EU BUSINESS CLIMATE REPORT GEORGIA 2024

Funded by the European Union

EUROPEAN BUSINESS ASSOCIATION EBA GEORGIA

CONTENTS

LIST OF ACRONYMS

A.T.A. Carnet	An international customs and temporary export-import document
AA	Association Agreement
ACDA	Agricultural Cooperative Development Agency
ADB	Asian Development Bank
AEO	Authorized Economic Operator
APMA	Agricultural Projects Management Agency
BLN	Billion
BRIPA	Business Rehabilitation and Insolvency Practitioners Association
BSO	Business Support Organization
CIS	Commonwealth of Independent States
CM	Comparable Methodology
CO2	Carbon Dioxide
CTC	Common Transit Convention
DCFTA	Deep and Comprehensive Free Trade Area
DiMMA	The State Programme of Dairy Modernization and Market Access Program
DRC	Dispute Resolution Commission
EaP	Eastern Partnership
EBA	European Business Association
EBRD	European Bank for Reconstruction and Development
EECP	European Economic Cooperation Platform
EFTA	European Free Trade Association
EG	Enterprise Georgia
EN Standards	Technical standards drafted and maintained by CEN (European Committee for Standardization)
EU	European Union
FDI	Foreign Direct Investment
FIZ	Free Industrial Zone
FTA	Free Trade Agreement
FTSE	Financial Times Stock Exchange
GBI-EM	JPMorgan Government Bond Index-Emerging Markets
GCCA	Georgian Competition and Consumer Agency
GDP	Gross Domestic Product
Ge-GP	Georgian Electronic Government Procurement System
GEL	Georgian Lari
GITA	Georgia's Innovation and Technology Agency
GNTA	Georgian National Tourism Administration
GSP	Generalized System of Preferences
GUAM	Organization for Democracy and Economic Development
HCOJ	High Council of Justice
ICT	Information and Communication Technologies
IP	Intellectual Property

ISET	International School of Economics at TSU
IT	Information Technology
Kg	Kilogram
LEPL	Legal entity of public law
LPI	Logistics Performance Index
Ltd	Limited Liability Company
M&I	Meeting and incentives
MEPA	Ministry of Environmental Protection and Agriculture
MEPRS	Minimum Energy Performance Requirements for Buildings, Parts of Buildings, or Building Elements
MFN	Most favored nation
MLN	Million
MoESD	Ministry of Economy and Sustainable Development
MoESY	Ministry of Education, Science and Youth of Georgia
MSW	Maritime Single Window
NBG	National Bank of Georgia
NCTS	New Computerized Transit System
OECD	Organization for Economic Co-operation and Development
PP	Public Procurement
R&D	Research and Development
RDA	Rural Development Agency
Ro-La	Rolling Road
SAD	Single Administrative Document
SME	Small and Medium-Sized Enterprises
SNGP	Substantial NATO-Georgia Package
SPA	State Procurement Agency
STEAM	Science, Technology, Engineering, Arts, and Mathematics
STEM	Science, Technology, Engineering, and Mathematics
T-ENT	Trans-European Network
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
US	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

PAWEL HERCZYNSKI

Ambassador of the European Union to Georgia

The European Union has been supporting the publication of EU Business Climate Report since its first edition. Built on empirical insights from the private sector in Georgia, the report captures key developments in the business and economic ecosystem, as perceived by European companies present in Georgia.

The role of private sector in driving economic growth and fostering innovation is huge and through the EU4Business initiative, the EU has been empowering businesses to thrive, innovate, and contribute to Georgia's economic development.

This year's report builds on the experience and findings from previous years' publications, while offering a deeper analysis on the focus theme, which is **skills development**. It identifies the need to **better match skills with labour market demands,** as well as for a **coherent and better quality skills development system.** These are key bottlenecks hindering Georgia's competitiveness and economic growth.

Human capital development and skills matching are other areas where the European Union has supported Georgia with a view to enhancing its economic resilience and sustainable growth.

The conclusions of the report will provide further benchmarks to the economic environment and business sentiment in Georgia. This is a reference document for reflection and action in the margins and beyond the European Economic Cooperation Platform, which is an inclusive forum supported by the European Union and established by the European Business Association in 2022.

In December 2023, the European Council granted candidate status to Georgia, on the understanding that nine steps are implemented. However, notwithstanding the aspiration of the large majority of the Georgian population to join the EU, the trajectory taken by the Georgian authorities since spring 2024 is incompatible with the standards expected from a candidate country. The decision to join the EU is a choice, but the enlargement process is merit-based and it depends on reforms undertaken by the candidate country. Those reforms have not happened and EU-Georgia relations have deteriorated. We strongly regret this situation.

The EU has been a key economic partner for Georgia. However, as a result of the backsliding on a number of fundamental values upon which EU – Georgia relations are built, the EU has reduced much of our assistance. We are carrying on a substantial review of our on-going programmes. As a result of the actions taken by Georgian authorities, we will not be in a position to continue many of our excellent projects in Georgia.

This negative political trajectory has also consequences on the economic situation as well as on the businesses trying to operate in Georgia. Many companies decided to enter the Georgian market anticipating that the country would move ever closer to the EU. Many of those companies now have legitimate questions and doubts about the future of Georgia since the enlargement reform agenda is a key factor for structural, inclusive and sustainable transformation.

I would like to express my appreciation to the European Business Association for tireless efforts to represent the interests of European businesses in Georgia, as well as of Georgian businesses in the EU. You are contributing to Georgia's European integration, despite the current trajectory chosen by the Georgian authorities. I am also grateful for our continuous cooperation on the EU Business Climate report as well as for the valuable input by all the participating business representatives and stakeholders, which contribute to making this report a success.

Businesses drives change. I sincerely hope for better days in EU-Georgia relations, and I am convinced that the business sector will play a key role in driving Georgia's EU aspirations forward.

Ts'in, Sakartvelo, Ts'in!

JOHN HUGO FREDDY BRAECKEVELDT

President of the European Business Association

As the President of the European Business Association (EBA) Georgia, I am honored to present the European Business Climate Report 2024. This report highlights key aspects of the business environment as experienced by European enterprises operating in Georgia, providing critical insights into the opportunities and challenges faced by the community. This year's report serves as a valuable tool for amplifying the voices of European businesses and ensuring their priorities are recognized by decisionmakers, public sector leaders, and private stakeholders.

The past year has marked a pivotal moment in Georgia's journey toward European integration. The European Commission's recommendation to grant Georgia candidate status stands as a testament to the country's progress and the collective efforts driving it. The EBA and its members are proud to have contributed through initiatives such as the #EBAMembers4Europe campaign, which underscored our shared belief that Georgia's future lies firmly within the European Union.

This progress, however, has not come without challenges. While Georgia has achieved robust economic growth, businesses have faced uncertainties from both external and internal factors. Political shifts, evolving market dynamics, and the constant need for adaptation have tested resilience across industries. Moreover, recent developments in Georgia have raised concerns over the stability of the business environment, putting investments at risk and dampening the confidence needed for sustained growth. Yet, these challenges have also highlighted the strength and determination of the business community, which continues to innovate and invest despite the obstacles.

This year's report highlights key areas that require attention to sustain a favorable business climate. Workforce development, regulatory effectiveness, and infrastructure improvements are recurring themes that reflect broader systemic needs. Progress in certain reform areas offers encouragement, but the report also reminds us that comprehensive and consistent efforts are required to address longstanding obstacles.

As we look to the future, collaboration between the public and private sectors remains essential. By addressing structural gaps and fostering an environment conducive to innovation and investment, we can create the conditions necessary for sustained economic growth and competitiveness. The European Business Association is committed to supporting these efforts and advocating for the priorities of the business community.

On behalf of EBA, I extend my heartfelt gratitude to the European Union Delegation to Georgia for supporting this important research and dialogue, and to our members and public sector partners for their unwavering dedication. My deepest thanks also go to the EBA team for their outstanding work. The Association remains committed to upholding European values, supporting our members, and strengthening Georgia's European integration. Together, we will continue to seize opportunities, overcome challenges, and pave the way for a prosperous and unified future.

AUTHOR'S NOTE - BY WAY OF INTRODUCTION

Let me begin by extending my sincere gratitude to the businesses, which are at the heart of this report. If any EBA initiative embodies our slogan — "By the business, for the business" — it is the European Business Climate Report. These businesses not only provide essential insights for the survey but are also the primary beneficiaries of this effort, even if the advantages sometimes come indirectly or with time.

When a small working group came together in early 2021 to conduct a modest survey on the impacts of the COVID pandemic on Georgian businesses, few could have foreseen that this initiative would evolve into a compelling snapshot of the broader business climate in Georgia. Now, in its third year, the European Business Climate Report has proven its value to multiple stakeholders, thanks to its depth, rigor, and coverage of key business climate factors, reflecting the objective perspectives of business leaders and decision-makers in Georgia. As one of our members openly told us, this report is one of the most useful business climate reports he has ever known and used. This warms our hearts.

Since the last report, Georgia was granted EU candidacy. However, due to political controversies and renewed polarization, the EU's stance on initiating membership negotiations shifted. When the survey was underway, Georgia's status was uncertain (the European Commission issued its recommendation in late October, after most of the survey responses had already been collected).

Additionally, a large portion of survey responses was gathered before the October 26 parliamentary elections. Consequently, we should keep in mind that the political risks and uncertainties leading up to this period might have influenced the perspectives of business leaders.

One of the main findings of last year's report was that, despite regional instability and rising polarization in the country, business performance and optimism in Georgia were strong, buoyed by favorable economic fundamentals. This year, it was interesting to examine whether the continued positive economic growth in 2023 and early 2024 could outweigh the political tensions and uncertainties. The results suggest that it may not have entirely.

Finally, in the context of these challenges, workforce shortages for businesses have reached a point where simple explanations fall short. A deeper analysis was required to understand the root causes of this issue, its impact on business performance, and the economic costs and benefits of investing in skills development programs. These themes are explored in detail in the featured topic section of this year's report.

In closing, once again we extend our heartfelt thanks to the leaders of the participating businesses, who generously shared their time and insights, providing valuable commentary on the key issues addressed in the report. We hope that by bringing together these *little* contributions, we can drive *large* progress toward aligning Georgia's business environment with European standards.

Tengiz Lomitashvili
Author

EXECUTIVE SUMMARY

BUSINESS ENVIRONMENTAL FACTORS, BUSINESS PERFORMANCE AND OPTIMISM

Robust growth and economy resilience in the country, despite external challenges and evolving risks

In 2023-2024, Georgia's economy has demonstrated robust growth, making it a regional leader with a stable trajectory despite the country's challenges. Economic growth reached 7.5% in 2023 and accelerated to 9.1% in the first half of 2024, driven by robust domestic consumption, rising wages, credit expansion, and strategic public and private investments. The services sector, including transportation, education, and trade, has been a key growth driver, alongside increased income from international travel and transportation services due to Georgia's strategic role in the Middle Corridor. While inflation has eased to 1%, the National Bank has maintained cautious monetary policies. External factors such as declining remittances from Russia, a 7.8% drop in goods exports, and a slight depreciation of the lari have weighed on the current account. Public debt remains sustainable at 40.4% of GDP, and poverty and unemployment rates continue to decline. Growth forecasts remain optimistic, with projections of 7.5% for 2024, driven by private consumption, before moderating to a sustainable 5% medium-term rate. Risks such as geopolitical tensions, EU accession requirements, and declining remittances underline the need for prudent fiscal and monetary policies to maintain stability and growth.[1]

Growing, yet weak momentum of the SME sector

Despite small and medium enterprises (SME) accounting for a significant proportion of registered enterprises in Georgia, their contribution to economic value creation remains low, with a declining share in total business turnover and value-added over the past decade as larger enterprises grew more rapidly. However, 2023 marked a positive shift, with SMEs' share of value-added in the business sector rising from 50% in 2022 to 54%, signaling potential for sustained improvement. Employment in the SME sector also saw a revival, adding 22,000 jobs, but this growth was insufficient to reverse the long-term decline in the sector's employment share, which continued to drop by 0.5 percentage points from 2022.[2]

Stagnant yet substantial trade with the EU

The opportunities offered by the DCFTA remain underutilized, with trade between Georgia and the EU remaining limited. Despite the EU being Georgia's largest trade partner, its share in Georgian exports and imports has declined compared to pre-DCFTA levels. According to Geostat, in 2023, Georgian exports to the EU contracted by approximately 18%, reducing the EU's share of Georgia's total exports from 21% in 2014 to just 12% in 2023. The imports from the EU have demonstrated a more resilient trend, with substantial double-digit growth over the past three years, keeping the EU's share at 25% of Georgia's total imports.[3] Overall, despite the pressures from Georgia's traditional, geographically easily accessible low-value markets, trade with the EU accounts for over one-fifth of country's total trade turnover.

[1] A summary based on several sources, including: Geostat, the Ministry of Finances of Georgia, the National Bank of Georgia and the World Bank

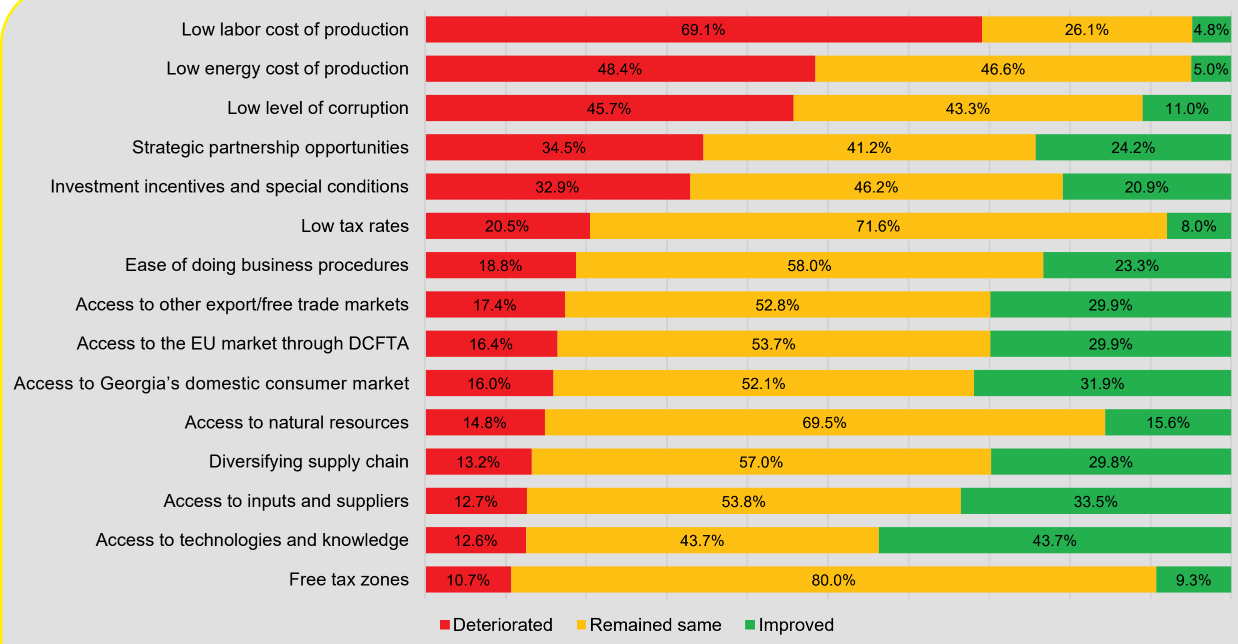
[2] Based on the data from Geostat

Improved international doing business rankings

Nevertheless, Georgia's commitment to reforms and open-market policies have led to continued regulatory efficiency, transparency, and corruption control, earning the country strong rankings in international indices. Highlights include top-quintile placements in the 2024 World Bank Business Ready report under the Regulatory Framework (3rd) and Operational Efficiency (2nd) indicators. Georgia also ranks 33rd in the 2024 Heritage Foundation Economic Freedom Index and 21st in the Fraser Institute's Economic Freedom of the World report. Governance indicators show improvements in Government Effectiveness and Political Stability, though slight declines were noted in other areas.

Labor costs, cost of energy and corruption remained the top worst performing business climate factors

Again, this year, *labor costs*, *cost of energy*, and *corruption* were among the factors where a notable portion of respondents *reported deterioration*. Access to technologies and knowledge was the best performing factor, with 43.7% of respondents reporting *improvements*. Although with less progress, free tax zones, access to inputs and suppliers, and diversifying the supply chain were among the best performing factors, with the *smallest ratio* of respondents who thought that the situation *deteriorated*.



Recent dynamics in business climate factors (2024)

However, nearly every factor experienced a degree of regression compared to the previous year

The dynamic view of our prioritization frame, which groups factors according to their *importance* and *recent dynamics*, compares the last two survey results and provides differences of the factor

[3] External Trade Portal of Geostat (extracted in September 2024)

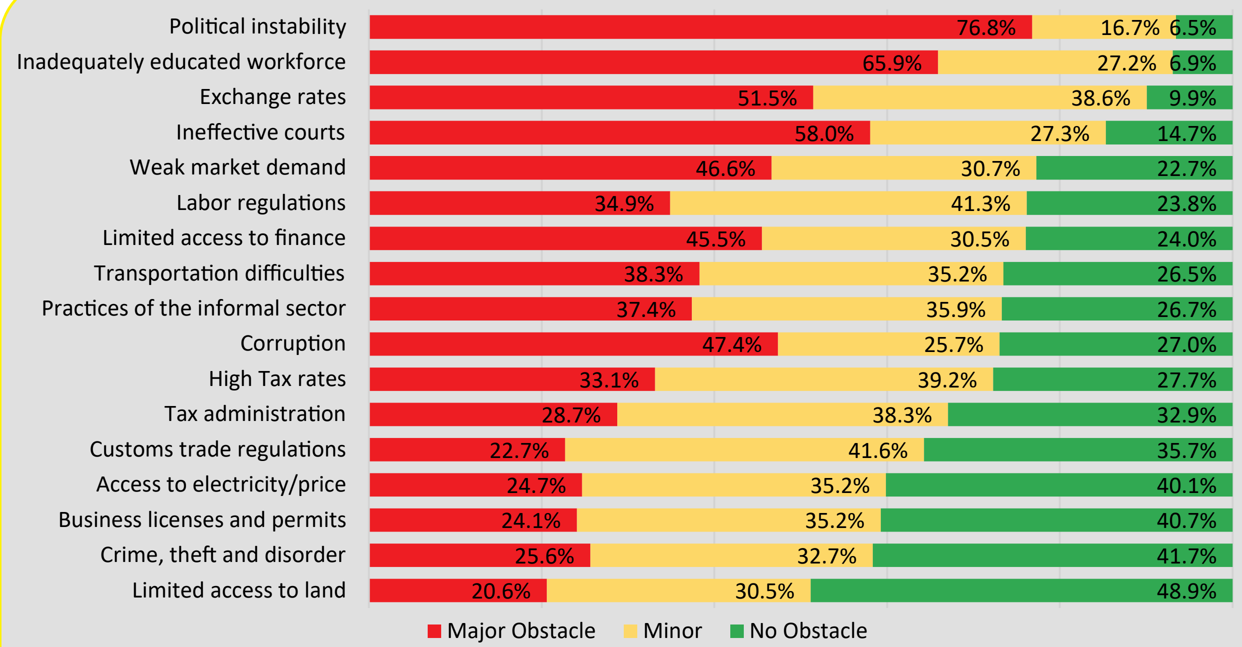
performance. Overall, among Group A priority factors, labor costs, low tax rates and, to a small extent, ease of doing business procedures showed a further negative trend between the two waves of the survey 2023-2024, deserving special attention. The biggest losers from other priority groups were strategic partnerships and access to export markets (both DCFTA and other markets). Sadly, there were no *winners* between the two waves.

Less robust performance and weakened optimism at the background of uncertainties, despite the strong economic growth

The past year, a significant election year in Georgia, has widely been associated with slowed business activity due to inherent uncertainties, and has produced reflected mixed outcomes for European businesses in Georgia. Slightly less than half (49.2%) of European businesses reported improved overall performance, while 33.7% indicated no change, and 17.1% experienced negative performance. Compared to the previous year, this marks a net 4.8% shift towards underperformance, highlighting the implicit impact of domestic uncertainty factors on enterprise performance, despite the economic growth in the country. Reflecting on the past performance, future optimism also suffered, with a commensurate 6.7 percentage point- drop in businesses planning expansion, down from 65.8% in 2023 to 59.1% in 2024. The share of uncertain companies has doubled, from 5.9% to 11.6%, reflecting the clear impact of election-related uncertainty on business sentiment. If they had to, *64.1% of the surveyed businesses would choose Georgia again* as a preferred place to do business, notably down from 71.7% of the previous year results.

Political instability, inadequately educated workforce, and exchange rate fluctuations remain top obstacles to businesses

The EU Business Climate Report highlights key obstacles hindering European businesses in Georgia, with *political instability*, an *inadequately educated workforce*, and *exchange rate fluctuations* identified as the top three challenges. Of the surveyed businesses, 90% or more report these factors as either *major* or *minor* obstacles. Political instability, cited by 76.7% of businesses as a significant barrier, reflects both domestic and broader geopolitical influences.



Major obstacles to businesses (2024)

Compared to the 2023 results, in 2024 all the top three factors remained the same. However, their positions have changed. Political instability moved to the first position and economic factors such as exchange rates and inadequately educated workforce moved down. 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 corruption, high tax rates, and ineffective courts.

FOCUS FOR THIS YEAR - WORKFORCE DEFICIT AND SKILLS DEVELOPMENT

Workforce deficit is a top and often a single barrier to business expansion, resulting in an impact of the size of about 26% of GDP

The EU Business Climate Survey reveals that the lack of a qualified workforce is the main—and often only barrier—to business expansion. This skills shortage leads to substantial lost opportunities, with 48% of businesses reporting a production or sales shortfall of 5% to 40% due to this issue. The 2024 survey underscores the material impact of the workforce gap on business performance in Georgia. According to our estimates, this shortage of workforce results in an unrealized income of the business sector of roughly about 55.6 billion GEL and a shortfall of approximately *21.2 billion GEL* in value added annually in the country, making up about *26% of Georgia's GDP*.

