although new law on public procurement sets better framework, the practice is lagging to implement much wider choice of instruments provided in the new law, i.e. bids for design and other intellectual services still are predominantly evaluated on price criteria as opposed to company qualification/experience, method statements; number of options proposed to study, etc"

"... the non-competitive environment in the bidding process for local tenders in Georgia, bid price calculation, the role of engineering supervision companies, Local supervision, design problems in infrastructural construction field. Terms of the contracts in infrastructural projects issued by state companies.. Management of the disputable cases during the project implementation process in construction; project delivery."

TOURISM SECTOR REFORM

According to the survey, the intellectual property reform also belongs to the priority Group C reforms, perceived mostly as a successful reform, but its perceived relevancy remains limited to a large part of enterprises due to its sectoral nature. Tourism boosts the revenue of the economy, creates jobs and plays a crucial role in fostering the growth of small and medium-sized enterprises (SMEs). According to the Association Agenda between the European Union and Georgia, parties are encouraged to share information regarding the progress of tourism in both Georgia and the EU, including relevant events and best practices, through the dedicated Subcommittee.

To harmonize policies with EU standards and to guarantee compliance with the new trends and demands of the tourism industry, the Parliament of Georgia, in close cooperation with the Georgian National Tourism Administration and the private sector, accomplished working on the renewed Tourism Law. The primary objectives of the reform are to diversify tourism products, improve the quality of tourism services, and ensure the protection of consumer rights as well as the enforcement of safety standards.

The reform is currently in its initial stages, and it is planned to gradually implement various aspects of the tourism reform during the period from 2023 to 2027. Starting in 2023, the registration of tourist activity entities in the economic activities register will become mandatory. In June 2024, mandatory insurance for high-risk and adventure travel, along with a certification system for mountain, ski and alpine travel is scheduled to be launched. In 2026, the plan includes the implementation of provisions pertaining to tourist packages, combined tourist service agreements, time-sharing, long-term vacations, resale, and exchange agreements. Additionally, in 2027, there will be regulations introduced for tourist guide activities.⁶¹

Recently implemented activities of the Georgian National Tourism Administration (GNTA) and success stories include: participation at the Tbilisi Silk Road Forum 2023, with the dedicated panel discussion titled "Tourism Beyond Borders: Navigating the Changes" was conducted. Georgia has been showcased as the Host Country under the captivating theme of "Infinite Hospitality", at ITB Berlin 2023 - the world's largest tourism exhibition. Georgia successfully hosted the World Championship in Freestyle Ski and Snowboarding in Bakuriani from February 16 to March 5, 2023. The Convention and Exhibition Bureau of GNTA and m&i Forums just wrapped up an incredibly successful event: Discover Georgia powered by m&i. To foster and celebrate gastro-tourism, the GNTA has taken a significant step forward by initiating the innovative project Gemo Fest, which was held for the third time, in 2022 it was held in Racha, and 2023 in Mestia and Kutaisi.

Georgia actively participated in a series of prestigious international exhibitions, aiming to put the country on the world map and draw travelers from all corners of the world. GNTA has taken also a proactive approach to promote the country's exceptional tourism potential through an extensive marketing campaign in collaboration with the most important, large, and influential publications worldwide.

In this context, to showcase Georgia's diverse and captivating tourist destinations and introduce the country to esteemed foreign journalists and influencers, the GNTA has organized immersive and engaging press and information tours that span the entire nation. In 2022, the GNTA conducted 61 international press tours, engaging the participation of 525 foreign journalists. Wanderlust, the UK's leading travel magazine, has named Georgia as the "Most Desirable Emerging Destination 2022". During 9 months of the current year of 2023, the Georgian National Tourism Administration conducted 34 international press tours, engaging the participation of 145 foreign journalists and 7 international information tours with the participation of 87 representatives.

In the prestigious announcement, the United Nations World Tourism Organization (UNWTO) has honored Mestia, a charming highland town in northern Georgia, as one of the esteemed winners in its annual ranking of the Best Tourism Villages from the past year. This recognition not only acknowledges the captivating beauty of Mestia but also highlights the importance of sustainable tourism practices that preserve the region's natural heritage while enriching the lives of the local communities.

It is also worth noting that the GNTA has made significant strides in promoting hiking trails across the country.

As part of the ambitious digital transformation project, the GNTA proudly presented the new and improved main tourist portal of Georgia – www.Georgia.Travel. Additionally, the LEPL Georgian National Tourism Administration website - <https://georgia.travel/> was updated and relaunched in 2023.