There are multiple key contributors to the existing workforce deficit leading to a new supply-driven labor market and forcing companies to undertake internal workforce development programs

Georgia faces a significant workforce challenge due to high emigration, skills shortages, and resource misallocation. Businesses struggle with losing skilled workers to better opportunities abroad, while many workers are underutilized in low-productivity sectors. Resource misallocation could be mitigated through retraining programs that help workers transition into higher-productivity roles, increasing their earning potential and boosting overall economic output. However, challenges like the poorly structured social assistance system, limited career planning, and high employee turnover make it difficult to retain workers. The shift in the job market toward a supply-driven model, influenced by Generation Z's desire for immediate rewards and flexibility, further complicates retention efforts. As traditional recruitment methods lose effectiveness, businesses are adopting innovative strategies like social media recruitment and incentivizing employee referrals. Workforce development programs, continuous training, and tailored recruitment efforts are essential for businesses to adapt and remain competitive in a changing labor market.

Although imposing additional cost for companies, internal skills development might have a significant demonstrated positive cost-benefit balance

Estimating specific costs and benefits of internal trainings is often difficult, which leads companies to abstain from such activities. One example from our survey, an industrial company, found that the cost and benefit analysis of the short-term internal training program revealed an explicit net benefit for investing in internal trainings.

The gap between Georgia's private sector and the education system is a crucial factor contributing to the skills deficit, and it's driven by a variety of underlying issues

The disconnect between Georgia's private sector and education system stems from challenges on both the demand and supply sides of the labor market. On the demand side, there is a lack of formalized, tangible skill requirements from businesses, with many companies hiring overqualified

staff or failing to demonstrate sector-specific needs, hindering the development of targeted vocational education programs. On the supply side, the higher education sector's dominance and lack of awareness about vocational education and training (VET) opportunities discourage young people from pursuing alternative education paths. Additionally, there is poor cooperation between businesses and state-run VET institutions, outdated education methods, and a mismatch in performance indicators between the two sides. More engagement from sectoral skills organizations in VET program design and a shift toward a more flexible, results-oriented approach to education could bridge the gap.

Despite large external support, participation of the private sector in skills development programs remains low due to numerous reasons

Companies face significant challenges in implementing dual training programs, including concerns about losing trained graduates, potential damage to expensive equipment, and the risk of leaking commercial secrets. These risks make dual programs difficult to implement unless mechanisms are in place to mitigate costs. Additionally, many businesses are unaware of state-supported training opportunities, limiting their participation. Companies also have varying motivations for engaging in skills development programs, with some viewing it as a long-term reputational investment, while others seek immediate impacts. Compliance with state reporting requirements further complicates involvement, and some businesses view investment in education as a necessity for survival rather than a profitable venture, despite the lack of clear cost-benefit returns.

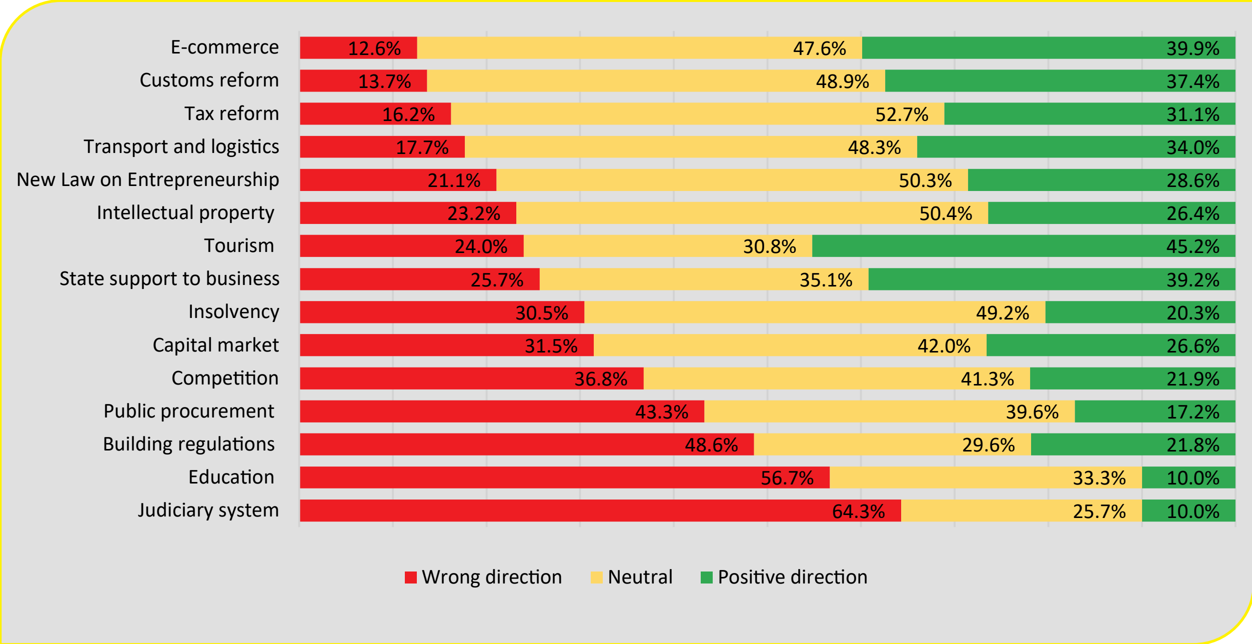
Sectoral skills organizations are proposed as a way to bridge the gap between industry and education, though they face challenges like limited sectoral cooperation and capacity. Donor support plays a crucial role in facilitating successful engagement, often serving as a key motivator for companies to participate in training initiatives.

REFORMS SNAPSHOT AND EVALUATION

With the exception of three reform areas—customs, tax, and transport and logistics sectors—the respondents' evaluation of the reforms deteriorated.

Since its inception, the assessment of the success of economic reforms has been central to the EU Business Climate Report Georgia. This year results show that among positively perceived reforms, the e-commerce reform, customs reform, tax reforms, and transport and logistics sector reform top the list. More than 80% of respondents evaluate the process of these reforms as either positive or neutral. Again, no surprise this year that the judiciary system reform, education reform, and building regulation sector reforms are at the bottom of the list and are perceived to be going to the wrong direction. About 50% or more of the respondents report that these reforms are going to the wrong direction.

The notable fact is that overall, with the exception of the reforms in three areas—customs, tax, and transport and logistics sectors—respondents gave the reforms lower marks compared to the previous reporting period. According to our reform prioritization map, the education reform, judiciary system reform and to some extent, competition 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.



EU MARKET AND THE DCFTA

Against a background of diminishing EU-Georgia trade, obstacles in relation to the DCFTA are still profound

Despite the EU-Georgia DCFTA being signed nearly a decade ago, trade between the two has stagnated, putting the effectiveness of this agreement in question. Georgian businesses cite challenges such as a low-skilled workforce, high regulatory compliance costs, intense competition, and a lack of quality infrastructure as key obstacles to fully benefiting from the agreement. Micro and small firms are more concerned with competition in the EU market and access to finance and the low qualification of workforce and low productivity, whereas for medium and large firms, compliance costs are a concern, compounded by the absence of regular laboratory/quality infrastructure. When it comes to the quality infrastructure for industrial producers, the top obstacles are the lack of European Standard (EN) laboratory testing and calibration service infrastructure (42.2%), followed by the lack of awareness about the Market Surveillance Agency and its technical regulations (40%) and the poor Georgian translation of the standards (37.7%).

ROLE OF BUSINESS SERVICE ORGANIZATIONS

Limited role of BSOs in solving issues of business growth

By offering targeted advocacy and member services, BSOs support private sector organizations and address challenges that individual businesses cannot tackle alone. The results showed that that BSOs in Georgia still play a limited role as 48.1% of the responding businesses did not use this channel to solve issues. More businesses opt to use personal contacts as an effective way to solve issues related to the business climate. Of the surveyed businesses, 33.7% used BSOs effectively, whereas 18.2% used BSOs but ineffectively, indicating a significant potential to improve their effectiveness to address issues and shift the burden away from reliance on personal contacts and costly legal advisors. Platforms like the European Economic Cooperation Platform (EECP) can play a critical role in this.

1 GEORGIA AS A DESTINATION FOR EUROPEAN BUSINESSES

1.1. KEY FACTS ABOUT GEORGIA AND ITS ECONOMY

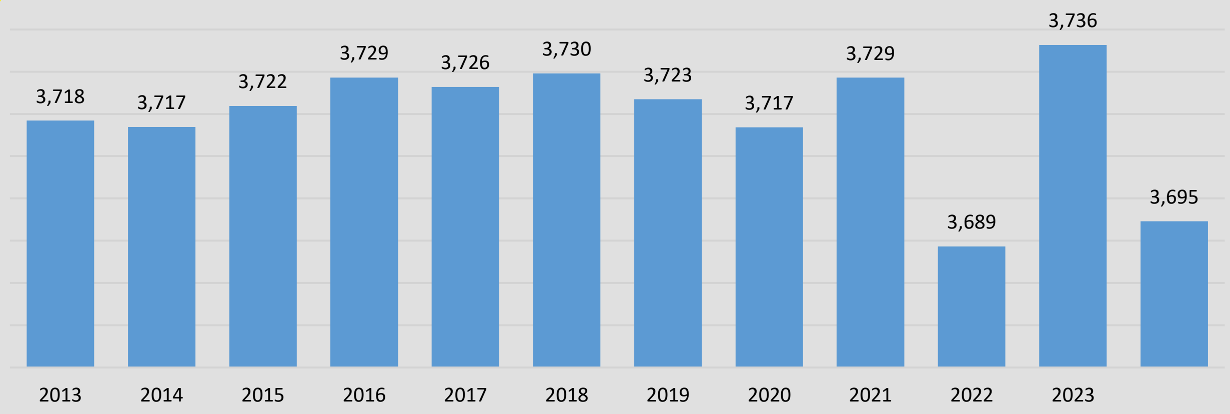
Located at the crossroads of Europe and Asia, Georgia's strategic location makes it a natural logistics and transit hub along the "New Silk Road," linking Asia and Europe via the Caucasus. Georgia plays a vital role in the Middle Corridor, which is gaining global attention as an alternative to the traditional northern and southern routes, especially in light of recent geopolitical tensions and sanctions. Georgia represents a bridge connecting several important economic regions, including the European Union, Central Asia, the former Commonwealth of Independent States (CIS), 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 linking the east and west.

GEORGIA	2023
Population, million	3.736
GDP, current US$ billion*	30.5
GDP per capita, current US$*	8,218.8
Unemployment rate	16.4%

Source: Geostat

**Preliminary results*

Over the course of the last decade, Georgia's population declined and by January 1, 2024, it comprised 3.695 million-a decline of about 41.7 thousand people since 2023.



Population of Georgia (thousands) (as of Jan 1)

Source: Geostat.

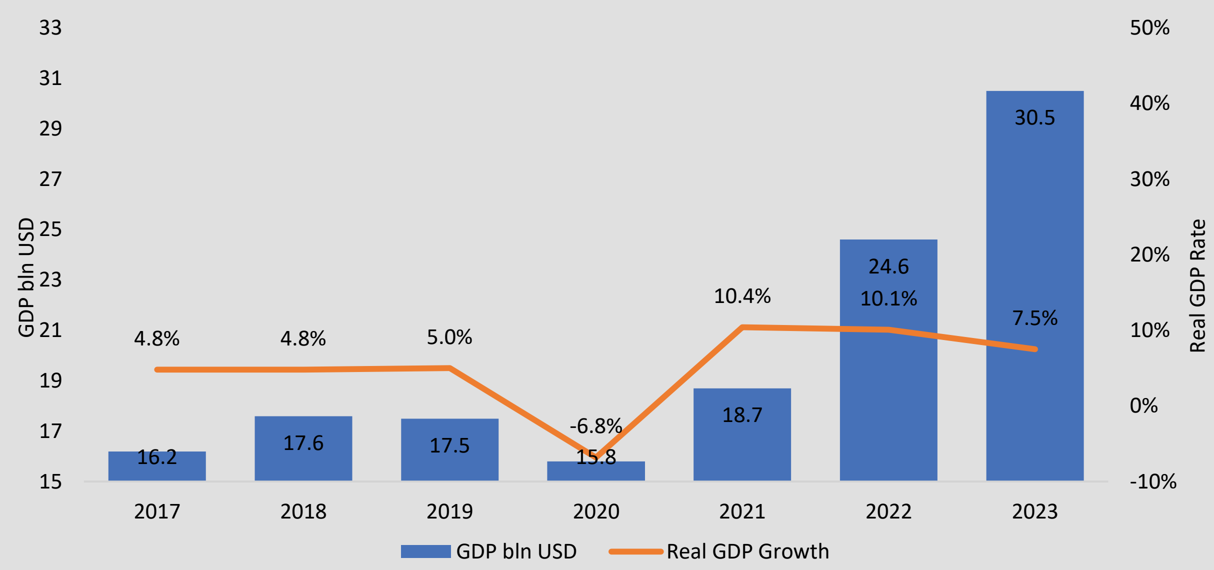
The population of Georgia has a broadly shared consensus on national priorities, including participation in Euro-Atlantic integration, a more efficient government, and a better functioning welfare state. The signing of the Association Agreement with the European Union (EU) in 2014, including the Deep and Comprehensive Free Trade Area preferential trade regime, and receiving the EU candidacy status in 2023 were notable events and a logical continuation of the country's foreign policy 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 significant 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 that 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 businesses' ability to plan.

ECONOMIC GROWTH AND OUTLOOK

Economically, Georgia is one of the leaders of the region. The growth in the recent years has been steady, if not fast. 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, driven by significant external factors, but also indicative of fiscal and monetary interventions aimed at restoring economic stability and vitality. In 2023, in real terms, Georgia's economy grew by 7.8%—a remarkable rate and one of the fastest in the region.



GDP of Georgia

Source: Geostat

Following the end of the pandemic and the recovery of tourism in 2021-2022, migration flows surged due to the Russia-Ukraine conflict, leading to a notable increase in the export of services. This resulted in a particularly strong contribution of net exports to economic growth during those years. Since 2023, however, the growth in service exports has slowed, largely due to base effects, a decrease in migrant numbers, and the reclassification of some former migrants as residents. Nevertheless, the impact of reduced migration on service exports has been partly offset by substantial growth in income generated by transportation services, highlighting Georgia's strategic transit potential.

In 2023, Georgia's economic growth was 7.8% and in the preliminary estimate of economic growth in 2024 by Geostat is 9.5%. The growth was primarily driven by robust public and private consumption. Domestic demand benefited from an increase in real wages and a growth in credit. Additionally, in recent years, the number of economically active foreigners residing in Georgia for extended periods has grown significantly, further bolstering consumption levels. On the supply side, the service sector—particularly education, transportation, and trade—was the primary contributor to growth.

Inflation has continued to ease, with annual inflation down to 1% in August and core inflation at 0.9%. In response to reduced inflationary pressures, the National Bank has lowered its policy rate by 150 basis points to 8% since January 2024.

In the third quarter of 2024, external demand remained robust, with foreign currency inflows from multiple sources continuing to grow and strengthening the current account balance. Demand for car exports rebounded, driving an increase in goods export revenues. Domestic export revenues, particularly from ferro-alloys and precious metals, also saw substantial growth. Meanwhile, lower imports of certain re-export goods, including cars, tractors, and copper ores, slowed import spending. Structural economic shifts boosted service export revenues, especially through Georgia's growing role as a Middle Corridor country, which expanded international transportation. Although exports of information and computer services declined year-over-year, they still provided significant revenue, as did increasing income from international travel, further supporting the current account balance.

The current account deficit narrowed to 6% of GDP in the first half of 2024, supported by services and transfers, although the trade deficit rose by 16.9%. Goods exports declined by 7.8%, in part due to reduced commodity exports, while imports grew by 2.4%. In the same period, money transfers decreased by 30%, mainly due to reduced inflows from Russia. This was partially offset by increased inflows from the EU, UAE, and US. The Georgian lari depreciated by 4.1% against the dollar in the first eight months of 2024, and foreign reserves decreased to $4.7 billion, equivalent to 3.3 months of imports. However, in October, the reserves were further depleted by $627 million, which pushed the import coverage below three months.

Fiscal outcomes were positive, with the deficit at just 0.1% of projected GDP, alongside a 21.4% increase in tax revenues and a 27% rise in capital spending. Public debt reached 40.4% of GDP by June 2024. Social indicators showed improvement, with the poverty rate decreasing from 47.7% in 2022 to 43.6% in 2023, and unemployment declining to 13.7% by mid-2024 due to higher labor force participation.

According to the World Bank, economic growth in Georgia is projected to reach 7.5% in 2024, primarily driven by strong private consumption, before stabilizing to a medium-term potential rate of 5%, which should support continued poverty reduction efforts. Inflation is anticipated to remain below the 3% target in 2024, aligning with the target by the end of 2025 as the national bank carefully adjusts monetary policy to sustain growth. The current account deficit is expected to be around 5.5% of GDP in 2024–25, influenced by a slowdown in exports and remittances from Russia, staying well below the 10.3% level recorded in 2021. Fiscal revenues are forecast to reach 25% of GDP in 2024, supported by increased tax rates on the gambling sector, while government spending is projected to rise to 31% of GDP, maintaining the budget deficit at 3% in line with the fiscal rule.

According to the World Bank, risks to this outlook include potential uncertainties following the October 26 elections, obligations related to EU accession, regional geopolitical tensions, and possible declines in remittances and tourism revenues, all of which could constrain growth and increase debt levels. To preserve macroeconomic stability, it will be essential to uphold national bank independence, pursue prudent monetary and fiscal policies, and maintain exchange rate flexibility.[4]

In September 2023, the Asian Development Bank (ADB) raised its 2024 growth forecast for Georgia up to 7%, a notable increase from the earlier projection of 5% growth made in April 2024. The outlook for 2025 remains unchanged, with an anticipated growth of 5.5%.

The Georgian government expects an 8.2% economic growth in 2024 and a 5.0-5.5% GDP increase in 2024-2027. It also expects a current account deficit up to 4.9% to GDP in 2024 but a decline in 2027 to 3.9%.[5]

The National Bank of Georgia forecasts that in the short term, inflation will remain below the target level; stable long-term inflationary expectations and supply-side factors offset demand-side pressure

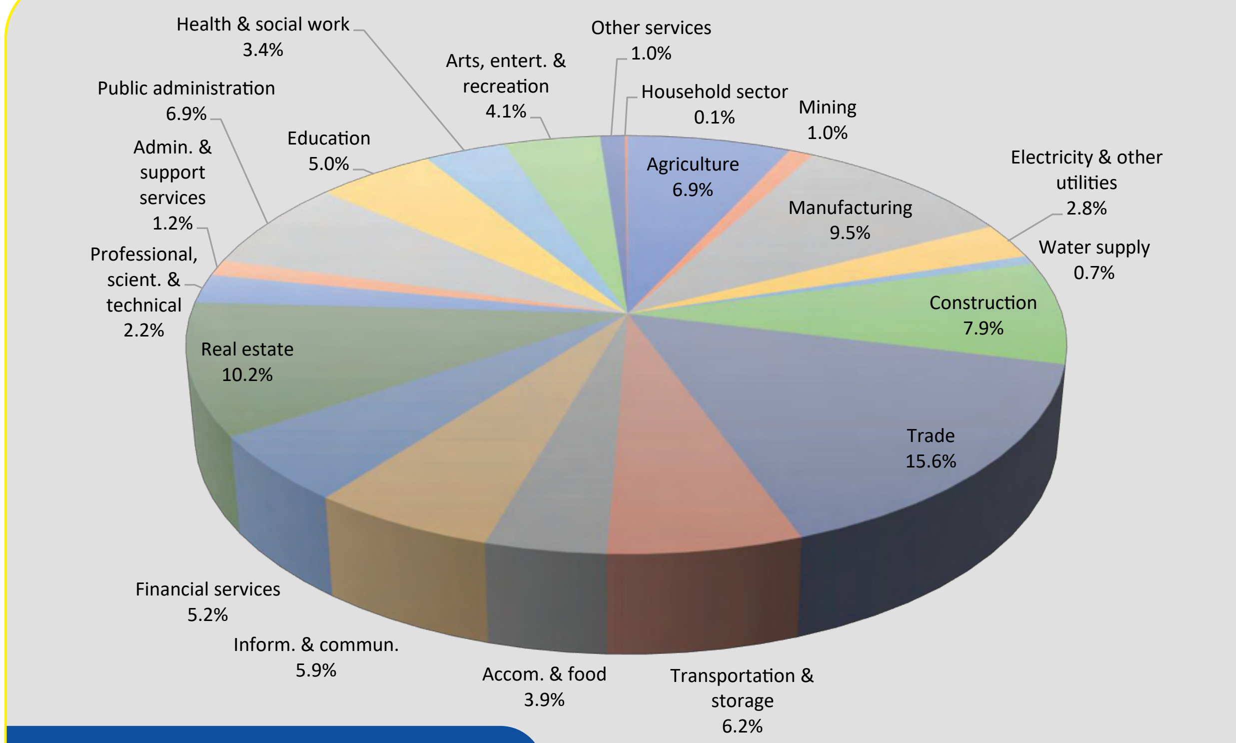
[4] *Overview of Georgia - Recent Economic Developments, the World Bank (https://www.worldbank.org)*

[5] *The official website of the Ministry of Finances of Georgia (www.mof.ge)*

and the impact of the depreciation of the effective exchange rate this year. In the medium term, disinflationary factors will gradually dissipate, and inflation will stabilize around the 3% target level.[6]

SECTORS OF ECONOMY

According to the 2023 data, trade plays a significant role in the economy, accounting for 16% of the total GDP, followed closely by manufacturing at 10% and real estate at 10%. Georgia's economic structure is relatively diversified but it does not reflect the employment structure: agriculture employs a big part of population, but its share in GDP is only 7%.