The convention and Exhibition Bureau of the GNTA plays an important role in the development and promotion of MICE tourism in the country. The importance of MICE tourism development cannot be overstated for Georgia, as it offers a multitude of benefits that contribute to the country's economic growth and global reputation as a preferred MICE destination.

GNTA executed a comprehensive series of trainings aimed at empowering industry professionals with the latest knowledge, skills, and best practices, ultimately fostering their ability to excel in the dynamic and competitive tourism landscape.

Important events for 2024 include Georgia hosting the World Tourism Day in the upcoming year by the European Commission of the UNWTO. In addition to this, planned events include hosting the M&I Forum in 2024, conducting Gemo Fest, conducting new research on labor market needs in the tourism industry, based on which up to 2,000 industry professionals will be trained.

Challenges from the surveyed companies include overall connectivity with the rest of the world and absence of suitable infrastructure for business travel.

"Business travels to Georgia is a nightmare. I have not seen country with such bad connections. Imagine trying to convince C level executive to go overnight flight where plane doesn't even have proper business class."

⁶⁰ <http://www.procurement.gov.ge>.

⁶¹ Evaluation Report of the Tourism Sector Reform Progress, ISET, 2023 - <https://reformeter.iset-pi.ge/>.

BUILDING REGULATIONS REFORM

Overall, according to the survey results, this reform belongs to the priority Group B reforms. These are reforms which are rated as below average both in terms of perceived relevancy (due to its sectoral nature) and success (i.e., perceived to be going in a negative direction), requiring corresponding policy measures.

The requirement to bring specific construction norms in line with European standards in Georgia is based on the provision of the Association Agreement. According to the agreement, Directive 305/2011 (Construction Products Regulation, or CPR) and Directive 2010/31/EU (on the energy performance of buildings) of the European Parliament and of the Council should be introduced in Georgia. As a result, these rules would indirectly require following European construction standards that match the harmonized standards set by CEN for the European single internal market.

For an extended period, the coexistence of multiple conflicting standards has been a major obstacle in the sector. This issue arises from the divergent foundations on which these norms are built. International (American) building codes (IBC), European construction codes, and the Soviet "SNiPs" (SNIP) have created systemic incompatibilities. These circumstances create an unpredictable environment for all stakeholders, including developers, architects, structural engineers and permitting authorities. Hence, structural reform is necessary to address these issues.

The Ministry of Economy and Sustainable Development of Georgia is working on the Eurocodes implementation process. Eurocodes will replace both SNiPs (Soviet-origin structural design codes) and government resolution N50, which permits the use of technical regulations from various countries in Georgia.

The Georgian law on energy efficiency of buildings, aimed at promoting the rational use of energy resources and improving building energy efficiency while considering external climatic conditions, local conditions, internal climatic demands, and cost efficiency, has been approved. Article 8 came into force on June 30, 2023, mandating regular heating inspections of buildings, which is the responsibility of the owner as per government approval.⁶²

Particular emphasis should be placed on the project financed by the EBRD for the digitalization of the construction permit and administration process for buildings of special importance, which envisages the digitalization of the business processes and services provided by the LEPL Technical and Construction Supervision Agency. As a result, the Agency will be able to digitally issue construction permits for Special Importance Facilities, as well as provide other additional services through the online platform.⁶³

Starting in 2024, the construction sector must gradually transition to new standards in accordance with the obligations outlined in the association agreement with the European Union. This agreement mandates that building design and construction must adhere to European norms.

"Reforms in construction permits and logistics are very important for our company."

"Building regulations are not flexible."

" There is no proper regulation for Construction supervision. NO international standards and norms for construction activity regulations. the government using soviet standard which is not relevant with now days reality."

INTELLECTUAL PROPERTY REFORM

According to the survey, the intellectual property reform also belongs to the priority Group C reforms, and is perceived mostly as a successful reform, but its perceived relevancy is considered low, which necessitates more work to increase the awareness of the private sector on its relevancy. Without a proper level of protection of intellectual property, businesses would not reap the full benefits of their inventions and would devote less time to research and development.

The protection of intellectual property rights (IPRs) is one of the key aspects of international trade facilitation. Georgia has been a member of the World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO) for a long time. In compliance with the Association Agenda between the European Union and Georgia, Georgian legislation in the field of intellectual property is consistent and harmonized with international agreements and normative acts of the European Union.