Sectoral Structure of GDP (2023)

Source: Geostat

Tourism is one of the key sectors of the Georgian economy. Despite facing challenging circumstances and the adverse impacts of the pandemic in recent years, the tourism industry has emerged as one of the fastest-recovering sectors. In 2023, 7.1 million international travelers arrived, which is 30.3% higher than the previous year. Out of all, 1.2 million visitors or 23.2% of total travelers came from the Russian Federation, followed by Türkiye (21.4%) and Armenia (13.5%).[7] In 2023, Georgia's income from international tourism reached $4.1 billion (+17.3% growth), and the value added in Georgia's tourism sector was primarily generated by transport (42.7%), accommodation (28.3%), catering (26.5%), and travel companies (2.6%).[8] In the first six months of 2024, income

[6] *Monetary Policy Report August 2023, The National Bank of Georgia, 2023*

[7] *The official website of Georgian Public Broadcaster (https://1tv.ge)*

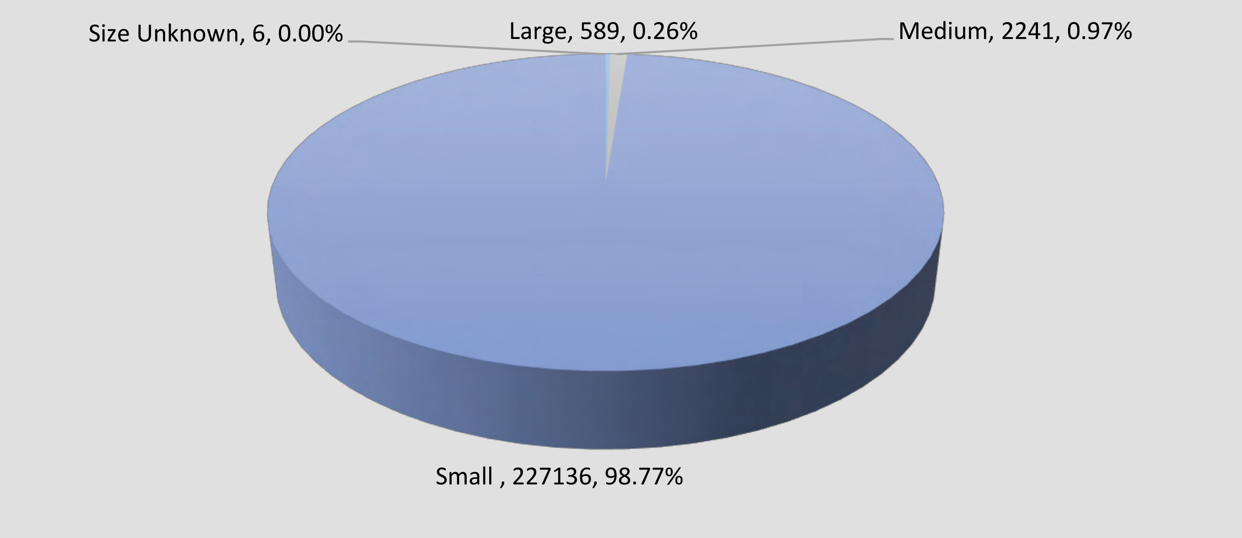
[8] *The official website of Georgian National Tourism Agency (https://gnta.ge/ge)*

from international tourism in Georgia reached a record level. According to data from the National Tourism Administration, revenues for the first two quarters amounted to $1.9 billion. Moreover, revenues from international travel in Georgia saw a significant increase, particularly from European countries, and between January and June 2024, tourism revenues from EU countries in Georgia reached a new record level.[9]

SME SECTOR

There are a large number of SMEs in Georgia; however, while small and micro enterprises represent most companies in Georgia, the SME sector is underrepresented in terms of employment, value-added, and contribution to GDP. Despite recent robust businesses creation numbers in Georgia, total employment growth is low because most businesses are small, and employment is concentrated in larger and relatively older companies.

According to the data as of July 1 2024, there were 229,972 business enterprises in Georgia, out of which 227,136 (about 98.77%) are small and 2241 (about 0.97%) are medium enterprises.

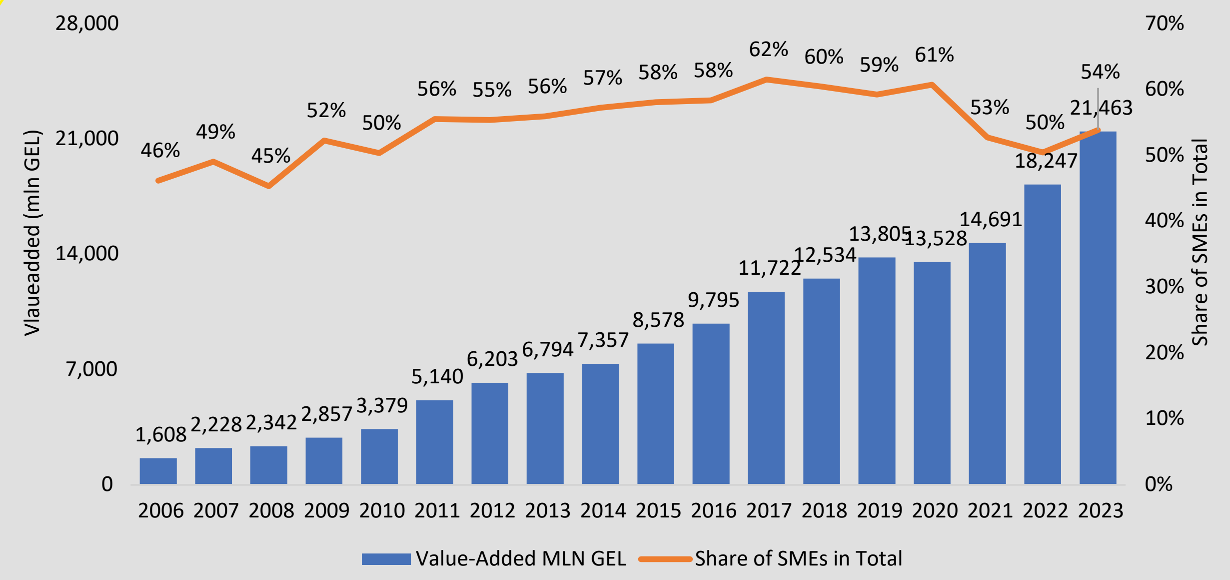


Enterprise Size Structure (as of July 1 2024)

Source: Geostat

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. However, in 2023, the share of value-added SMEs in the total value-added business sector experienced a small but notable rise, from 50% in 2022 to 54% in 2023, and there is hope this trend will continue.

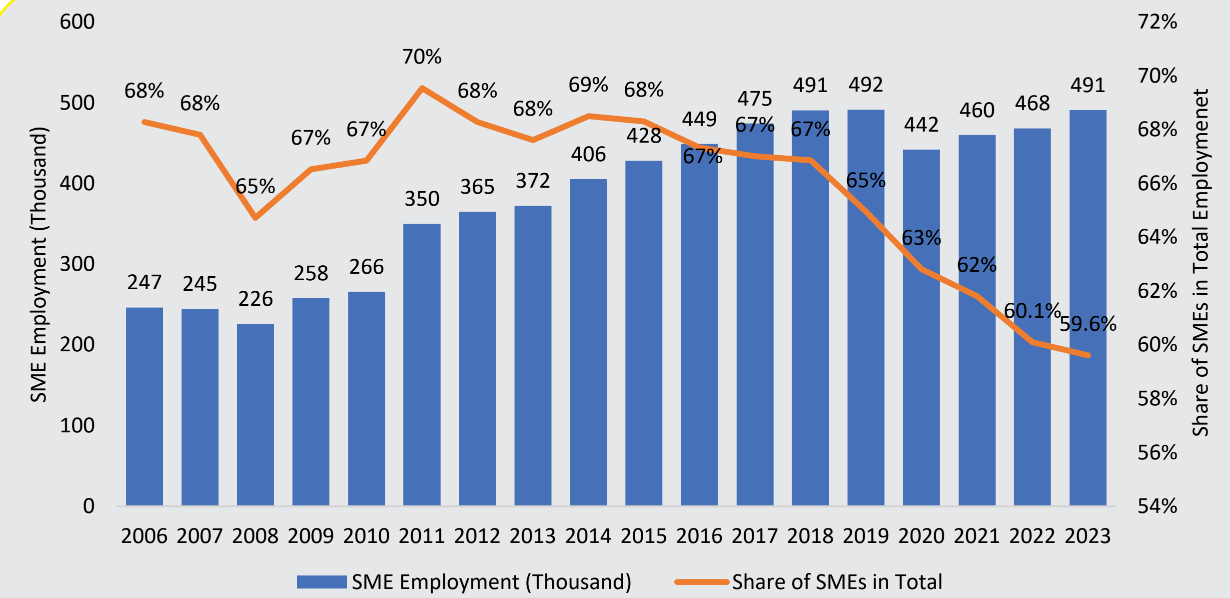
[9] *The official website of Georgian National Tourism Agency (https://gnta.ge/ge)*



SME value added (MLN GEL)

Source: Geostat

In parallel with the overall turnover growth, the employment potential of the SME sector has increased, employing an additional 22,000 people in 2023. However, this was not enough to reverse the general trajectory of employment in the SME sector over the last decade, which further declined by about 0.5 percentage points compared to 2022.



Employment by SMEs

Source: Geostat

The SME sector is one of the government's declared priorities. In 2021, the Georgian government approved the SME Development Strategy for 2021-2025, which represents a key policy document on 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; and promoting the green economy. . As the strategy period expires in 2025 and it undergoes subsequent updates, it is crucial to reflect in it the evolving preferences of businesses addressed by the findings presented in this EU Business Climate Survey.

According to the SME Policy Index 2024 report by OECD, Georgia's SME environment is progressing. On every pillar dimension, Georgia scores higher than the EAP average. It also improved its score in relation to its 2020 scope on every dimension except for *standards and regulations*.

SME policy index 2024, Georgia performs better than EAP average.

PILLAR	DIMENSION	Georgia 2024	EaP average 2024	Georgia 2024 (CM)	Georgia 2020 (CM)
Pillar A	Institutional and regulatory framework for SME policy	4.37	3.78	4.19	3.69
	Operational environment	4.51	4.24	4.65	4.33
	Bankruptcy and second chance	3.36	2.35	3.49	3.06
Pillar B	Entrepreneurial learning/ women's entrepreneurship	4.17	3.64	4.74	4.45
	SME skills	4.12	3.57	4.43	4
Pillar C	Access to finance	4.07	3.56	4.3	3.85
Pillar D	Public procurement	3.61	3.15	3.44	4.26
	Standards and regulations	4.37	3.83	4.47	4.63
	SME internationalization	4.52	3.58	4.66	3.76
Pillar E	Business development services	4.22	3.57	4.35	4.3
	Innovation policy for SMEs	3.44	3.09	2.73	2.38
	Green economy policies for SMEs	0.81	2.81	3.27	2.74

Source: SME Policy Index scores for Georgia. Note: CM stands for comparable methodology. See the "Policy framework, structure of the report and assessment process" chapter and Annex A for information on the assessment methodology.

In *standards and regulations,* Georgia has made significant strides in its regulatory system and quality infrastructure, focusing on market surveillance, harmonization with EU standards, SME support, and digitalization of standards and technical regulations. The key identified challenge that remains is ensuring that digitalization efforts are fully integrated across quality infrastructure processes, especially in conformity assessments. The roadmap of policy reform in Georgia includes strengthening framework conditions for digital transformation; strengthening the institutional and regulatory framework and operational environment for SMEs; fostering entrepreneurial skills and the development of female entrepreneurs; facilitating SME access to finance; and supporting SME access to markets.[10]

[10] *SME Policy Index SME Policy Index Eastern Partner Countries, Building Resilience in Challenging Times, OECD, 2024*

TRADE WITH THE EU

The Association Agreement, signed in 2014 and fully in place two years later, forms the foundation of EU-Georgia relations. Prior to the Deep and Comprehensive Free Trade Area (DCFTA), Georgia had independently pursued trade liberalization with the EU and other international partners. The DCFTA was intended to significantly boost Georgia's economy by facilitating access to the EU single market. While EU-Georgia trade has grown in nominal terms since the DCFTA went into effect, the EU's share in Georgia's overall trade has decreased from pre-DCFTA levels. Specifically in 2023, the Georgian exports to the EU contracted by about 18%. Overall, the EU's share of Georgia's exports dropped from about 21% in 2014 to 12% in 2023. The imports from the EU have demonstrated a more resilient trend, with substantial double-digit growth over the past three years, keeping the EU's share at 25% of Georgia's total imports. Overall, despite the pressures from Georgia's traditional, geographically easily accessible low-value markets, trade with the EU accounts for over one-fifth of country's total trade turnover.

Trade between Georgia and EU countries ($ million) 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total turnover	**11,463**	**9,508**	**9,459**	**10,803**	**12,742**	**13,318**	**11,396**	**14,346**	**19,131**	**21,690**
Growth (%)		-17%	-1%	14%	18%	5%	-14%	26%	33%	13%
Turnover EU-GE	**2,877**	**2,614**	**2,635**	**2,768**	**3,166**	**3,110**	**2,547**	**3,031**	**3,922**	**4,532**
Growth (%)		-9%	1%	5%	14%	-2%	-18%	19%	29%	16%
Share (%)	25%	27%	28%	26%	25%	23%	22%	21%	21%	21%
Total exports	**2,861**	**2,204**	**2,117**	**2,746**	**3,380**	**3,798**	**3,343**	**4,242**	**5,583**	**6,086**
Exports to EU	**599**	**623**	**550**	**642**	**713**	**806**	**697**	**717**	**862**	**704**
Growth (%)		-23%	-4%	30%	23%	12%	-12%	27%	21%	-18%
Share (%)	21%	28%	26%	23%	21%	21%	21%	17%	15%	12%
Total imports	**8,602**	**7,304**	**7,342**	**8,057**	**9,362**	**9,519**	**8,053**	**10,104**	**13,547**	**15,604**
Imports from EU	**2,277**	**1,991**	**2,084**	**2,126**	**2,453**	**2,304**	**1,850**	**2,314**	**3,060**	**3,828**
Growth (%)		-13%	5%	2%	15%	-6%	-20%	25%	32%	25%
Share (%)	26%	27%	28%	26%	26%	24%	23%	23%	23%	25%
Balance with the EU	**-1,678**	**-1,368**	**-1,534**	**-1,484**	**-1,740**	**-1,499**	**-1,153**	**-1,597**	**-2,197**	**-3,124**

Source: Geostat (extracts from the External Trade Portal)

The commodity structure of Georgia's trade with the EU in 2023 was dominated by industrial minerals (41% in the total export to the EU), followed by nuts with 7.1% and mineral and chemical fertilizers (5.1%). The share of other product groups remains limited in total EU exports. Overall, the 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, 2023

HS	NAME OF THE GROUP	$ MILLION	SHARE IN TOTAL EXPORT
2603	Copper ores and concentrates	295.5	41.9%
0802	Hazelnuts and other nuts	50.1	7.1%
3102	Mineral or chemical fertilizers, nitrogenous	36.1	5.1%
2204	Wine of fresh grapes	30.8	4.4%
2208	Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages	30.2	4.3%
8703	Motor cars	24.3	3.5%
8471	Automatic data processing machines and units thereof	16.8	2.4%
6307	Other made up articles, including dress patterns	11.6	1.6%
8516	Electric instantaneous or storage water heaters, space and soil heating apparatus	11.2	1.6%
2201	Waters, natural or artificial mineral and aerated waters, not containing added sugar	11.1	1.6%
Total top 10 to EU		**679.4**	79%
Total export to EU		**704.5**	

Source: Geostat

Less concentrated imports from the EU to Georgia have been dominated by cars (12.7% in the total imports from the EU), petroleum products (9%), and medication (6.5%). Overall, the top 10 products in the import structure represent about 41.8% of the total imports from the EU.

EU–Georgia trade structure by commodity (top 10 products by value), imports from the EU, 2023

HS	NAME OF THE GROUP	$ MILLION	SHARE IN TOTAL IMPORT
8703	Motor cars	486.2	12.7%
2710	Petroleum and petroleum oils	343.6	9.0%
3004	Medicaments put up in measured doses	248.9	6.5%
8517	Telephone sets, including telephones for cellular networks or for other wireless networks	107.0	2.8%
8704	Motor vehicles for the transport of goods	106.3	2.8%
8701	Tractors	105.5	2.8%
8471	Automatic data processing machines and units thereof	56.1	1.5%
9018	Instruments and appliances used in medicine	53.4	1.4%
3302	Mixtures of odoriferous substances, of a kind used as raw materials in industry	48.8	1.3%
3304	Beauty or make-up preparations and preparations for the care of the skin	43.1	1.1%
Total top 10 from EU		**1598.8**	**41.8%**
Total imports from EU		**3828.0**	

Source: Geostat

The limited impact of the DCFTA on Georgia's exports stems from several challenges. Georgia's small production capacity restricts its ability to meet the demands of the EU market, with exports mainly consisting of raw materials and seasonal agricultural products. High compliance costs related to EU sanitary, phytosanitary, and technical standards create additional barriers for Georgian goods. Moreover, Georgia's limited involvement in global value chains, high transportation costs, and lack of direct land access to the EU further hinder trade. Additionally, exports remain undiversified, with primary goods making up the majority of its exports to the EU. To increase trade with the EU, Georgia needs to shift its economic policy. Key measures include enhancing production capacity sustainably, improving SMEs' access to affordable long-term financing, reducing nontariff barriers, and developing efficient trade corridors to the EU. Strengthening economic governance and focusing on competitive sectors, such as ICT, could also drive growth and better position Georgia in the European market.

1.2. KEY ADVANTAGES TO INVEST FOR EU BUSINESSES

DOING BUSINESS AND INTERNATIONAL RANKINGS

Reforms and open-market policies have strengthened regulatory efficiency, improved transparency, and significantly reduced corruption in 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 seventh. According to the 2020-2021 Global Competitiveness Index report, out of 12 indicators, Georgia's rating improved in six areas, including the financial system, business dynamism, and innovative opportunities.[11]

The World Bank Business Ready 2024 report, the updated version of the Doing Business rankings that grades 50 economies according to three pillars, put Georgia third in Pillar I, Regulatory Framework; second in Pillar III, Operational Efficiency, and 14th place in Pillar II, Public Services.[12]

Georgia ranks 33rd in the Heritage Foundation's 2024 Economic Freedom Index.[13] The index rates countries in terms of the property rights, government integrity, judicial effectiveness, tax burden, government spending. Georgia's overall score slightly worsened from 68.7 in 2023 to 68.4 in 2024.

In the Fraser Institute's Economic Freedom of the World 2024 ranking report, Georgia ranked 21st worldwide. The rank is determined by a number of factors including size of government, legal system and property rights, sound money, freedom to trade internationally, and regulations.[14]

The World Bank's World Governance Indicators report assesses countries around the world in six areas, including governance effectiveness, quality of regulation, and more. In 2023, compared to 2022, Georgia's score improved in the categories of government effectiveness, and political stability and absence of violence/terrorism. Its position in other areas slightly worsened.[15]

[11] *SME Development Strategy of Georgia, 2021-2025*

[12] *Business Ready Report 2024 International Bank for Reconstruction and Development, The World Bank, 2024*

[13] *Index of Economic Freedom, 2023, Heritage Foundation (heritage.org)*

[14] *Economic Freedom of the World 2024 ranking report, Fraser Institute (https://www.fraserinstitute.org)*

[15] *World Governance Indicators - Georgia in the World Bank Ranking, 2024 (https://databank.worldbank.org/)*

Georgia's Score on World Bank's World Governance Indicators

INDICATOR	PERCENTILE RANK 2022	PERCENTILE RANK 2023
Control of Corruption	72.2	71.2
Government Effectiveness	72.6	77.8
Political Stability and Absence of Violence/Terrorism	30.2	33.2
Rule of Law	56.6	55.2
Regulatory Quality	81.6	79.7
Voice and Accountability	48.3	48.0

Source: World Bank's World Governance Indicators (Percentile rank refers to the position of the country among other counties in the world, 0 indicates to the lowest rank and 100 indicates to the highest rank)

As for gender equality, the Global Gender Gap Report 2022 by the World Economic Forum[16] lists Georgia as 69th out of 146 countries. In the sub index of economic participation and opportunity, it holds 54th place, compared to its 85th place ranking in educational attainment, an indication that constraints still exist in the education sector.

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 ozone-depleting substances. Only medical products, firearms, explosives, radioactive substances, dual-use goods, industrial waste, and a few types of 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 eight, where it remains until today. Since 2006, the import tariffs decreased from 16 to three; tariffs were cancelled on about 85% of imported goods. Excise taxes and value-added tax (VAT) are imposed based on the principle of country of destination, and the rate is the same for local and imported goods.

The majority of Georgia's trade partners are members of the World Trade Organization (WTO). However, the country's trade relations with 164 countries are based on the most favored nation (MFN) principles. Georgia is the beneficiary of GSP regime and, as a result, benefits from low tariffs from the USA, Japan, and Canada and 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, the People's Republic of China, and an Association Agreement with the EU and two members of EFTA: Norway and Iceland. Georgia signed a free trade agreement (FTA) with China in 2017 and with Hong Kong in 2018. Georgia has been negotiating a FTA with India following a feasibility study in 2019. In addition, on October 10, 2023, Georgia signed a FTA with UAE, which will cover trade in goods.