Several notable recent developments took place since the publication of the previous report. With the cooperation of the "Sakpatenti" and the European Union Intellectual Property Office (EUIPO), an online course was developed and launched in Georgian. It is the first time in the history of EUIPO Academy that a non-EU member country language online course is offered at the learning portal of the Academy. The course was developed in the framework of the EU -Georgia Intellectual Property Project (EUGIPP) and is available to the public.⁶⁴

On the occasion of the 30th anniversary of the establishment of the National Intellectual Property Center of Georgia "Sakpatenti", the International Conference "The Role of IP Offices in the National Innovation Ecosystem" was held in October 2022. The event was jointly organized by Sakpatenti, and the World Intellectual Property Organization (WIPO).⁶⁵

WIPO published the ranking of the Global Innovation Index for 2023, where Georgia has advanced by 9 positions compared to last year and is in 65th place among 132 countries.⁶⁶ One more international recognition of improvement of Intellectual Property Protection in Georgia is related to the International Property Rights Index of the American organization "Property Rights Alliance", according to which Georgia has advanced by 6 positions and moved in the global ranking from the 72nd to the 66th position and in the Central Eastern Europe and Central Asia region - to the 15th position. The International Property Rights Index is defined by three main components - Legal and Political Environment, Physical Property Rights and Intellectual Property Rights.⁶⁷

In February 2023, an agreement on mutual recognition and protection of geographical indications was signed between Georgia and the Republic of Moldova. It should be noted that Georgia has signed a similar bilateral agreement with the Swiss Confederation and Ukraine for the protection of geographical indications abroad. Also, it is important that Georgian geographical indications are protected within the framework of the Association Agreement throughout the EU and the Strategic Partnership and Cooperation Agreement in the United Kingdom.⁶⁸

In May 2023, the Parliament supported the Agreement between the Government of Georgia and the European Patent Organization on the Validation of European Patents. Validation will enable another way of obtaining a patent for an invention in Georgia that is faster and cheaper - by requesting validation of the European patent application in Georgia. This will make it easier for the foreign applicant to obtain patent protection in Georgia according to the European standard, which will be a positive sign for investors.⁶⁹

Sakpatenti is developing specialized courses on Intellectual Property for judges. In cooperation with the High School of Justice, the training program of the WIPO Academy Course on "Intellectual Property for Judges" will be translated into the Georgian language and customized according to the legislation of Georgia. The program, which covers training on individual branches of intellectual property, will facilitate the development and enhancement of the judicial system in the direction of efficient protection and enforcement of intellectual property.⁷⁰

Additionally, Sakpatenti is working on introducing IP pre-diagnostic services. For this purpose, a series of training sessions are scheduled for Sakpatenti officials on IP commercialization and management, identifying intangible company assets, as well as challenges and ways to overcome them.⁷¹

Despite the measures Georgia has implemented, there are still some issues that must be addressed. During the survey, several comments were made by EU businesses, which included absence of defense mechanisms against preventing copying issues.

"... and nobody cares about copyright laws."

⁶² <https://gnerc.org/ge>.

⁶³ <https://www.economy.ge>.

⁶⁴ <https://www.sakpatenti.gov.ge>.

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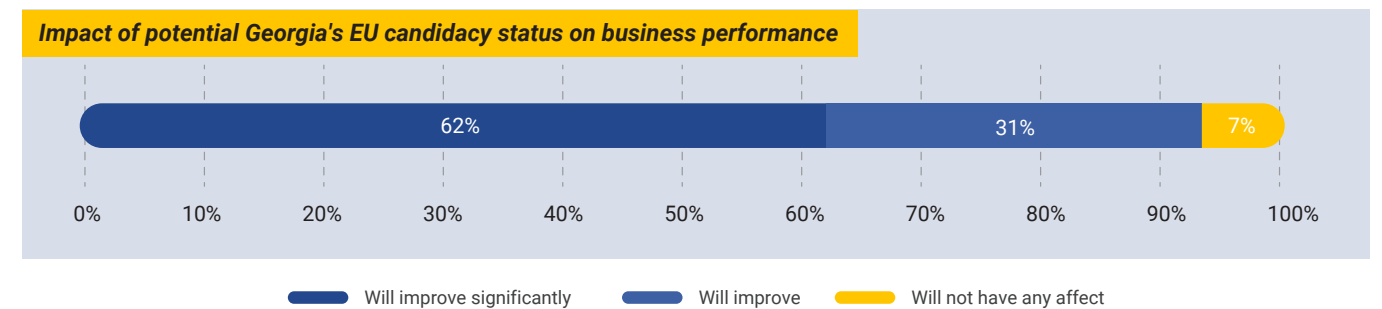
⁷¹ <https://www.sakpatenti.gov.ge>.