[16] *Global Gender Gap Report 2022, the World Economic Forum (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

In 2024, important negotiations with South Korea were conducted, following a feasibility study. The feasibility study on the formation of free trade agreement between Georgia and Israel was completed in May of 2023 and the memorandum on the commencement of negotiations between the parties was concluded.

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 (FIZ); free warehouse enterprises; entities designated as international finance companies; and entities designated as international companies (for information and communication technology and for maritime services). These innovations are intended to establish new international institutions in the country to attract inward investment and 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 in Georgia.

Free Industrial Zone legislation was introduced in Georgia in 2007 to encourage foreign investment and stimulate exports and transit activities. A favorable tax and customs framework for a FIZ is intended to provide incentives for international firms to develop their production bases in 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 zero.

To improve the business environment in the country further, strengthen Georgia's potential as a regional hub, and 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% instead of 15% and 20%. These benefits apply to information technology and maritime services. A company must meet certain conditions to receive the status.

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, and the Rural Development Agency have continued their programs.

Programs by Enterprise Georgia (EG): EG has several support programs and activities to improve the overall level of entrepreneurship. More specifically, the EG focuses on three main directions: 1) development of businesses; 2) investment promotion; and 3) export support.

Table: EG support programs implemented in 2023-2024

PROGRAM	DESCRIPTION
Business Universal	The program provides co-financing of the interest rate charged on the credit/lease given to the beneficiary, throughout the full term of the loan/lease. Under 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: • *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 (62 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 used for new loans, not exceeding 80% of the principal amount of the approved loan. The maximum warranty period is 10 years.
Micro and Small Business Support / Micro-Entrepreneurship State Support Program	In 2015-2023, the program provided financial assistance up to 30,000 GEL as a grant to program beneficiaries. The beneficiary was required to contribute 20% of the total grant unless the project was being carried out in a mountainous region. In 2024, the program was redesigned to align with market conditions and introduced as the Micro-Entrepreneurship State Support Program. The program aims to improve access to finance for micro and small businesses by providing a partial credit guarantee up to 80% of the loan amount. In order to be included in the program, a potential beneficiary undergoes an agency-approved diagnostics assessment. Loans are only issued in the official currency (GEL), with a minimum volume of 20,000 GEL and a maximum volume of 50,000 GEL. Additionally, the program provides an interest rate subsidy and grant components if certain requirements are met.
Regional Consulting Centers (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 offer three main services: information provision; improving business skills; and consulting. In 2024, three Growth Hubs were operating (Samegrelo-Zemo Svaneti, Adjara, and Kakheti). Enterprise Georgia plans to open four additional Growth Hubs by the end of 2024.
Capital Market Support	To foster the development of capital markets, a new program was launched in April 2024. The program will co-finance fees related to bond issuance as well as credit rating costs. It will also provide technical assistance to improve financial literacy in the country.
Export Support Mechanisms	The mechanisms: **Export Assistance Program** is focused on boosting the export potential of small and medium-sized businesses through the following three components: • *Product Licensing/Certification* – introduces an international standard for enterprise auditing and an entrepreneur obtaining an international quality certificate and licensing a product it produces. The amount of funding was set as 10,000 euros equivalent in Georgian lari. • *Branding* – includes developing a brand formation and development strategy, rebranding, and product packaging according to the brand book. The amount of funding was set at GEL 20,000. • *Stimulating International Sales* – This means promoting entry into the international trade network, which includes the so-called entry fee or similar fee, within the established limits in the following target markets: Gulf countries, EU countries, UK, USA, Canada, and Japan. The volume of funding is 10,000 Euros equivalent in Georgian lari.

	Trade Fairs - The Agency facilitates and co-finances the participation of Georgian export-oriented companies in international exhibitions, trade fairs, and conferences. The costs covered by Enterprise Georgia primarily encompass space rental and stand construction expenses, which may also include expenditures related to goods transportation and marketing activities. The co-financing percentage ranges from 50% to 90%, with a maximum amount of $15,000. "**The Individual Expo Grant Program**" was launched by the Enterprise Georgia in April 2024. The program offers financial assistance to individual companies, facilitating their participation in international exhibitions, conferences, and events. The primary objectives of this program are to provide additional opportunities for companies, enhance international awareness, and expand geographical reach, particularly focusing on the development of target sub-sectors. **Export Managers' Certification Program** – As part of this initiative, the agency covers 80-90% of the course fee, facilitating access to the program for participants. **Trade with Georgia** - www.tradewithgeorgia.com is an online catalogue and platform that enables local companies to spotlight their company profiles to potential, international, and domestic buyers, fostering business connections for trade and economic activities. On August 5, 2024, a Standard Letter of Agreement was signed between the United Nations Development Programme (UNDP) and LEPL Enterprise Georgia to facilitate collaboration on the project "**Inclusive Access to Markets**," with the UNDP providing support services for its implementation. The overall objective is to promote Georgian SMEs' inclusive access to EU markets.
Investment Promotion	This includes different marketing and promotional activities; participation in business forums and roadshows in target countries; attendance in international sectoral conference; cooperation with business media; local consultants and through leaders; preparation of sectoral research to identify investment potential economic sectors; and conducting the "Foreign Direct Investment Support Mechanism" (FDI Grant). Under this program, the FDI grant/cashback is issued to reimburse expenses incurred by the company for workforce training and establishing infrastructure and/or communications. Enterprise Georgia, with support from the IFC, finalized work on a new investment promotion and aftercare strategy and action plan in August 2024, which is an evolution of the previous strategy and provides a framework for investment attraction and facilitation for the next five years (2024-2028).

Source: Enterprise Georgia

Programs by GITA: Georgia's Innovation and Technology Agency (GITA) is a state agency under the supervision of the Ministry of Economy and Sustainable Development. Its mandate is to coordinate and mediate innovation and technological development across the country. GITA has expanded its suite of initiatives aimed at advancing entrepreneurship and promoting technological advancement nationwide. GITA has carried out a range of strategic initiatives including the establishment and operation of Technoparks and Fab Labs, iLabs, and Innovation Centers. Furthermore, GITA offers a variety of workshops and training programs, including business incubators and accelerators, focusing on areas such as internet literacy, programming, and other essential skills. These activities are complemented by comprehensive mentoring and coaching programs designed to foster innovation and entrepreneurship.

Table: GITA support programs implemented in 2023-2024

PROGRAM	DESCRIPTION
The Startup Matching Grants Program (SMG) (GEL 150K)	The objective of the Startup Matching Grants Program is to stimulate the creation of innovative and high-tech products and services in Georgia with the potential of scalability in the global market. The program is limited to 60 beneficiaries for 2023-2024.
Small grants for Prototype Development (approx. USD 5K)	The objective of the Innovation Grants for Regions Program is to promote the startup ecosystem by stimulating the creation of local innovative and high-tech products and services in selected regions of Georgia with the potential of scalability in the global market. There are 65 beneficiaries.
IT Training Programs/ Startup Promotion Projects	**Technological Camps:** The agency has successfully set up a series of technology camps as part of its initiative to develop STEAM skills among the young generation. The camps cater to both school and university students, offering a diverse range of learning experiences. The camps aim to spark interest in technology and innovation among Georgia's youth, providing them with practical skills and exposure to emerging fields. By offering hands-on experiences and insights from industry professionals, the initiative helps students explore potential careers in STEAM disciplines and prepares them for the challenges of a technology-driven future. **Tech weeks:** In 2024, the Agency initiated technology weeks focused on artificial intelligence, agrotechnology, and biotechnology in the selected municipalities. This project was financially supported by USAID's Strong Rural program. Over 80 participants engaged in intensive four-day workshops exploring these cutting-edge fields. This initiative demonstrates Georgia's commitment to bringing advanced technological education to rural areas. By focusing on AI, agrotechnology, and biotechnology, the program aims to equip participants with skills relevant to both the global tech landscape and local agricultural needs. **Regional pre-accelerators:** The program's main goal is to develop and support the startup ecosystem in Georgia's regions. The pre-accelerator offers a seven-week program that includes training and mentorship, following a "From Idea to Product" course. This program is implemented in regional innovation centers and partner educational institutions. As of 2024, this program has been implemented in six regions of Georgia. The pre-accelerator accommodates 50 beneficiaries for a seven-week intensive entrepreneurial training cycle. The pre-accelerator catalyzes regional economic development, equipping local innovators with the skills and knowledge needed to contribute to their local economies. By focusing on regional innovation centers and partnering with local educational institutions, the program also helps to build lasting capacity for innovation and entrepreneurship in these areas. **Do IT in Georgia**: Under the program "Do IT in Georgia," GITA is providing introductory ICT training for 5000 specialists in three main directions: web design, programming, and project management. Each citizen can participate in the program and get the IT voucher if he/she passes the application process successfully. In the autumn of 2023, 1046 students were enrolled in 78 training courses; 1000 students were enrolled in August 2024 during the second call for applications for the courses. **DO IT with the EU:** The EU-funded "Do IT with the EU" project aims to transform Georgia's IT sector to meet world-class standards. Over two years, more than 1,300 citizens will be trained in high-demand IT professions. Of these, 1,000 IT specialists will receive international certificates, and 300 IT professionals will be given unique employment opportunities. This initiative will significantly contribute to the growth of Georgia's digital economy, encourage innovation, and create a competitive IT workforce.
Technology Transfer Program	Since its inception in 2019, the Technology Transfer Pilot Program has been instrumental in advancing the commercialization of Georgian scientific research. The program successfully bridged the gap between academia and industry by developing commercialization roadmaps, conducting maturation activities, and negotiating with global industrial partners. This program serves all universities in Georgia and continues to facilitate collaboration between academia and businesses, both locally and internationally through local and international experts involved in this program. To enhance collaboration between academia and industry, GITA started exploring more efficient tools and mechanisms in 2023 and designed a tailored program, serving as a complement to the existing Technology Transfer Program. The new program embodies a market-driven approach, emphasizing the identification of challenges and demands within different business sectors and introduces the establishment of a co-funding mechanism for technology development, with contributions expected from both GITA and the business sector.

Tech Parks of Georgia	Tech Parks of Georgia supports several major innovation and entrepreneurship programs that foster technological advancement and startup culture in the country. With nine locations across Georgia, Tech Parks ensures regional accessibility to these programs, allowing innovators from different parts of the country to benefit from the resources and opportunities provided. Almost all of the programs are implemented in each of the Tech Parks, ensuring widespread access to innovation, education, and business support. These programs address various areas of innovation, from entrepreneurial development to education and prototyping support. The key programs include elements of innovative entrepreneurship development, strengthening the innovative startup community, STEM and ICT education.
Supporting Hardware Prototyping in Fab Labs	This program provides innovators with access to Tech Park's Fab Labs, which are equipped with advanced tools and technologies for prototyping hardware solutions. Entrepreneurs, engineers, and designers can use these facilities to turn their ideas into tangible products through 3D printing, laser cutting, and other advanced fabrication techniques. The program also offers technical support and training for participants, ensuring they can efficiently use the lab equipment and refine their prototypes.

Source: GITA

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 (MEPA) by merging the former Agricultural Projects Management Agency (APMA) and Agricultural Cooperative Development Agency (ACDA) to promote rural development in Georgia. The main purpose of the RDA is to promote and stimulate the development of production-oriented agriculture in rural areas, and to take over the projects initiated by MEPA in to support the establishment and expansion of agricultural enterprises.

RDA support programs

PROGRAMS	
1. Integrated Development Program for Pilot Regions 2. Plant The Future 3. Tea Plantation Rehabilitation Program 4. Program for promotion of Entrepreneurial Activity in Mountainous Regions 5. Pilot Program for Women 6. State Program for Co-financing Refrigerators for Storage of Berry Crops for Agricultural Cooperatives 7. Co-financing program for Agricultural Mechanization 8. Preferential Agrocredit 9. Co-financing Program for Agricultural Machinery for Harvesting	10. Co-financing program for energy-efficient stoves 11. Bioproduction Promotion Program 12. State Technical Assistance Program 13. The Agroinsurance Program 14. Agricultural Cooperatives State Program for Co-financing of Storage Enterprises 15. Hazelnut Production Promotion Program 16. State Program for Support of Beekeeping Agricultural Cooperatives 17. State Program for Support of Dairy Agricultural Cooperatives, State Program of Dairy Modernization and Market Access (DiMMA) 18. Industrial Apple Sale Promotion Program 19. Co-financing Program for Agricultural Equipment in Mountainous Regions

Source: RDA.

2 SURVEY RESULTS

2.1. PROFILE OF SURVEY PARTICIPANT COMPANIES

The EU Business Climate Survey aims at gathering insights from European businesses operating in Georgia. While defining a "European business" can be challenging, we applied certain criteria to identify and engage relevant companies. The primary indicator was EU ownership, either by individual or corporate shareholders from EU countries. Additionally, we considered other factors, including business connections with the EU, such as exports and imports, European management staff, and the company's self-identification as being associated with the EU or European values of doing business.

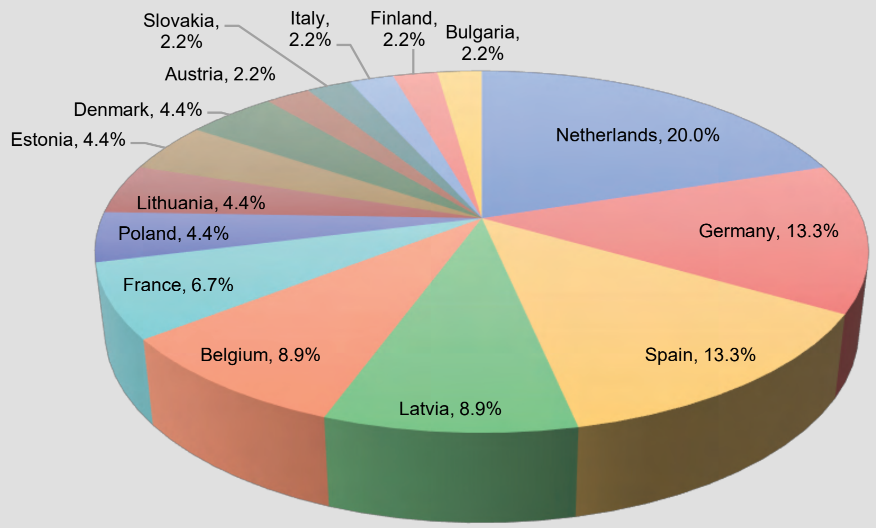
As reported by Geostat, by the end of 2023, over 2,500 active companies in Georgia had at least partial EU Member Country ownership across various economic sectors. While some of these companies could be reached for the survey, others could not. Companies without EU ownership but with other ties to the EU, or those aligned with European values, were also invited to participate in the survey. Both groups (EU-owned and companies with other ties with the EU) included members of EBA Georgia as well as non-members. In this report, we refer to these businesses collectively as "European companies." A detailed survey methodology can be found in the annex of this report.

In total, the representatives of 181 companies responded to the survey. Of these, about 28% had some kind of EU ownership: about 19% of the businesses were under 100% EU ownership and for about 7% of the responding companies, EU residents owned the controlling majority of more than 50%. About 2% of the responding businesses had minority EU ownership. Approximately 64% of the enterprises were 100% Georgian-owned, but otherwise related to the EU.[17] 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 Surveyed Businesses (2024)

[17] Beyond ownership interests, businesses could identify themselves as affiliated with the EU in several ways. This affiliation is very explicit and direct in some cases, while in others it is indirect. The ownership of these businesses could entirely non-European, but the perception of this affiliation makes Georgia's European path relevant to them.

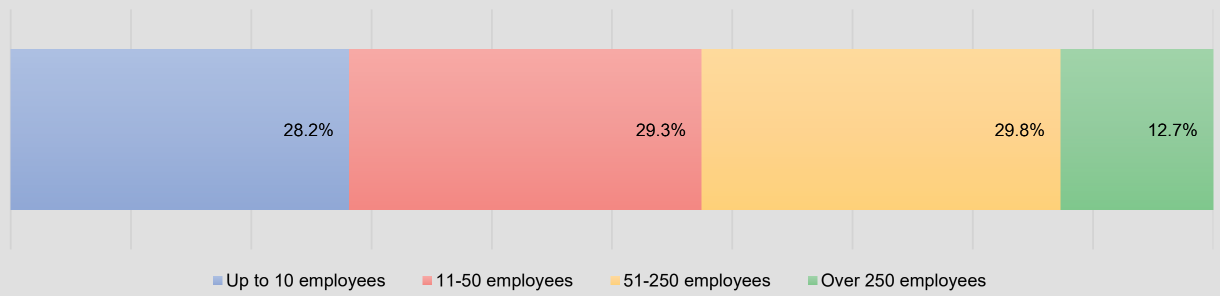
Among the EU-Owned firms, the biggest representation in the survey was from companies with ownership from The Netherlands (20%), Germany (13.3%), Spain (about 13.3%), Latvia (8.9%), Belgium (8.9%), and France (6.7%). Poland, Lithuania, Estonia, Denmark, Austria, Slovakia, Italy, Finland, and Bulgaria were also represented in the surveyed sample, each accounting for less than 5% of the total.



EU Countries Represented in the Survey*

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

Beyond the number of surveyed companies, the size distribution of these firms can further highlight their economic role and underscore the importance their perspectives may hold for shaping the business climate in the country. The structure of this year's survey was nearly the same as last year, with a large share of medium (with 51-250 employees) and large (over 250 employees) companies represented, 29.8% and 12.7% of respondents respectively.[18]



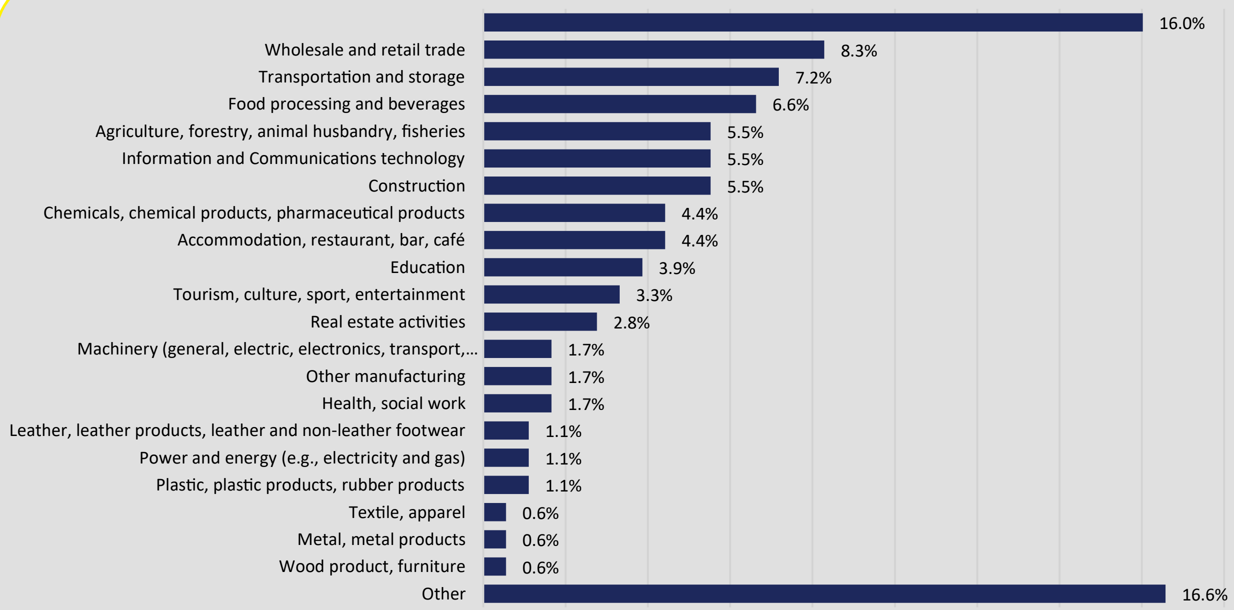
Size of Surveyed Businesses (2024)

[18] For simplicity, we use only one criterion (employment), instead of two, for classifying companies by size. Therefore, our denotations of micro, small, medium and large do not align with the official classification.

In terms of legal structure, most of the surveyed companies (83.4%) are limited liability companies, followed by branch of a foreign office and/or representative offices (9.4%). 3.9% of the respondents are joint stock companies. Individual entrepreneurs represented only 3.3% of the respondents.

Legal Status of Surveyed Businesses (2024)

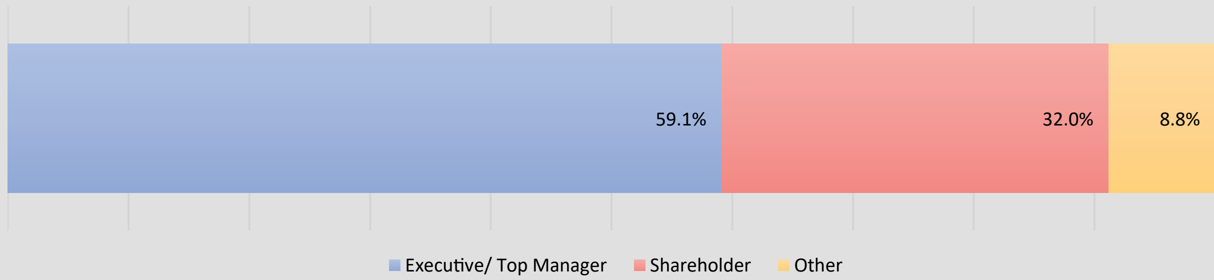
The survey covers a wide range of sectors, with consistent representation from leading industries year after year. This consistency reflects the EU Business Climate Survey in Georgia's high quality and reliability of the respondents through the years. As in the previous year's survey, most of the responding enterprises (about 16%) were from the business services sector, followed by trade (8.3%). Notably, this year's survey saw a higher proportion of respondents from the transport and logistics sector (7.2%) and the food processing and beverages industry (6.6%). Agriculture, ICT, and construction made up about 5.5% each. The share of the rest of the sectors were below 5% in the sample.



Sectors Represented by Surveyed Businesses (2024)

** Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

A key strength of the EU Business Climate Survey is its focus on collecting insights from business leaders—the most informed and accountable individuals in each company—lending significant credibility to the results. Notably, in the 2024 survey, about 91% of respondents were either top executives (about 59%) or shareholders (32%), underscoring the high validity of the survey findings given the represented companies.



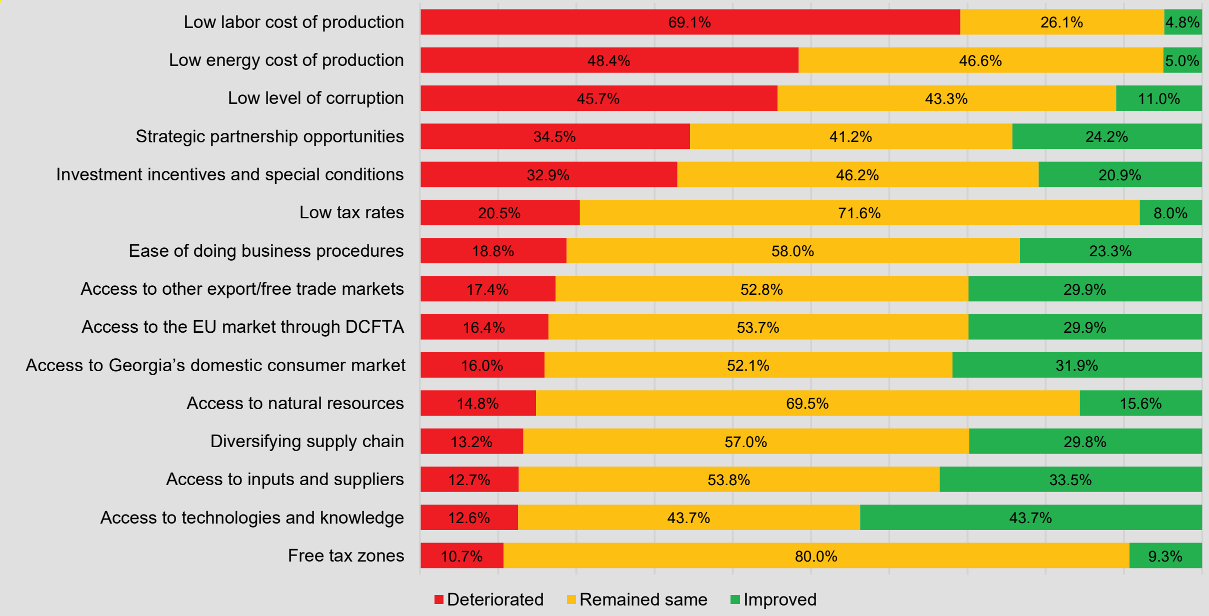
Status of the Respondent

2.2. BUSINESSES CLIMATE CHALLENGES AND OPPORTUNITES FOR EU BUSINESSES

Outlining the business climate challenges has become a central element of the EU Business Climate Report in Georgia, enabling it to provide a dynamic view of various elements of the business climate in the country for interested stakeholders. Businesses in Georgia, including European companies, face a challenging and evolving environment shaped by both internal and external factors. Economic reforms aimed at aligning Georgia's business climate with the EU often introduce uncertainties and disrupt the status quo, which businesses sometimes view with skepticism. This chapter explores European business perspectives on major aspects of this ecosystem, including key business climate dynamics, main obstacles, recent performance, future outlook, attitudes toward economic reforms and the DCFTA, strategies for addressing business issues.

MOST IMPORTANT BUSINESS ENVIRONMENTAL FACTORS

The EU Business Climate Report in Georgia has been tracking the dynamics of the most important business climate factors over the last three years. These were often main decision factors for businesses to invest or to do business in the otherwise small domestic market of Georgia. For the last few years, Georgia has been among the top performers in terms of critical elements of the doing business climate. The importance of these factors was established by our inaugural survey in 2022 and have been addressed by many reputable studies in the past. Understanding how these factors evolve over time proved to have a huge value for our stakeholders. Once again, this year, businesses were asked to evaluate whether this dynamic was positive or negative in relation to each of the factors.
First, this year's survey shows less divergence of perceptions (or level of consensus) on whether a particular factor deteriorated or improved: for most of the listed factors, the majority of respondents (more than 50%) agree that the factor conditions remained the same. However, there were top performers and losers.
Access to technologies and knowledge was the best performing factor, with 43.7% of respondents reporting *improvements*. Although with less progress, free tax zones, access to inputs and suppliers, and diversifying supply chain were among the best performing factors, with the *smallest ratio* of respondents who thought that the situation *deteriorated.*
Labor costs, cost of energy, and corruption were among the factors that a notable portion of respondents *reported deterioration*. This ranking of the top factors is consistent with the previous year's results.

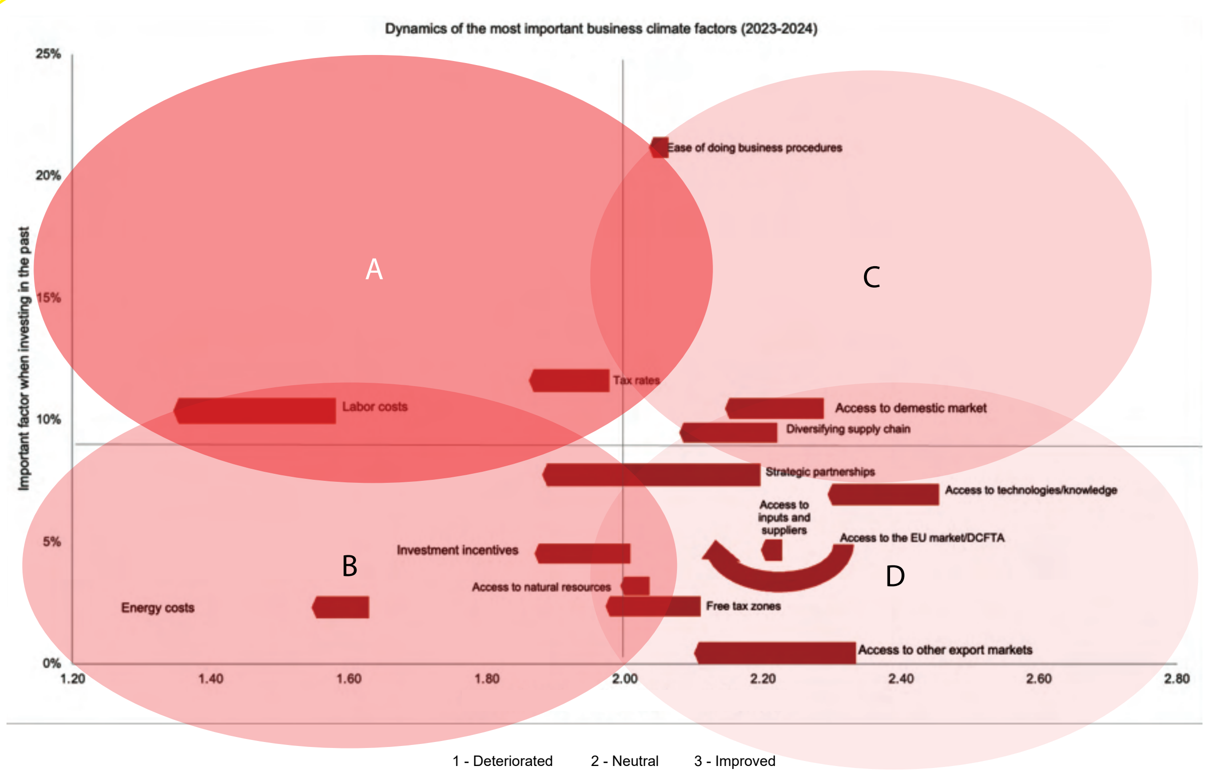


Recent Dynamics in Business Climate Factors (2024)*

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

Our prioritization frame provides further insights about the factor dynamics for the policy making perspective. The frame groups the factors according to their *importance* and the *recent dynamics* (positive or negative direction). It should be noted that the importance values of these factors were established by our inaugural report in 2022 and have been used indicatively for subsequent surveys, including this one.
The four conditional groups (Group A, B, C and D) were identified, and each require different policy responses and levels of attention. The recent dynamics provides additional difference in factor ratings compared to the previous year data.

Definition of the Priority Groups:
Group A: The business climate factors with *high importance* (more than average score) for doing business in Georgia and a *negative direction* in recent years. This is the most problematic area, which requires urgent attention in order to maintain or improve the business climate in the country. The policy response for this group seek to understand the root-causes of this perceptions and mitigate the risks. These could be meaningful reasons but could be a matter of businesses' mistaken perceptions, which could be solved through strategic communication.
Group B: The second priority group, with *less than an average level of importance* for doing business, with *negative dynamics*. The policy measure for this group might be same as for Group A, but as a second priority, if there are limited resources.
Group C and Group D: These factors' *positioning improved* according to the EU businesses. They only *differ in terms of importance* to doing business and priorities must be set according to their perceived importance (first C and then D). The policy responses for these groups include: capitalizing on these strong perceptions, learning from successful cases, and increasing communication with potential investors about these factors.
While the numbers are generalized and averaged, perspectives of individual business should not be neglected. Despite in overall positive perception about a particular factor, individual businesses might face certain problems. Likewise, on average negative perception does not exclude many individual enterprises who positively assess the progress of the reform. Therefore, an individualized, customized approach, especially when it comes to the important international companies, is still the best policy.



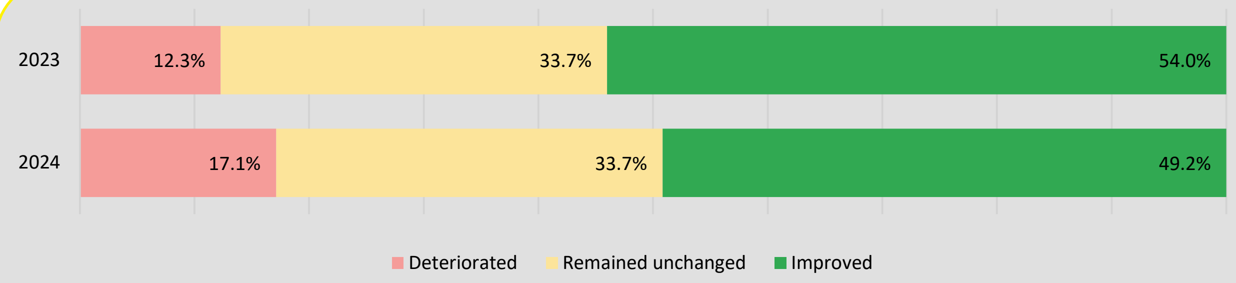
Dynamics of the Most Important Business Climate Factors (2023-2024)[17]

It is clearly noticeable that exclusively all of these factors showed further deterioration since the last survey, to different degrees. Labor costs, low tax rates, and, to a lesser extent, ease of doing business procedures, which are *Group A* factors, showed a further negative trend (meaning that more companies think that the situation is moving in the wrong direction) between the two waves of the survey in 2023-2024. This deserves special attention. The biggest losers from other groups were strategic partnerships and access to export markets (both DCFTA and other markets). To better interpret this, for instance, even if most of the respondents considered that export markets have performed either neutral or improved more than deteriorated, share of such respondents decreased between the two waves.

BUSINESS PERFORMANCE AND OPTIMISM

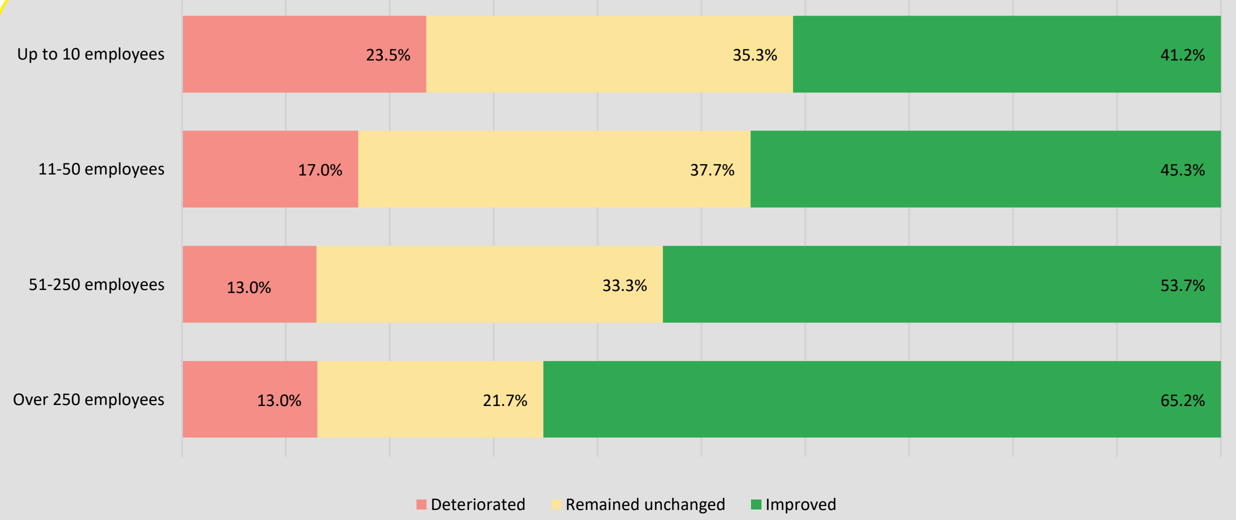
The past year was a significant election year in Georgia, which is typically associated with slowed business activity due to inherent uncertainties. This situation was reflected in the mixed outcomes for European businesses in Georgia. The study found that slightly less than half (49.2%) of European businesses reported improved overall performance, while 33.7% indicated no change, and 17.1% experienced negative performance. Compared to the previous year, this marks a net 4.8% shift toward underperformance, highlighting the implicit impact of domestic uncertainty factors on enterprise performance, despite economic growth in the country.

[19] *It should be noted that the importance measure of low level of corruption as a factor was not included in the 2022 survey. It was added later to the questionnaire in 2023. Therefore, although the report measures the opinion on the success of this factor, it could not be displayed in this chart due to this reason.*



Business Performance over the Past Year (2023-2024)

Among all size groups, *large* and *medium* companies were among the best performers, as the *biggest portion of the enterprises who reported improvement (65.2% and 53.7%, correspondingly)*. The situation for micro companies was the most troublesome, with the highest share of the companies for which the situation got worse (23.5%).



Business Performance over the Past Year (by company sizes)*

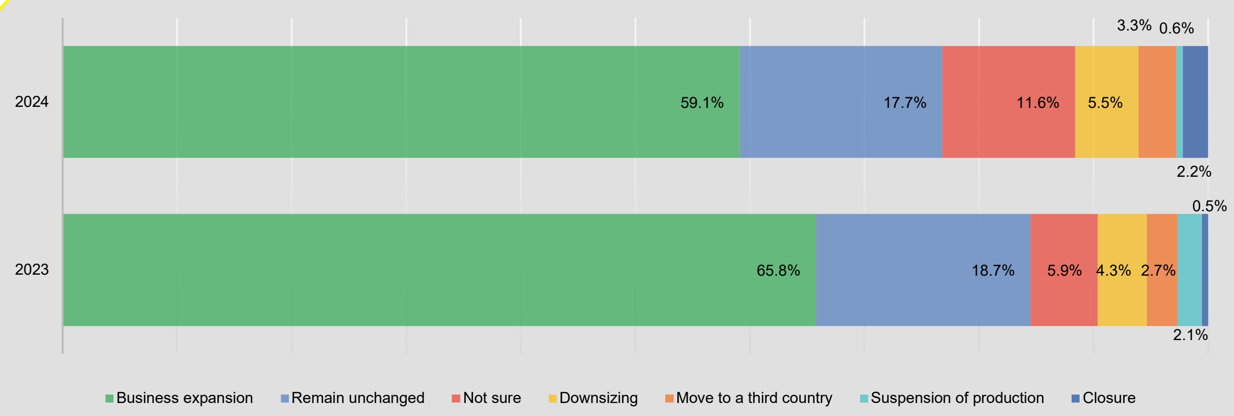
**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

Overall, businesses performed satisfactorily, as net effect, considering the proportion of improvers vs losers remained positive.

One of the conclusions from the previous EU Business Climate Report in Georgia was that, despite the geopolitical turbulence in the region, as well as internal political polarization, business optimism for the coming year was clearly driven by the past economic performance and economic growth in the country. Hence, economic growth in the country in the past would determine the optimism for the future. What happened in the recent past is projected on the future with some inertia.

Not surprisingly, the results show a commensurate (about 6.7 percentage point-drop in optimism, as only about 59.1% of the businesses would plan to expand (compared to about 65.8% a year ago).

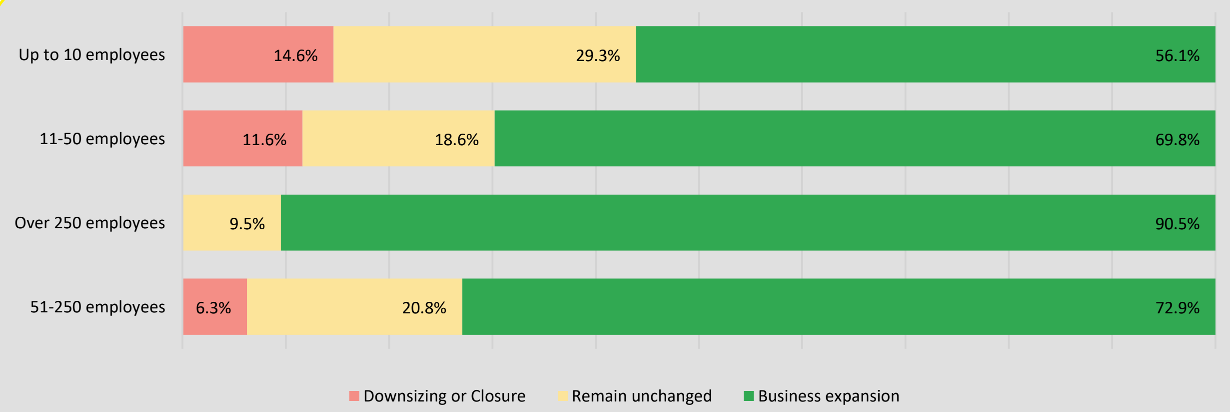
The share of companies which are not sure increased from 5.9% in 2023 to 11.6% in 2024 — a clear effect of the elections and its outcomes for businesses. Out of the respondents, 17.7% think they will remain unchanged. The rest plans to either downsize (5.5%), move to another country (3.3%), suspend their activities (0.6%), or close (2.2%).



The Most Likely Direction of Company Development Over the Next One to Two years (2024 and 2023)

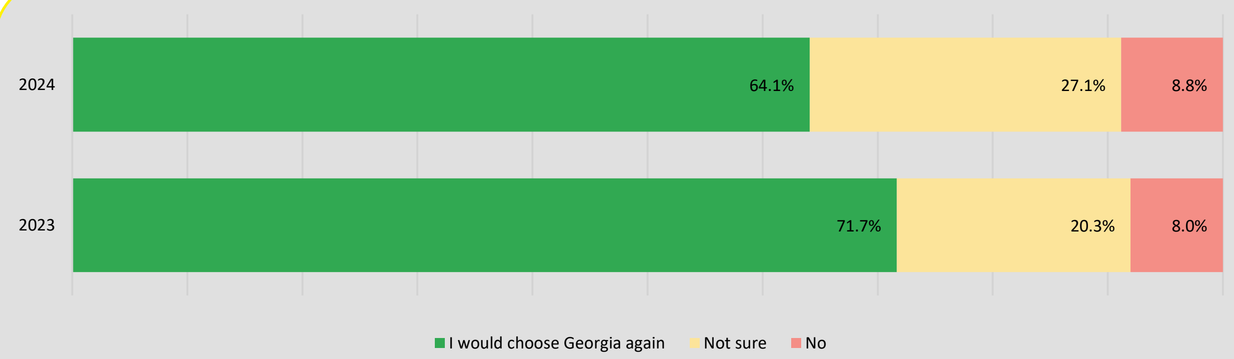
It is crucial to understand the reasons behind the pessimistic outlook of the companies planning to relocate to third countries, close, or suspend operations. This insight can inform the design and advocacy of broad policy measures, along with targeted actions, to retain as many high-value employers and value-adding companies in the economy as possible.

Medium companies exhibit the biggest optimism among all size groups. Not surprisingly, smaller businesses are less dynamic in terms of future expansion than larger ones, as they face more obstacles and bottlenecks to growth.



Business Optimism in the Future (by company size)

The biggest question to ascertain a country's business climate is whether businesses would still choose the county as a place to do business. In essence, this factor summarizes or aggregates all the effects of individual factors and may indicate the overall attractiveness of the economy for businesses. The results show that, if they had to, *64.1% of the surveyed businesses would choose Georgia again* as a preferred place to do business, notably down from 71.7%, the previous year's results. Of the respondents, 27.1% were uncertain, which also implicitly indicates the increased uncertainty in the country during the last year. In total, 8.8% would not choose Georgia as a preferred location for their business. This should represent a major group that requires additional attention to prevent them from leaving.