2.5. THE EU MARKET AND DCFTA

The 2022 EU Business Climate Report Georgia stressed the importance of the DCFTA as one of the most important economic achievements of Georgia in recent years and explored whether after almost eight years after signing the DCFTA between the EU and Georgia, its benefits are duly utilized or not - whether it is a "gain" or a "pain". It concluded that while in the short term, impacts are not tangible and visible, some of the most important impacts are gained in the longer term and indirect positive effects of the DCFTA sometimes outweigh direct ones and often remain unnoticed. The report also argued that companies which were trade-ready with the DCFTA were more resilient towards the COVID-19 crisis, compared to ones which were not. Therefore, raising awareness among businesses about the DCFTA and its benefits remains a compelling objective.

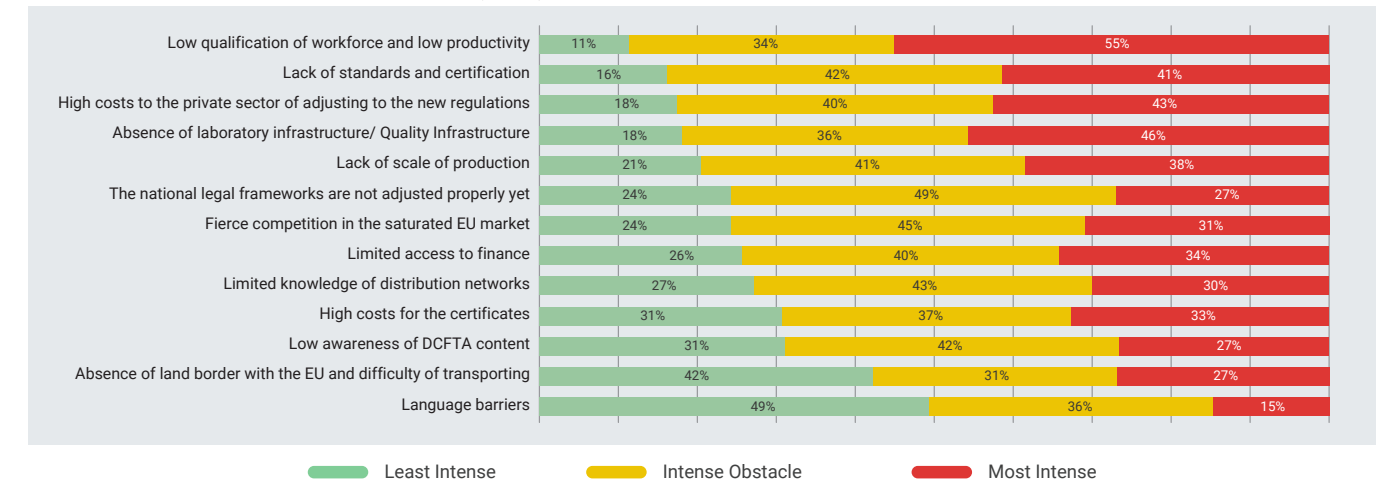
This year, trade numbers with the EU did not improve much, and we asked about the perspective of the EU candidacy and its expected magnitude for business performance. This could be realized through multiple dimensions such as better access to the high value EU market, enhanced access to finances, greater interest of investors towards Georgia or with indirect improvement of the standards and so forth.

The absolute majority of businesses consider that the candidacy status for Georgia will improve (31%) or will significantly improve (62%) the situation for their business. For the surveyed businesses, the relevancy of the EU integration does not come under doubt and it has a high level of legitimacy.