Choosing Georgia Again as a Preferred Location for Doing Business (2024 and 2023)

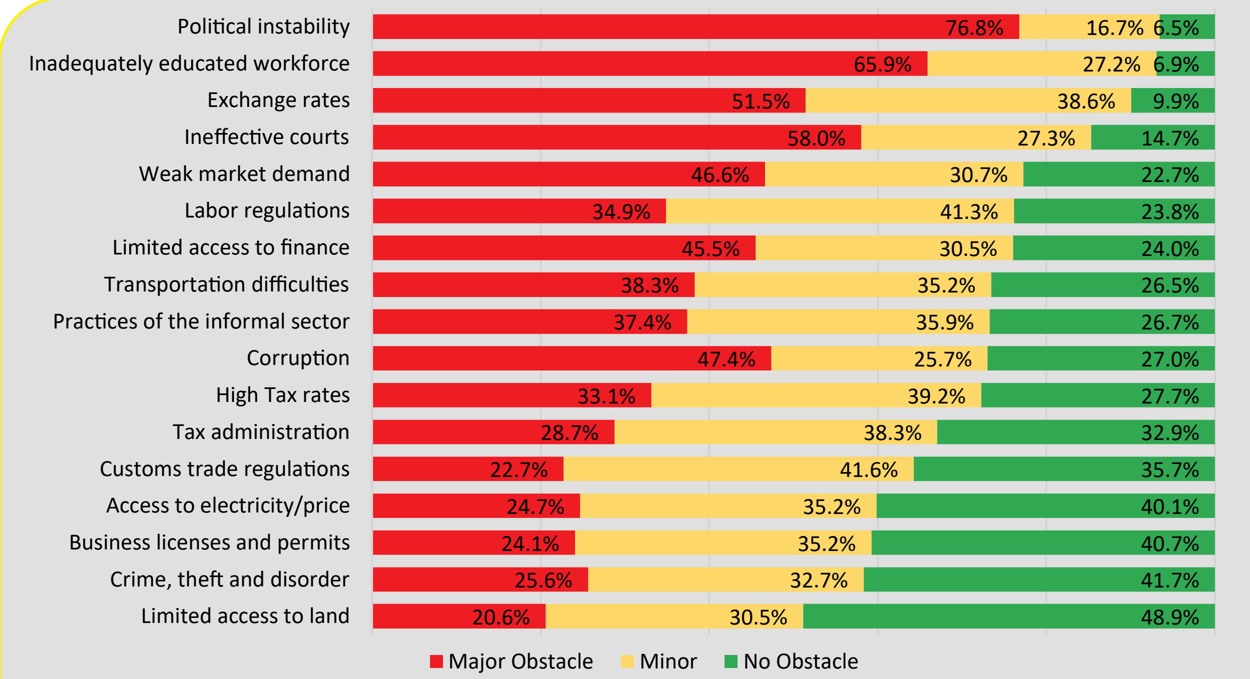
MAJOR OBSTACLES FOR EU BUSINESSES

While business climate factors are the general conditions and characteristics that make a location appealing for business operations and investment, obstacles to business, on the other hand, are challenges or barriers that hinder business operations, growth, or profitability. These detract from the business climate. A strong business climate with minimal obstacles fosters a sustainable, attractive environment for investment and growth.

The rankings of the key obstacles are also a core part of the EU Business Climate Report in Georgia. They reflect the relative magnitude of the impacts of the obstacles on the business operations of the surveyed European businesses operating in the country.

Political instability, inadequately educated workforce, and exchange rates were named as the top three obstacles to businesses: 90% or more of surveyed businesses report these factors as either major or minor obstacles.

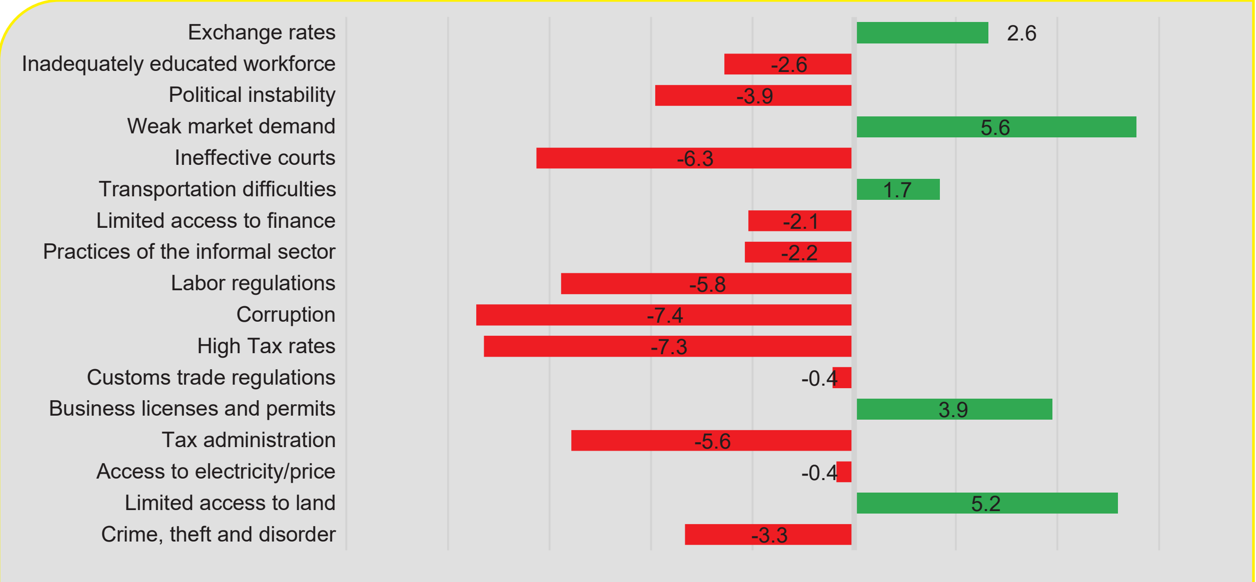
Political instability emerged as the primary obstacle, with 76.8% of surveyed companies identifying it as a significant challenge. Our experience suggests that this factor has a dual facet, influenced by both domestic conditions and the broader foreign political and economic landscape.



Major Obstacles for Businesses (2024)*

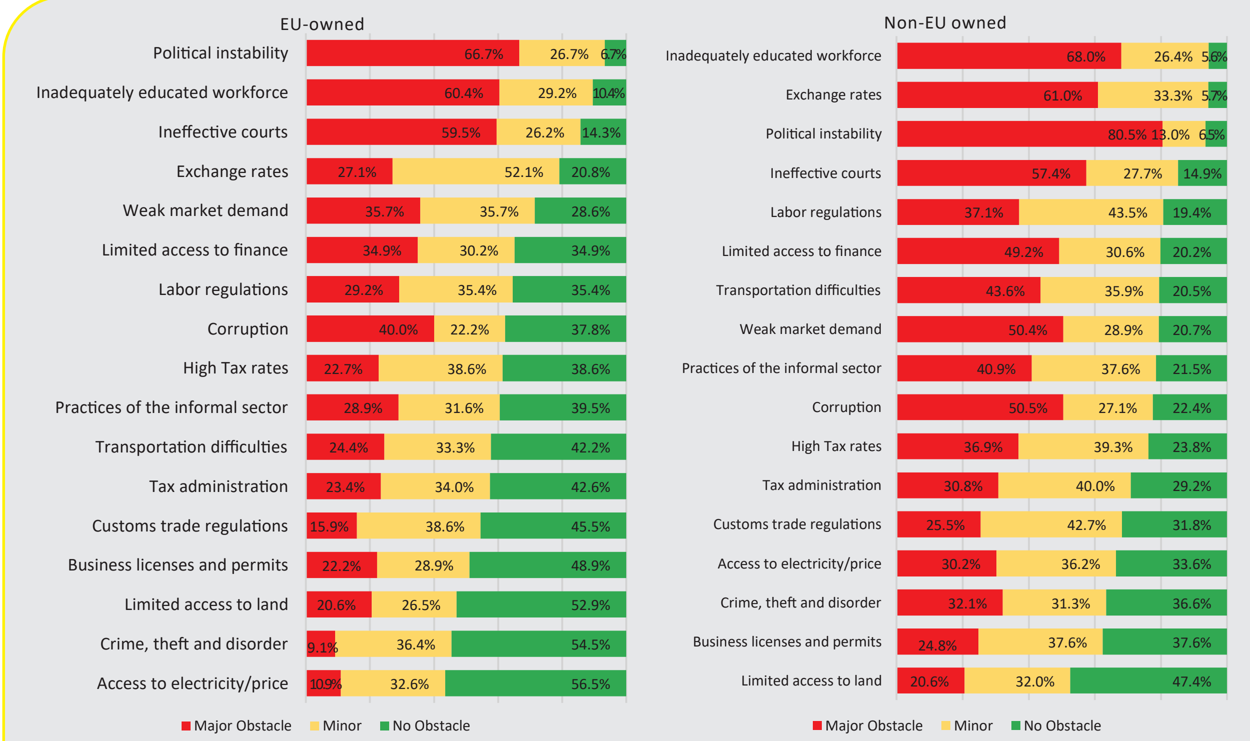
**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

The top three factors remained the same across the 2023 and 2024 surveys although their positions have changed. Political instability moved to the first position and economic factors, such as exchange rates and an inadequately educated workforce, moved down. Among the biggest losers (i.e., the ones which became bigger obstacles as a combination of *minor and major obstacles*) compared to the previous year, measured in percentage points (pp) were corruption (-7.4 pp), high tax rates (-7.3 pp), and ineffective courts (-6.3 pp). The biggest improvers were weak market access (5.6 pp) and limited access to land (5.2 pp).



Major Obstacles to Businesses (2023-2024) (red indicates to the increased level of the obstacles in percentage points)

There are small but notable differences in perceived obstacles between EU-owned and non-EU owned enterprises. Inadequately educated workforce is the top obstacle for non-EU owned companies, followed by exchange rates and political instability, whereas the top obstacles for EU-owned companies are political instability, inadequate workforce, and inefficient courts.



Major Obstacles to Businesses in 2024 (EU-Owned vs Non-EU Owned)

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

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

Rankings of the Top Five Perceived Obstacles by Firm Size

#	MICRO (UP TO 10 EMPLOYEES)	SMALL (11-50 EMPLOYEES)	MEDIUM (51- 250 EMPLOYEES)	LARGE (OVER 250 EMPLOYEES)
1	Political instability	Inadequately educated workforce	Political instability	Political instability
2	Inadequately educated workforce	Political instability	Inadequately educated workforce	Exchange rates
3	Ineffective courts	Exchange rates	Exchange rates	Inadequately educated workforce
4	Exchange rates	Ineffective courts	Ineffective courts	Weak market demand
5	Limited access to finance	Labor regulations	Labor regulations	Transportation difficulties

The surveyed businesses were encouraged to report their major concerns about the overall business environment and its components. Several qualitative insights can be generated based on comments and evaluations.

Businesses in Georgia face a multitude of challenges that threaten growth, stability, and long-term viability. A significant issue identified in this year's survey is the influx of low-cost Russian products, which undercut higher-quality European goods, rendering them unaffordable for the local market. This downward trend in business climate factors is exacerbated by political instability, creating uncertainty that deters major investments and complicates the business environment. Businesses also struggle with external challenges, including currency fluctuations, high borrowing costs, and inflation, which strain profitability and limit expansion opportunities. This might trigger companies to look for a more stable export markets.

Internally, companies face a critical shortage of skilled labor. Many young, educated professionals leave the country, forcing businesses to invest heavily in training only to lose talent to larger corporations. Access to financing, especially for female entrepreneurs, remains a persistent barrier, while regulatory hurdles, such as difficulties in obtaining permits or connecting to utilities, further hinder operations. Unclear regulations, lengthy approval processes, and bureaucratic inefficiencies add further obstacles, particularly for international businesses trying to navigate the local system.

The ICT sector, among others, notes significant instability that discourages long-term investments. Similarly, consulting firms report decreased local market activity due to regional instability. For transportation and freight companies, high taxes and exchange rate volatility increase operating costs. Compounding these issues is the restrictive banking environment for non-residents, with frequent challenges opening accounts or processing payments, contrasting sharply with neighboring countries. Businesses face several critical challenges, including persistently low market demand and high utility costs, which strain small enterprises. Access to domestic resources, such as raw materials and affordable electricity, is crucial for operations, yet remains a concern. Additionally, according to some comments, the market suffers from reduced competition, oligopolistic practices, and a lack of transparency in state tenders, further complicating the business environment.

Despite the challenges, businesses recognize the potential benefits of EU integration. However, political uncertainty and a lack of alignment with EU practices undermine confidence. If unresolved, these issues will continue to deter investments, limit market access, and slow economic progress, threatening the business sector's development and competitiveness in both regional and international markets.

The comments from our respondents highlight these points. These were grouped by theme as much as possible.

Dumping from the Russian Federation

"Due to cheap products from Russia which are sold in Georgia under the cost of production; our company has faced problems selling much better quality European products in the Georgian market."

"Low-cost products from Russia dumped on the Georgian market and pushing EU quality products out of the price range for local market."

Political instability and resulting uncertainties

"Deterioration of political climate, especially the rhetoric, brings a lot of uncertainty and put major investments on hold."

"For our service, a serious obstacle is instability and insecurity, which deters investors from making long-term investments."

"For our service, a serious obstacle is instability and insecurity, which deters investors from making long-term investments."

"The company's performance has been significantly impacted by political instability, particularly given its reliance on financing from the EU and US governments."

"Political instability is the biggest challenge for conducting business in Georgia. I hope to see Georgia become a part of the EU."

"Instability in the country and the region leads to low activity in the local market, which adversely affects the consulting business."

"Business faces political obstacles, which is reflected in economic instability and high inflation rates."

"Political chaos and moving away from the EU has reduced our income by 2/3. Uncertainty is a major factor."

"Political instability can lead to unpredictable regulatory changes, making long-term planning difficult."

"The country's geopolitical situation, internal turmoil, tension and instability directly affect business. As for us, that is why we are actively working on export."

Exchange rates, access to finance, cost of borrowing, currency transactions

"The biggest problems for a transportation and freight company are exchange rate fluctuations and high taxes."

"One of the great problems is limited access to finance for businesswomen."

"Fluctuating exchange rates create uncertainty for international transactions, impacting profitability."

"A moratorium has been declared on construction financing and the field cannot be further developed."

"Bank interest rate for borrowing is too high."

"Access to finance - this is possibly the most difficult to overcome obstacle."

"It is very difficult to open a bank account for a company founded by non-residents. We ended up with only one bank as all other banks refused to open one, but payments from clients are frequently returned. So, we have to work through a fintech company and pay extra fees."

Critical shortage of skilled labor

"The low and inadequately educated workforce demand constant investment in education and afterwards are headhunted by bigger corporations. We educate more than 600 people and still could not meet the demand."

"The inadequate level of education of the workforce and the high level of professionals, most young people, leaving the country is a very critical problem."

"A major obstacle to our development is a shortage of qualified professionals. One of the primary challenges hindering our progress is the difficulty recruiting and retaining highly educated, skilled personnel. A significant barrier to our advancement is the lack of available talent in the fields."

Ineffective courts

“Long court cases are also very difficult for businesses.”

“The courts should make decisions independent of political influences and bureaucracy should not take action based on messages received from political entities.”

Regulations and permits

“Unclear rules and regulations together with the lengthy process for official evaluation/approvals of projects.”

“The complexity of the tax administration. Instead of making business easier for us, new rules take up more of our time.”

“Permissions that are impossible to obtain for no apparent reason. The high price of electricity connections. Poorly trained people at the municipality. If you ask a question four times, you get four different answers.”

Other

“The low market demand has been and remains a significant challenge.”

“High utility costs put pressure on small businesses.”

“It is important for my business to have a consistent supply of domestic resources, specifically raw materials and cheap electricity.”

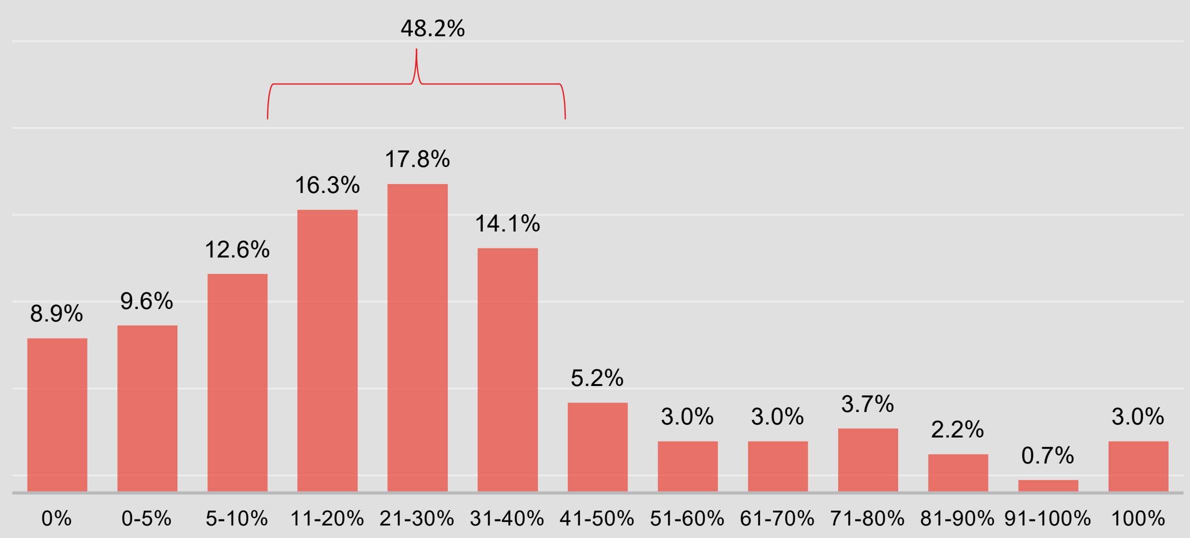
“The limitation and reduction of competition, oligopolistic market, as well as opaque and complex state tenders.”

2.3. FOCUS FOR THIS YEAR - WORKFORCE DEFICIT AND SKILLS DEVELOPMENT

REASONS AND CONSEQUENCES OF THE SKILLS DEFICIT

According to the EU Business Climate Survey, the absence of qualified workforce is not only a leading problem for businesses in Georgia, but often it has been the main and only limitation to expansion during the past few years. Our qualitative study, which included qualitative interviews with leading Georgian firms, confirmed that this is an issue of material significance. Businesses abstain from starting a new project (*e.g.,* construction and real estate development) or opening a new branch (*e.g.,* pharmacy chains) due to the lack of staff. The magnitude of the issue can be measured through the unearned incomes caused by the decision not to expand. Demonstrating the relative scale and the magnitude of this issue was one of the primary objectives of this year’s European Business Climate Report in Georgia.

The 2024 EU Business Climate Survey sought to quantify the impact of the skills shortage. Companies were asked to estimate their performance shortfalls attributable to this issue. While about 25% of respondents found this question too hypothetical to answer, others provided estimates. Among those who did respond, approximately 48% reported producing or selling between 5% and 40% less due to the skills gap.



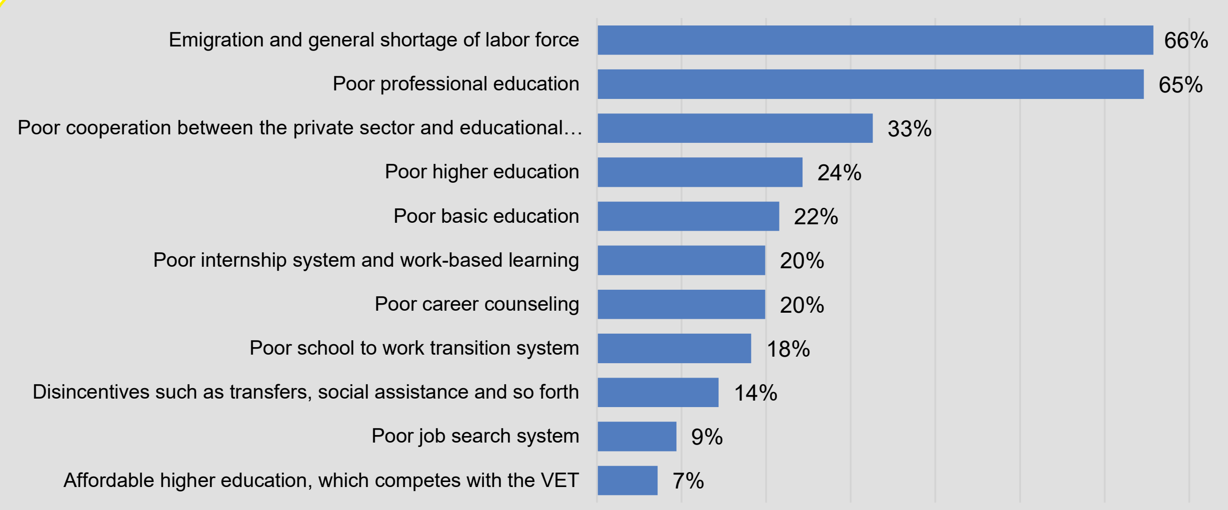
Estimation of the Percentage of Company Underperformance Due to the Skills Shortage*

****Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.***

The weighted average impact across all ranges is calculated at-27.2%. If this rate applies to the total business sector turnover in 2023, which amounted to 204.6 billion GEL with a value added of 77.9

billion GEL, the estimated economic impact would be substantial. Specifically, this issue results in an unrealized income of roughly about 55.6 billion GEL and a shortfall of approximately *21.2 billion GEL* in value added annually in the country. This represents a 21 billion GEL problem (or about *26% of Georgia's GDP*) and addressing it would have a profound impact not only on individual businesses but also on the broader economy.

Several key factors cause a significant workforce deficit in Georgia. According to surveyed businesses, high emigration rates (cited by 66% of respondents) are the most frequently mentioned cause, drastically depleting the local labor pool. This issue is compounded by inadequate professional education, identified by 65% of respondents as a major contributor to skills shortages. Furthermore, weak collaboration between educational institutions and the private sector (noted by 33% of respondents) hampers efforts to align educational outcomes with market needs. A complete list of potential workforce challenges, as rated by respondents, is provided below.



Fundamental Reasons for the Workforce Deficit

Qualitative interviews were conducted to shed light on some of the key root-causes related to the skills shortage. The following key findings were identified as a result of this effort.