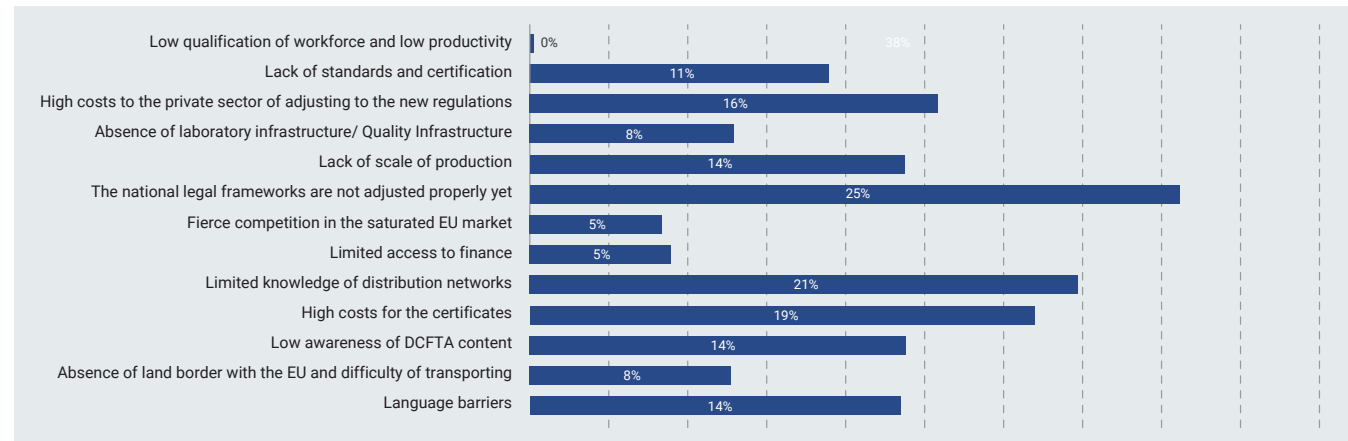
Among the practical reasons which hinder reaping the benefits of the DCFTA and prevent companies from accessing the EU market are low qualification and productivity of workforce, lack of standards and certification and reasonably high regulatory compliance cost for businesses.

Barriers towards accessing the EU market (2023)



Since 2022 report, the biggest deterioration of the conditions was observed in approximation of the national legal frame and in knowledge about EU markets.

Growing barriers towards accessing the EU market (2022-2023)



The larger the firm, the more problematic is the legal framework. Smaller firms are more concerned with low qualification of workforce and low productivity, lack of standards and poor-quality infrastructure. Limited access to finance is the third important obstacle for smaller firms, hindering the utilization of the DCFTA benefits.

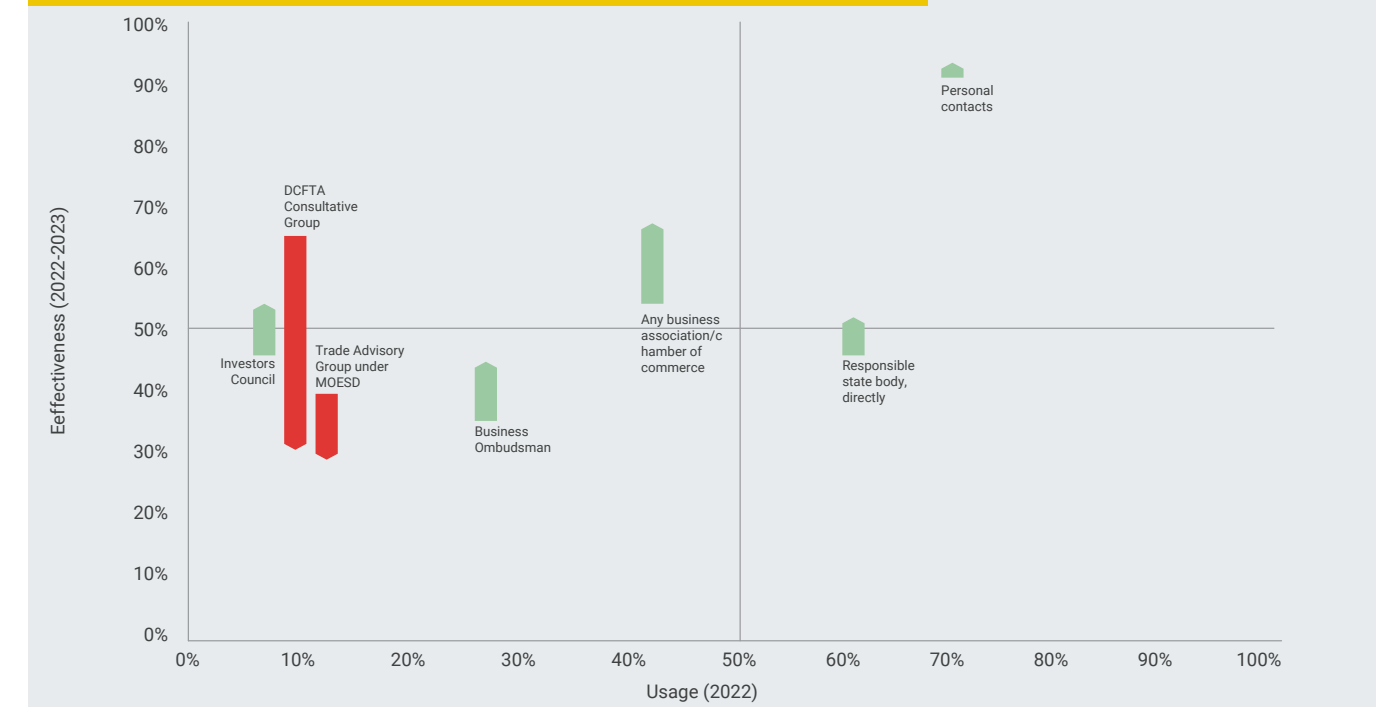
Rankings of barriers towards accessing the EU market by firm size

#	Micro (up to 10 Employees)	Small (11-50 Employees)	Medium (51- 250 Employees)	Large (Over 250 Employees)
1	Low qualification of workforce and low productivity	Low qualification of workforce and low productivity	Low qualification of workforce and low productivity	The national legal frameworks are not adjusted properly yet
2	Lack of standards and certification	Absence of laboratory infrastructure / Quality Infrastructure	Lack of scale of production	Lack of standards and certification
3	Limited access to finance	High costs for the certificates	High costs to the private sector of adjusting to the new regulations	High costs to the private sector of adjusting to the new regulations
4	High costs to the private sector of adjusting to the new regulations	Lack of standards and certification	Lack of standards and certification	Low qualification of workforce and low productivity
5	Fierce competition in the saturated EU market	Limited knowledge of distribution networks	Absence of laboratory infrastructure / Quality Infrastructure	Low awareness of DCFTA content
6	Absence of laboratory infrastructure / Quality Infrastructure	High costs to the private sector of adjusting to the new regulations	Fierce competition in the saturated EU market	Fierce competition in the saturated EU market
7	Lack of scale of production	Lack of scale of production	The national legal frameworks are not adjusted properly yet	Lack of scale of production
8	Limited knowledge of distribution networks	The national legal frameworks are not adjusted properly yet	Limited access to finance	Absence of laboratory infrastructure / Quality Infrastructure
9	High costs for the certificates	Low awareness of DCFTA content	Limited knowledge of distribution networks	Limited knowledge of distribution networks
10	Absence of land border with the EU and difficulty of transporting	Limited access to finance	Low awareness of DCFTA content	Limited access to finance
11	The national legal frameworks are not adjusted properly yet	Fierce competition in the saturated EU market	High costs of certificates	High costs of certificates
12	Low awareness of DCFTA content	Absence of land border with the EU and difficulty of transporting	Absence of land border with the EU and difficulty of transporting	Language barriers
13	Language barriers	Language barriers	Language barriers	Absence of land border with the EU and difficulty of transporting

2.6. WAYS TO SOLVE BUSINESS ISSUES

In a healthy business environment, BSOs are the places of first resort to carry out advocacy and to solve the business issues that are beyond the capacities of individual business. When the EECF was established in 2022, one of the major implied purposes was to promote coordination and enhance the capacity of leading BSOs in Georgia. However, 2022 survey results showed that personal contacts scored high on both usage and effectiveness by businesses to solve their issues related to the business climate.

Usage and effectiveness of different ways to solve business issues (2022-2023)



Businesses most frequently revert to personal contacts and the responsible state body, directly. Between the two waves of the survey, the effectiveness of these channels increased or remained the same.

One of the most effective means for solving these issues is using specialized *legal advisors*. In 2023 this channel was effective in 79% of cases and places second after personal contacts.

The effectiveness of business associations and chambers increased the most during the last year. This is a positive sign and a hope for improvement. Clearly there is huge room for improvement for solving the issues for businesses and shifting the burden from personal contacts towards more formalized ways by increasing the role of the associations and BSOs in this process.

The institute of business ombudsmen comes next in terms of use, the effectiveness of which also increased. The remaining channels such as the DCFTA consultative group, Trade Advisory Group under the MoESD and Investors' Council are very rarely used. Of these three, only the Investors' council showed improvement in effectiveness between the two waves.

Personal contacts, legal advisors and responsible state bodies are the three most widespread ways to address the issue among all size firms. The smaller the firm, the more likely it will be to address to associations and chambers, whereas large firms address to the responsible state bodies directly.