Resource misallocation vs workforce shortages. The emigration of skilled workers is a significant challenge for businesses, leading to a steady drain on the labor market. Many enterprises invest in training employees only to lose them to better opportunities elsewhere. However, an equally pressing issue is the misallocation of human resources from high-productivity sectors to low-productivity sectors and a substantial portion of the workforce remains underutilized, with resources often diverted from high-productivity sectors to lower-productivity roles.

To address this, short-term retraining programs can play a transformative role. For instance, employees in lower-skill positions, such as supermarket staff, could be upskilled to take on higher-productivity roles, such as high-temperature operators. This shift would not only increase their earning potential but also boost overall private sector output, creating a win-win scenario for both workers and businesses.

A significant factor contributing to resource misallocation is the lack of awareness of various professions among potential workers. Many individuals lack exposure to or interest in a wide range of rewarding career opportunities. Even highly effective vocational training programs, such as those offered by BK Construction in the construction sector, struggle to attract sufficient participants to fill their available slots. This disconnect underscores the need for targeted awareness campaigns and initiatives to highlight the value and opportunities within these professions.

A poorly structured social assistance system is a key factor demotivating labor force participation. Evidence from company interviews reveals that many capable individuals choose not to engage in the labor market. Despite recent changes in social assistance eligibility criteria, these individuals often opt to remain unemployed rather than pursue formal employment. The perceived benefits of formal work, when weighed against the risks and effort involved, do not sufficiently incentivize them to transition into formal jobs. This highlights the need for reforms to better align social assistance policies with labor market incentives, encouraging active workforce participation.

A limited planning horizon among individuals poses a significant barrier to workforce retraining and upskilling. Despite the availability of effective retraining programs that often guarantee employment upon completion, many individuals struggle to commit due to an inability to plan their careers long-term. Immediate social and economic pressures make it challenging for them to abandon their current economic activities and dedicate several months to training, even when the program offers promising employment prospects. To address this issue, it is crucial to provide subsidies for both educational expenses and geographic mobility, enabling individuals to participate in such programs without jeopardizing their immediate financial stability.

A significant contributor to the perceived skills deficit in the labor market is not merely a shortage of talent but rather the high turnover and shortened tenure of employees. Many entry-level workers, particularly from the younger generation, exhibit impatience and elevated expectations about career progression and opportunities. This mindset, coupled with the availability of alternative options, makes it easier for them to leave their positions, resulting in heightened workforce mobility. These frequent transitions disrupt workforce stability and exacerbate the challenges businesses face in retaining and cultivating skilled employees.

High employee turnover stems from multiple factors, driven by evolving market dynamics and new opportunities that lure workers away from traditional roles. Key contributors include:

- **Disproportionate sectoral growth:** The accelerated expansion of industries such as tourism has outpaced labor supply, creating intense competition for workers.
- **Emergence of new job categories:** The rise of delivery services, call centers, and online gambling has diversified employment options, drawing individuals toward these roles.
- **Flexible employment models:** The increasing prevalence of remote work, telecommuting, and freelance opportunities appeals to workers seeking greater autonomy.
- **Global labor market access:** International job opportunities have made it easier for skilled professionals to seek employment abroad.
- **Startups and small businesses:** These entities often offer competitive salaries or other incentives, attracting talent despite their smaller scale.

These trends collectively intensify workforce mobility, making retention an ongoing challenge for businesses in many sectors.

In conclusion, the job market landscape has shifted significantly, transitioning from a demand-driven model to a supply-driven labor market. Employers are now grappling with this new reality, where workers hold greater bargaining power and mobility. In response to these changes, many businesses are beginning to view the organized immigration of foreign labor as a practical and necessary solution to address workforce shortages and sustain economic growth.

A new generation with a distinct perspective on employment. Generation Z brings a fundamentally different approach to employment. If one could characterize Generation Z as a labor force with one word, this would be "*impatient.*" If with two words —"*impatient and freedom-oriented*." The words speak for themselves. These characteristics significantly influence their expectations and priorities in the workplace.

Impatience is evident in their reluctance to participate in long-term career development programs, as they perceive any growth trajectory extending beyond a year as unreasonably distant. Therefore, long-term career development programs are rarely seen as a benefit. Similarly, their focus on freedom manifests in their demand for flexibility and autonomy, which often outweighs traditional benefits offered by employers.

This mindset is particularly evident in dual programs. Companies report that even during apprenticeships—when participants are still in the process of gaining practical experience—many students begin requesting salary increases, prioritizing immediate rewards over the long-term benefits of skill accumulation and career progression.

The growing preference for immediate, tangible benefits among young employees is reshaping the landscape for large employers. Youth increasingly prioritize short-term cash over long-term advantages, making it challenging for major corporations to capitalize on their well-established career development programs. Instead, they face stiff competition from businesses offering higher pay for immediate performance, such as courier services and promotional staffing roles.

As a result, the career development initiatives of large employers are becoming less effective, if not entirely obsolete. Beyond competitive wages, young workers now demand greater workplace flexibility, including options for remote work or flexible shift-swapping. Additional expectations, such as being allowed to use social media during work hours, reflect a broader shift in workplace norms. What was once a rare privilege or unimaginable a few years ago has become standard practice.

Training programs, unless they involve international travel or offer unique benefits, are often viewed as burdensome by younger employees. Instead of being seen as opportunities for growth, such programs are perceived as additional obligations, further diminishing their appeal in the evolving workforce dynamic.

Emerging trends in recruitment practices. Traditional recruitment channels, such as job search websites, which once dominated the hiring landscape, are no longer as effective as they once were. Companies are now exploring innovative and diverse methods to connect with potential talent, tailoring their strategies to specific sectors and audiences.

Social media has become a powerful tool for recruitment, enabling organizations to reach younger, tech-savvy job seekers where they are most active. Additionally, companies are increasingly leveraging network-driven models, such as word-of-mouth referrals and employee-driven recruitment. Incentivizing current staff with monetary rewards to bring in new talent has proven to be a successful strategy, fostering both engagement and trust in the workforce.

These adaptive approaches reflect a shift in how businesses attract and secure talent in an increasingly dynamic and competitive job market.

...Resulting in monetary impact for businesses. The findings of the study show that the results of the high staff turnover and/or skills deficit can be either *direct and explicit*, or *indirect and implicit*. For some businesses, this is a direct cost issue, affecting recruitment and training costs due to the high turnover. For others, it is a major limitation to the decision to expand. In either of the cases, the business managers can evaluate the resulting relative approximate impact of the issue (high staff turnover and/or skills deficit). The range of examples of these evaluations by various businesses interviewed during this study illustrates this impact.

*"**10%** for business capacity is lost due to the high turnover of the staff."* *[Automotive Industry]*	*"Due to the staff deficit we have to outsource some of the orders to third parties (thus giving up some part of margins) or refuse to take the orders. Overall, due to this issue we give up **about 10%** of our potential turnover."* *[Construction materials]*
*"**About 2%** of the costs could be saved as a result of warranties, if there were more qualified installation specialist who would properly install the equipment in the first place."* *[HVAC systems]*	*"We could have generated **about 20%** more turnover and sales provided there are sufficient staff available, because at this moment, due to this limited staff capacity, our director and technical director are often involved in field operations."* *[Mechanical engineering systems]*
"If we had enough workers, we would immediately start one new project." *[Real estate development]*	*"We do not have branches in a number of municipalities of Georgia because we could not find local pharmacists."* *[Pharmaceuticals]*

Workforce development programs as a necessary instrument of the new business model. As a result, workforce development becomes essential for maintaining leadership and performance. To address high staff turnover, businesses may choose to raise wages. While smaller employers can more easily afford to offer higher salaries, larger employers often struggle to match salary increases for their large number of lower-skilled workers. The underlying issue of low worker productivity limits their ability to raise wages across a large workforce. As a solution, an alternative approach is for businesses to invest in continuous training for newly hired staff each year, understanding that some of these workers may eventually move to smaller competitors. For some companies, this is viewed as an unavoidable cost of doing business—considered a necessary part of their broader ecosystem strategy.

COSTS AND BENEFITS OF SKILLS DEVELOPMENT

Engaging in skills development, like any other business initiative, comes with both costs and benefits. Given the increasing importance of addressing this issue and the clear need for action, it is crucial to carefully assess the costs and benefits of skills development initiatives. This evaluation will enable companies to make more informed decisions about whether to adopt such initiatives in a more systematic and strategic manner.

Training has a positive impact on both productivity and wages. Skills development is crucial for driving productivity gains at the firm level, as it leads to higher output per worker, which in turn boosts profits, and is also associated with increased wages for employees. While there is significant evidence that general education enhances wages and worker productivity, research on the impact of work-related training specifically on firm-level productivity and wages is more limited.

Several empirical studies confirm the positive effects of training on businesses' labor productivity. A study of a panel of large businesses with detailed information on the duration of training, the direct costs of training, and several firm characteristics estimated that the return on training is substantial (8.6%) for those providing training. Results suggest that formal job training is a good investment for these businesses, possibly yielding comparable returns to either investments in physical capital or investments in schooling (e.g., Almeida and Carneiro, 2009).[20] The marginal product of a trained worker is on average 23% higher than that of an untrained worker while wages only increase by 12% in response to training and the difference is statistically significant (Konings, Vanormelingen, 2015).[21] The higher the training intensity (namely the share of employees trained in relation to the total number of employees, the share of time spent in training in relation to the total working time and the share of expenditure for training in relation to personnel costs), the higher the labor productivity of a business the following year (Freund, Prskawetz, 2009).[22] Training participation raises a businesses' productivity by 9.61%, while raises wages by 3.42%. As for training intensity, a 1% increase in training expenditure per worker boosts a business' productivity by 0.1174%, while raises wages by 0.0878%. These results imply substantial returns to on-the-job training and that businesses benefit more from training than workers (Lie, Lu, 2016).[23] An extra hour of vocational training per employee, other things constant, generates 0.55 additional percentage points of productivity growth. Another relevant factor is progress in capital deepening. When it grows by an extra percentage point, the rate of productivity growth is increased by 0.51 percentage points (Sala, Silva, 2011).[24] Both Dearden *et al.* (2006) and Konings and Vanormelingen (2010) show that the effects of training on business productivity are about twice those on worker wages. When controlling for various sources of worker heterogeneity, the productivity premium for a trained employee is, on average, 17% (Grip, Sauermann).[25] However, training effects are different according to the related industry. In particular, each sector is characterized by different technological trajectories that affect skills requirements and the consequent potential shortages in the labor market with the heterogeneous impact of training investments on businesses' productivity. Accordingly, skill requirements and training effects may substantially differ across industries, while they show common features within the same industry. (Koning and Vanormelingen, 2015).[26]

[20] The return to firm investments in human capital, R. Almeida et al. Lab. Econ. (2009) R. Almeida et al. Lab. Econ. (2009)

[21] The Impact of Training on Productivity and Wages: Firm-Level Evidence, Jozef Konings, Stijn Vanormelingen, Review of Economics and Statistics, May 2015. DOI: 10.2139/ssrn.1487468

[22] Firm Productivity, Workforce Age and Vocational Training in Austria, Inga Freund and Alexia Prskawetz Vienna Institute of Demography, Austria September 2009, DOI: 10.1007/978-3-531-91478-7_4

[23] On-the-job training and productivity: Firm-level evidence from a large developing country, Qing Liu, Ruosi Lu, 2016

[24] Labor Productivity and Vocational Training: Evidence from Europe, Hector Sala, José I. Silva. Discussion Paper No. 6171 November 2011

[25] The Effects of Training on Own and Co-worker Productivity: Evidence from a Field Experiment Get access Arrow Andries De Grip, Jan Sauermann, 2012

[26] The Impact of Training on Productivity and Wages: Firm-Level Evidence, Konings, J., Vanormelingen S. 2015. Review of Economics and Statistics 97(2), 485-497

A Georgian company case study. Basalt Fiber (www.basalt-fibers.com) is a part of the German holding "Basalt Fibers Holding GmbH" which unites two companies based in Georgia and in Germany producing basalt fiber and high-tech products for various purposes. The technology of obtaining textile fiber from the melting of basalt stone was invented in the 1980s during the Soviet Union and since the 1990s, three generations of the founding family of Basalt Fiber have been advancing this technology. The result of this technological development of the family company was the 2008 launch in of this green (physical melting of basalt stone with minimal CO2 emissions) technology in Europe for the first time (Zagehausen DBF GmbH, Germany). Long-term cooperation with German research centers has established a lot of use-case applications for high-tech processes based on basalt textile yarn. The technological development of the last two years—the coating of basalt textile fiber with liquid aluminum during the production process—won several international innovation prizes.

Export market orientation is critical for the company since the share of exports in the sales of the Georgian company is 70%. Such a distinct export leadership would be impossible without maintaining a consistently high quality of production, which is ensured not only by high-tech automated production processes but also primarily by highly qualified production staff. With the current shortage of existing qualified workforce, the Georgian company established a short-term (three-month) retraining program for the position of *operator of high-temperature technologies*. The work of highly qualified specialists trained by this program allowed the company to increase the productivity of the existing production staff and to increase the wage rate for such specialists. Up to 10 high-temperature operators were retrained in the program, which had an immediate effect on the performance of the company and the staff. As a result of the retraining, each employee was able to produce 25% more fiber in physical terms (from 40 kg/day to 50 kg/day). Considering a net margin of 1 USD per kilo of produced fiber, the total estimated annual increase of net margin growth per employee per year was about 21,780 USD. The retrained employees also have seen increases in their salaries by about 185 USD. Considering at least the three-year retention period for the staff and various costs and salary increases, the net benefit per employee (discounted to net present value (NPV)) for the company amounted to 38,792 USD.

VARIABLE	MEASURE	3-YEAR, TOTAL DISCOUNTED	5-YEAR, TOTAL DISCOUNTED
COSTS			
Cost of trainings / per employee (one time)	$	10,000	10,000
NPV of increase in salary of an employee	$	5,372	9,407
BENEFITS			
NPV of additional margin by one employee	$	54,164	94,858
NET Benefit (+) / Cost (-)	**$**	**38,792**	**75,450**

Besides these tangible benefits, the short-term training program, which was approved by the Ministry of Education, allows the Georgian company to provide a service to its partner companies in Europe for the deployment of its certified specialists on a short-term work visa (one to three years). Such a scheme is beneficial for all three parties involved (the Georgian company, the Georgian specialist, and the foreign company) as it helps to create highly qualified personnel in Georgia and promote opportunities for circular migration in the EU, instead of permanent migration out of the country.

REASONS FOR THE MISSING LINK BETWEEN THE PRIVATE SECTOR AND THE EDUCATION SYSTEM

There has been a lot of research on the subject in Georgia and the most obvious findings were many times put forward by various parties. These findings from our study may deserve more attention and a closer look. Challenges are revealed in both directions: *demand* and *supply* side of the labor market.

DEMAND SIDE CHALLENGES

Lack of qualified demand from the private sector. The existing need for skills is not formalized into tangible demand (quality, quantity), which could be a sign for the education sector (i.e., VET institutions) to develop specialized programs. Often companies contribute to such disbalance by hiring overqualified staff, which distorts the market for the less qualified segment. Often, companies also fail to consolidate and demonstrate the feasible demand in the sector, making it difficult for the educational sector to react. If there is no formulated demand, colleges are not interested in offering new programs.

Regulated or self-regulated professions could be a way to promote demand and supply for skills. If there is no state regulation related to the profession, the sector itself can streamline this process and impose professional standards. This would be easier for small, concentrated sectors and rare professions, where it is easy to achieve a consensus. This will formalize and increase demand, which would be a distinct sign for VET institutions to introduce or improve the programs for the profession.

SUPPLY SIDE CHALLENGES

Unhealthy competition for VET programs from the higher education sector. Getting to the university is extremely easy and affordable. This reduces motivation for young people to consider alternative education and careers, such as VET education. Vocational colleges have trouble convincing secondary schools to open doors for the promotion of professional education among their pupils due to fear and pressure coming from parents, who naturally do not want their kids to opt out of higher education and pursue professional education. As a result, a disproportionately high portion of young people choose the university route, rather than considering professional education.

Limited awareness about opportunities that VET colleges might be offering. Especially in the technical fields, businesses have limited awareness about which VET colleges might offer suitable programs. The State Technical University enjoys a top-of-mind awareness for technical professions and employers have not thought about other opportunities, whereas the quality of education in the state higher education institutions such as the State Technical University falls short of international standards.

Poor experience of cooperation with the state VET. In cases where private sector companies have collaborated with state VET colleges, the experience was often sub-productive. This has led to avoiding future relationships and either working with the private VET colleges or pursuing their own training centers.

> *"We had some experience with the state VET colleges, but private ones are more responsive, therefore we ended up cooperating with the private VET institution. "*
> *[Pharmaceuticals]*

> *"We had some not very productive experience with the state VET institution. There are deficiencies with the ways these institutions and the system work, which did not lead us to hiring many the graduates (we hired only one)."*
> *[Construction materials]*

Inflexible and centralized system of formal education. Formal education methods are outdated and they do not respond to the need of technological advancement and sectoral developments.[27] Companies need faster results. The centralization of the learning outcomes and program designs and lack of consideration for the specifics of the private sector has distanced VET institutions from their end-users.

Different performance targets and indicators for the two sides, affecting the quality of supply. The lack of involvement of the private sector in the overall process of accepting and evaluating the learning outcomes of the system is another challenge. Vocational colleges and companies have different performance targets and indicators. While for colleges, the number of graduates matter the most, for companies, the quality of the learning outcomes is more important. Unless somehow these two are synchronized institutionally, there will be a mismatch between their interests. Companies complain that vocational colleges, although responsive to requests from the private sector, tend to respond rather formally, without too much energy behind these efforts. The lack of implicit incentives for the colleges to adapt to the maximum extent possible to the private sector demands is a possible root cause. As a result, businesses are more likely to end up working with private professional colleges, rather than state ones.

> *"The private college that we work with now happened to be more oriented toward better performance than the state colleges we tried to work with before."*
> *[Pharmaceuticals]*

Involving sectoral skills organizations (of sectoral associations) in the work of VET institutions to define qualifications and then evaluate the results of the learning outcomes, will be an important step. To this end, a new model of compensation with the element of pay-for-results could be considered for the VET college management as well.

THE REASONS FOR THIS PASSIVE ENGAGEMENT OF THE PRIVATE SECTOR

The study reveals that the collaboration between companies and VET institutions remains limited, hindered by a lack of trust and insufficient alignment between their objectives. Despite efforts by the government and development partners to promote cooperative training programs, participation from the private sector remains low. The reasons for this passive engagement are multifaceted and numerous.

Challenges in implementing dual programs. Evidence suggests that among the reasons why companies avoid dual program participation are: fear of losing the trained graduates, when all efforts are lost; risks of damaging expensive equipment and machinery during the learning process; and risk of leaked commercial secrets. Unless there are some mechanisms worked out to help the companies mitigate these risks and partially compensate the costs, dual programs will be hard to implement. Therefore, companies revert to this method of workforce development in only very extreme cases.

Lack of knowledge of opportunities offered by the state. Not all companies are fully informed about the state support available for the private sector to start custom-made training programs. Only very well-informed individuals at certain companies might know about these opportunities and pioneer the process. It is likely that most businesses that lack this information are not capitalizing on these opportunities.

[27] Assessment of the Private Sector Engagement in Skills Development Ecosystem in Georgia, Irina Tserodze, Phd student, Tbilisi State University, 2024

Varying levels of motivation to be involved in the skills development programs. Motivations to be involved in skills development are diverse. A key finding is that some companies look at this as a way to bolster their reputation, showcasing the leadership in the industry. In such cases, the effects of the training are long-term, not immediate. For others, skills development has a short-term immediate impact. Employees get to work immediately and the gap in employment is closed. Listed below are the key advantages and disadvantages for internal training centers.

ADVANTAGES IN RELATION TO INTERNAL TRAINING CENTERS	DISADVANTAGES IN RELATION TO INTERNAL TRAINING CENTERS
• Short-term programs offer quick results (especially if they have official recognition). Therefore, there is a preference for short-term programs over dual education programs • They are the means to demonstrate industry leadership- part of the company's reputation • The internal programs have spillover effect on other fields in the industry and can trigger other initiatives (*e.g.*, might lead to establishing industry standards) • Being closer to education generates new business opportunities and ideas.[28] • Embedded training centers help avoid extra expenses related to recruitment[29]	• It is a completely new business for companies • There is a lack of courage and financial and administrative resources to undertake such efforts • Due to high staff turnover, many of the trained staff may leave and no guarantee of benefits (especially for smaller companies) • Economic viability of internal training is not established or calculated, or in many cases is not viable • Administrative reporting requirements to apply for state authorization- sometimes too restrictive, demotivating companies to participate in state-financed programs, therefore informal trainings are more preferred • Issuing certificate often is a trigger for staff to look for alternatives (including internationally), therefore- informal trainings are more preferred

Difficulty in complying with the reporting requirements might be a major hurdle to engaging in the state programs. Several companies, which had some experience with the state programs, confirmed that the obligations to comply with the reporting requirements to be authorized and run the training programs could be a major reason why many companies still abstain from developing their own authorized programs.

> *"Complying with the state reporting requirements for running the accredited training programs was a considerable bureaucratic hurdle, especially at the early state. This became more manageable during the last few years."*
> *[Real estate development industry]*

For some companies, investing in education is an inevitable necessity, rather than a profitable investment. Without such investment, operating in the industry will become impossible. Therefore,

[28] Assessment of the Private Sector Engagement in Skills Development Ecosystem in Georgia, Irina Tserodze, Phd student, Tbilisi State University, 2024.

[29] Assessment of the Private Sector Engagement in Skills Development Ecosystem in Georgia, Irina Tserodze, Phd student, Tbilisi State University, 2024.

even if they do not see a positive cost-benefit balance, their engagement in the education sector becomes a necessary step to develop the sector and survive.