Usage of different ways to solve business issues by firm size

#	Micro (up to 10 Employees)	Small (11-50 Employees)	Medium (51- 250 Employees)	Large (Over 250 Employees)
1	Personal contacts	Personal contacts	Personal contacts	Personal contacts
2	Legal advisors	Legal advisors	Legal advisors	Legal advisors
3	Any business association/ chamber of commerce	Any business association/ chamber of commerce	Any business association/ chamber of commerce	Responsible state body, directly
4	Responsible state body, directly	Responsible state body, directly	Responsible state body, directly	Any business association/ chamber of commerce
5	Investors Council	Business Ombudsman	Business Ombudsman	Business Ombudsman
6	Business Ombudsman	Investors Council	Investors Council	Investors Council
7	Trade Advisory Group under MOESD	DCFTA Consultative Group	DCFTA Consultative Group	DCFTA Consultative Group

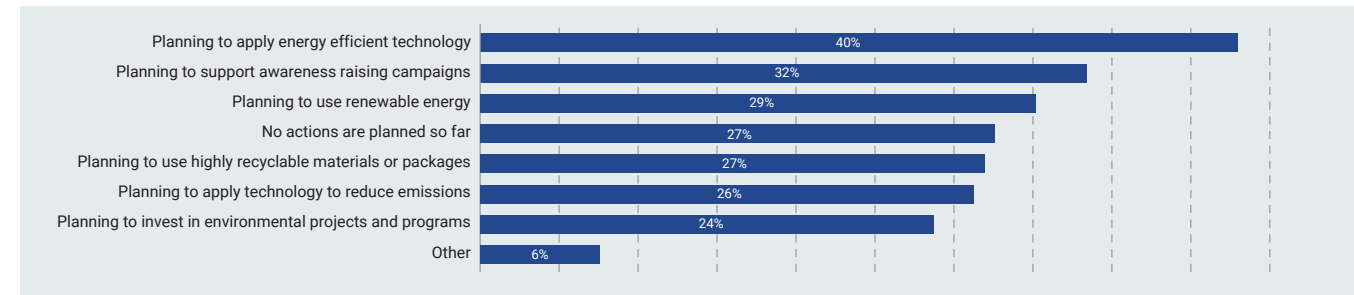
⁷² This category was added in the survey only in 2023 and therefore, there is no way compare the results on usage and effectiveness, hence not shown on the chart above.

2.7. ENVIRONMENTAL ACTIONS

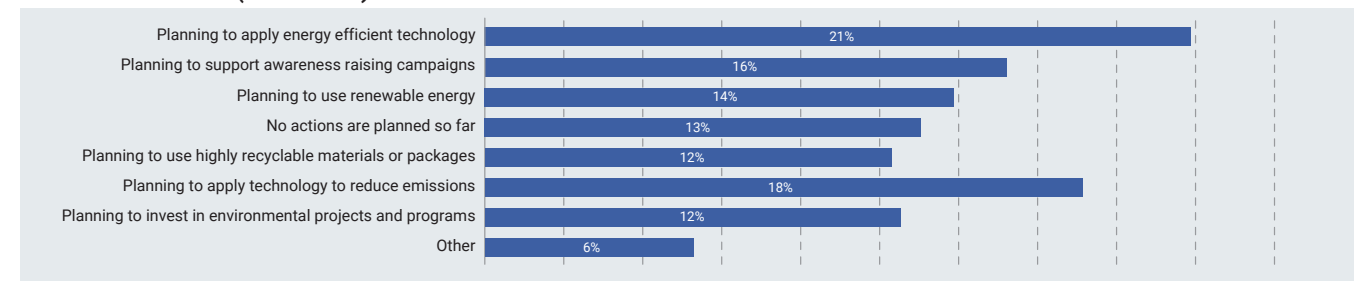
Green growth represents a new paradigm that European companies are embracing at the background of the global climate change concerns. It is also a declared priority of the EU delegation in Georgia and its assistance to the private sector in the country.

Most of the surveyed EU businesses in Georgia are also in the processes of embracing at least some actions towards terms of environmental sustainability and green growth. The span of the planned activities includes applying energy efficient technology (planned by 40% of the surveyed companies), conducting awareness rising campaigns (32% of the enterprises), adopting the use of renewable energy (29%), using recyclable materials (27%), applying technologies to reduce emissions (26%), investing in environmental projects (24%). It is twice as positive to see that the growth of the adoption is significant, with two-digit percentage points growth for all major environmental actions, when two waves are compared.

Planned environmental actions of the EU companies in the nearest future (1-2 years)

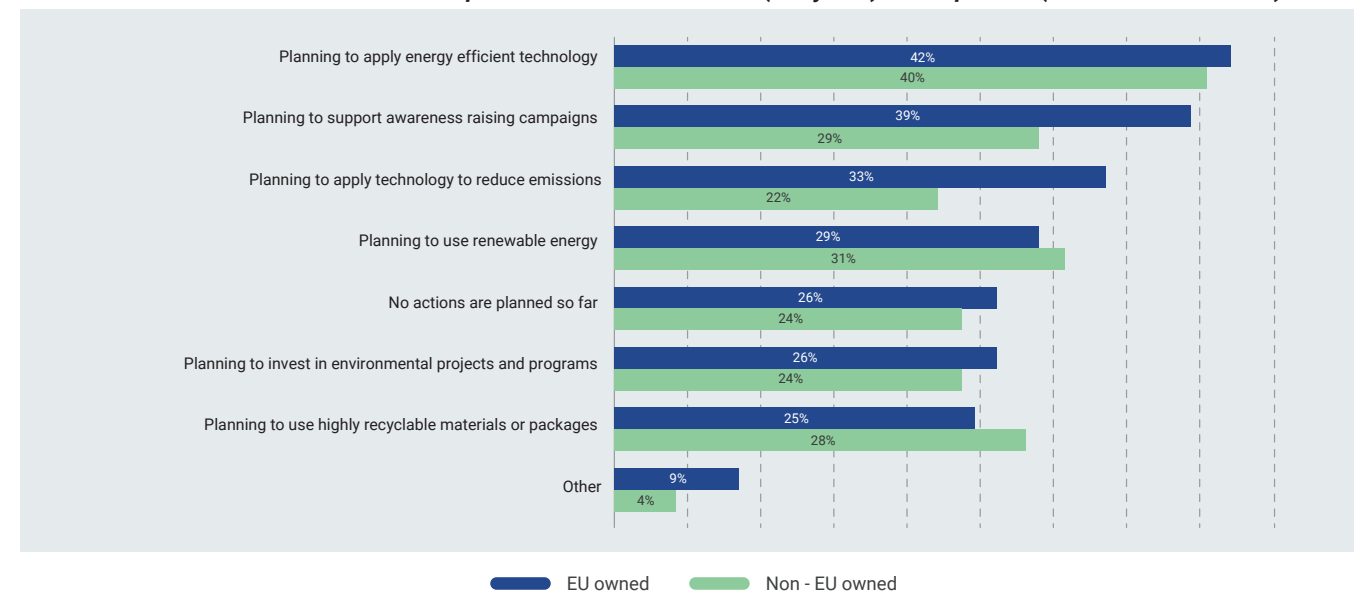


Gainers and losers (2022-2023)



More non-EU owned enterprises than EU-owned, report that they were planning to adopt renewable energy and recyclable materials, whereas EU-owned activities outpace Non-EU ones in terms of emission-reducing technologies, awareness campaigns and investing in environmental programs. Overall, the differences are not meaningful and it could be assumed that other factors (outside ownership) define whether a company is taking steps towards environmental responsibility.

Planned environmental actions of the companies in the nearest future (1-2 years) – Comparison (EU and Non-EU Firms)



METHODOLOGY

Three methodological elements were used in the study.

Desk Research. The first stage was conducting a comprehensive desk study of the available materials on the subject of business obstacles, economic reforms in the country, attitudes of enterprises towards these economic reforms and other topics covered by the research. This included secondary reports, statistics and descriptive texts from responsible state agencies. Again, this year, special gratitude goes towards the representatives of the state agencies, who provided up to date descriptions of their status of reforms – both recent and future. A huge amount of material was collected during this study, which was used for drafting factual description of texts in the report related to several economic sections.

Interviews with key informants. This source was mainly used for fact-finding and for developing insights into the topic of *access to finance*. We approached and interviewed several representatives of IFIs and local financial institutions, who provided valuable insights and inputs on the subject. Many of our insights also originate from informal conversations with individual businesses.

Quantitative online survey of businesses. A key element of this study is a quantitative survey, which gave us the possibility to approach the wider private sector, assess and test a different subject and validate the findings about this subject. The questionnaire was a semi-structured instrument, which was distributed online, which was primarily targeted at a convenience sample of EU-owned enterprises, members of the associations under EECP, embassies and missions of the EU countries. A large majority of questions were similar to the previous year's survey, allowing the team to make valuable comparisons.

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29	The official website of Investors Council - https://investorscouncil.ge
30	The official website of Revenue Service - www.Rsge
31	The official website of Sakpatenti - https://www.sakpatenti.gov.ge
32	The official website of the European Union - https://european-union.europa.eu
33	The official website of the Ministry of Finances of Georgia - www.mof.ge
34	The official website of the World Bank - www.worldbank.org
35	The SME Policy Index: Eastern Partner Countries, OECD, 202
36	World Governance Indicators - Georgia in the World Bank Ranking 2021

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