Sectoral skills organizations - a very necessary way to work with the industry, but one with many challenges. Sectoral skills organizations, the concept of which was recently proposed, would streamline the private sector's engagement with the vocational sector. However, putting the proposal into practice revealed significant challenges, including the absence of strong sectoral associations; limited cooperation among sub-sectoral associations; limited participation of businesses in associations (many businesses are not a member of any sectoral association); and limited capacity of the sectoral skills organizations to implement their functions (*e.g.*, educational expertise). It seems logical to activate the functions of the sectoral skills organizations gradually.

Role of donor support programs is important. The reputation of the donor involved in preparation of the programs makes success more likely and in some cases is the most important driver of the decision to be involved. The financial subsidy factor is secondary. The organizational involvement of a donor was a guarantee of success. Such programs provided a real opportunity to get a diploma recognized by the state. All previous attempts to negotiate with professional colleges had failed. Some companies viewed the assistance by the donor as an acceleration factor of the already started path. For others, this was used to pay educational experts to participate in the process, which proved to be very useful.

> *"Without the support of the donor in setting up the training program, this quality of program would not be possible."*
> *[Automotive industry]*

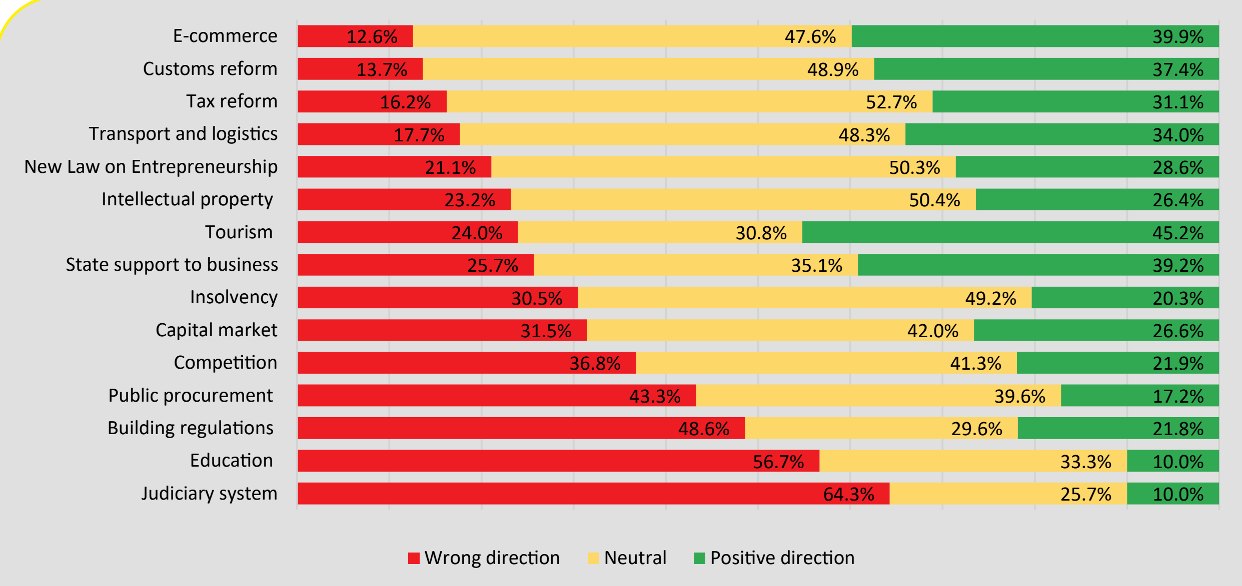
> *"We would still implement these programs without the support of the donor, but not so quickly. It would have been drawn out over years."*
> *[Real estate development industry]*

2.4. REFORMS SNAPSHOT

Driven by Georgia's aspirations for closer alignment with Europe and its EU Association Agenda, the country has been a leading reformer in many areas. However, these reforms have not always been fully embraced by the private sector, which often feels that the changes are either too rapid or fail to account for business interests. Meanwhile, the government and donor organizations frequently express frustration over what they see as a lack of business engagement in the reform process.

To address these concerns, the EU Business Climate Report Georgia has, since 2022, assessed two key dimensions of these reforms: (a) how relevant businesses perceive these reforms to be, and (b) whether businesses view the reforms as moving in a positive or negative direction. Such perceptions of reform relevancy and success play a critical role in addressing the private sector's limited involvement in the reform process and must be addressed as a priority. The relevancy values of the economic reforms were assessed in 2022 and in 2023; the findings showed that businesses' perception of the relevancy of all the reforms grew over time. Businesses seem to be paying more attention to the economic reforms and start to realize that are being affected by them. For this reason, the 2024 survey did not assess the relevancy of the reforms in the same way.[30]

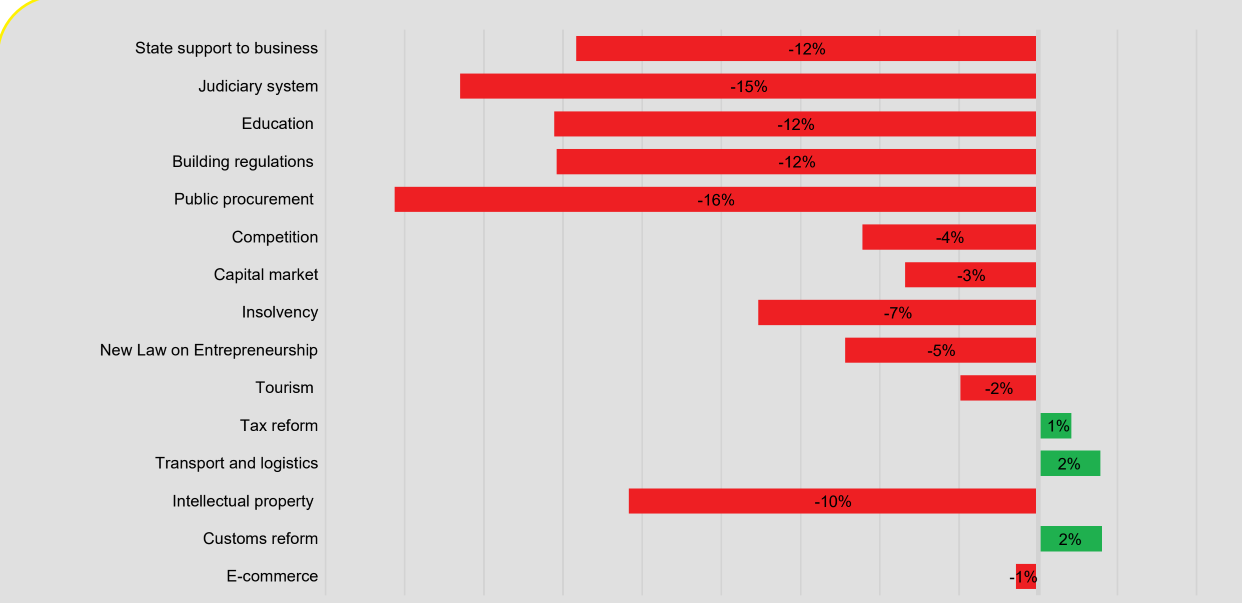
When it comes to the perceived direction of reforms, the e-commerce reform, customs reform, tax reforms, and transport and logistics sector reform led the list of those viewed positively. More than 80% of respondents evaluate the flow of these reforms as either positive or neutral. Again, no surprise this year that the judiciary system reform and education reform are at the bottom of the list and are perceived as going in the wrong direction by about 50% or more of the respondents. The ranking in 2024 is consistent with the previous year's report.



Perceptions of Economic Reforms*

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

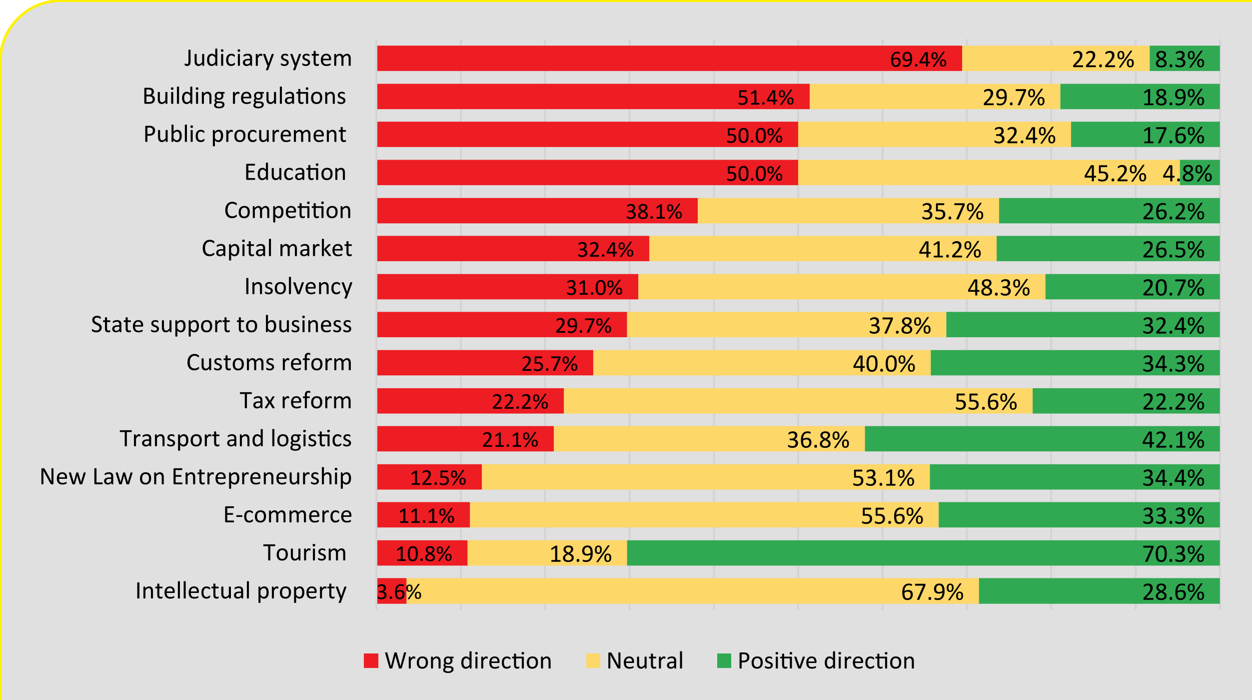
It is notable that overall, with the exception of the customs, tax and transport and logistics sector reforms, respondents assessed the reforms as performing worse than in the previous survey.



Reform evaluation (2024-2023) (red indicates to the negative trend in percentage points)

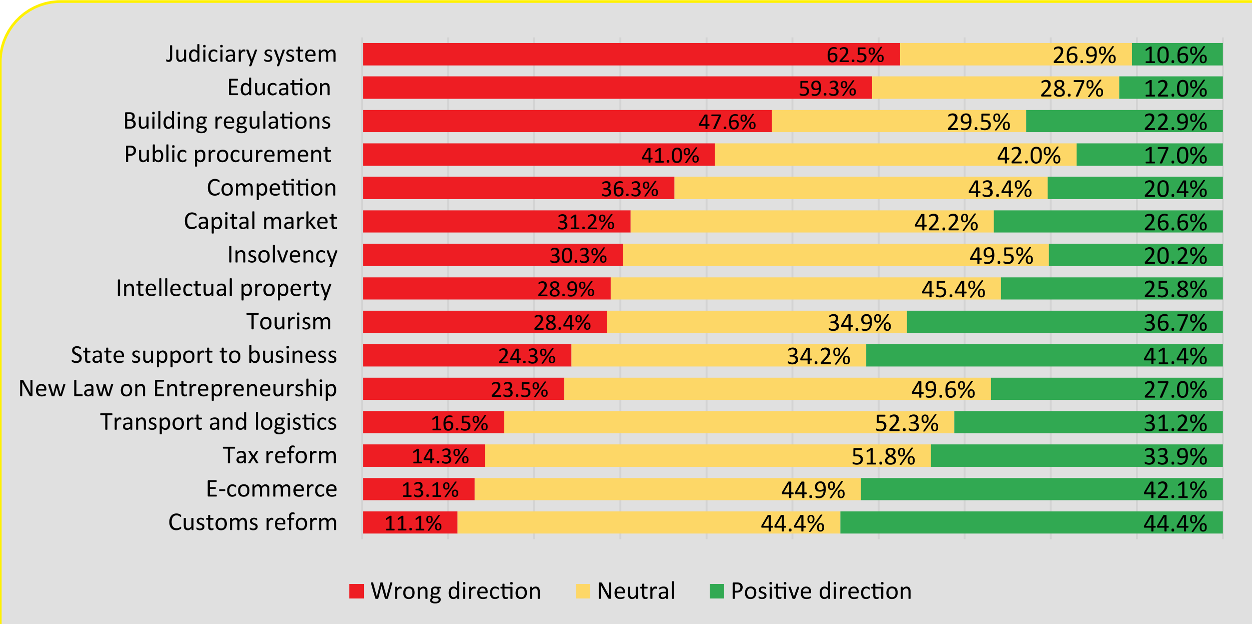
There are not many meaningful differences in the results provided by the two groups, EU-owned and Non-EU owned companies.

[30] *Companies indirectly assessed the relevance of each reform by indicating whether they found specific reforms relevant when evaluating the reform direction. This variable will serve as an indirect measure of relevance in future benchmarking efforts.*



Perceptions of Economic Reforms (EU Ownership)*

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*



Perceptions of Economic Reforms (Non-EU Ownership)

In general, evidence-based policymaking should help ensure that priorities are ordered based on need. Addressing challenges effectively will require balancing the relevance of specific reforms with their perceived direction—whether they are on the right or wrong track. To support this process, in 2022, the EU Business Climate Report introduced a ***new policy instrument***, ***the reform prioritization map***, which groups reforms into segments based on their relevance and recent trajectory (positive or negative). Each segment calls for tailored policy responses and varying levels of attention to bolster the success and broad acceptance of these reforms.

Definition of the Priority Groups:

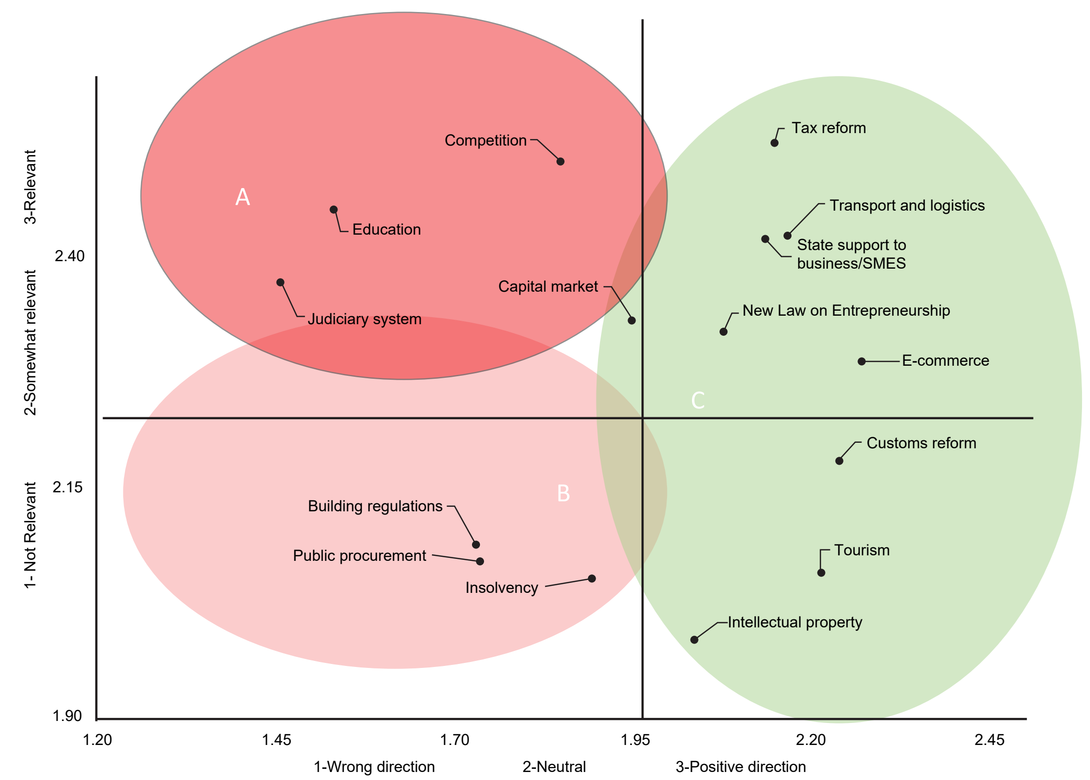
The *reform prioritization map* is an important value-added policy decision-making management element introduced by the EU Business Climate Report. This instrument plots the economic reforms on the two-dimensional chart according to their perceived relevancy and past performance, and clusters them into three broad groups:

1. Group A: This is the first level priority group, which includes reforms which are generally accepted as relevant for a significant part of the business universe (affects or somewhat affects them) and at the same time is perceived as moving in 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.

2. 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 moving in a *negative direction*. The policy response for this group is two-fold: understand the root-causes of the negative perceptions and address them and increase the business community's awareness of and involvement in these reforms.

3. Group C: This group include reforms that are generally accepted as moving in a *positive direction* and could include relevant (affects or somewhat affects) and less relevant reforms. This is the least problematic area, since both areas of engagement in these reforms are high, and positive progress is validated by businesses. The policy response for these reforms includes a better communication strategy to capture the private sector's attention and buy-in for the reform process (especially the least relevant reforms).

The 2024 reform prioritization map:



Reform relevancy and success[29]

[31] For the purposes of this graph, the relevancy of the reforms comes from the 2023 survey.

According to the prioritization map, the education reform, the judiciary system reform and, to some extent, competition 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.
Apart from rating the reform success, participants in the EU Business Climate Survey in Georgia were encouraged to provide their open comments in relation to these reforms. The comments highlight significant challenges in the country's reform trajectory, emphasizing concerns about a lack of clear direction, stagnation in key areas, and inefficiencies that undermine economic growth and public trust. Respondents expressed alarm over the diminishing independence of the judiciary and growing government influence, which they believe discourages fair adjudication and deters businesses from engaging in legal processes. Public procurement was also criticized for its lack of transparency, with companies noting that low-cost options are often favored over quality standards, hindering the adoption of innovative technologies and European products.

Survey participants pointed to limited progress in economic reforms, particularly in education. Businesses reported struggling with chaotic building regulations, underdeveloped logistics systems, and inconsistent waste management services. Access to finance emerged as a significant obstacle, exacerbated by the dominance of banks and the lack of adequate support for SMEs. Some also noted insufficient state and donor funding for SMEs and social enterprises, as well as sporadic and unstructured support for technology and innovation.

Trade policies were another area of concern, with several companies observing Georgia's growing reliance on the Russian market due to soft standards and regulatory oversight, even as the potential of the DCFTA with the EU remains underutilized. Political uncertainty and inconsistent labor regulations were reported to negatively affect workforce morale and productivity, while businesses across sectors continue to face shortages of skilled labor.

Despite these challenges, some participants acknowledged positive developments, including planned preferential tax policies for R&D-focused companies beginning in 2025 and progress in intellectual property protection. However, the overall pace of reform was deemed slow, with critical issues such as judicial independence, limited competition, and chaotic urban planning remaining unresolved. Respondents stressed the need for decisive action to improve transparency, accountability, and structural reform to unlock Georgia's economic potential and restore public confidence in its institutions.

OVERVIEWS OF IMPORTANT RECENT AND PLANNED DEVELOPMENTS IN ECONOMIC REFORM AREAS

Businesses are often criticized for not paying sufficient attention to the economic reforms taking place in Georgia, let alone actively participating in shaping them. However, economic reform areas are continually evolving, with significant changes either underway or planned in the near future. It is crucial to provide a concise overview of these recent developments and outline the upcoming steps to ensure businesses are informed and prepared for these impactful changes.

TAX REFORM

In today's globalized business landscape, understanding taxes and opportunities is crucial for all companies. The European Union and Georgia, according to the EU-Georgia Association Agenda,

are intensifying their collaboration to improve and fortify Georgia's tax system to meet EU and international standards.

Several reforms were conducted in the Revenue Service, leading to significant improvements in tax revenue mobilization. Indirect taxes, including value-added tax, excise duties, and import taxes, account for 55% of total tax revenue mobilization in 2023. The largest portion of direct taxes, 31%, comes from income tax, while local taxes (property tax), contribute only 3% to the total tax revenue. In 2023, progress was made improving tax compliance and risk management. Building on this experience, a new "2024-2025 Compliance Improvement Plan" was developed.

Starting in March 2023, non-citizens in Georgia were granted the opportunity to remotely register as tax-paying individuals via video call through videocal.rs.ge. To improve the tax registration procedures for non-citizens and those with dual citizenship, as well as streamline payments to Georgia's state budget, the Revenue Service is creating a unified register. In collaboration with banks, the Revenue Service developed a new approach for improving payments to the unified treasury code. This initiative aims to simplify the payment process for non-residents.

In 2022, the updated 2022-2024 strategy for the tax administration of large taxpayers was approved. In 2023, the Revenue Service provided regular services to 202 large taxpayers through its Large Taxpayers Office. In 2023, the total taxes mobilized from large taxpayers exceeded 6.9 billion GEL, accounting for 33% of the overall tax revenues. Key tax data of large taxpayers is continuously monitored through an automated reporting system (BI). Additionally, efforts are underway to fully automate the calculation of tax risk indicators for large taxpayers.[32]

Georgia is a member of the Inclusive Framework on Base Erosion and Profit Shifting and signed the Multilateral Convention to implement tax treaty-related measures to combat base erosion and profit shifting. Additionally, Georgia is part of the OECD Global Forum on Transparency and the OECD Exchange of Information for Tax Purposes. The country has made substantial legal and administrative efforts to put in place an automatic exchange of financial account information in line with OECD global standards, though further steps are needed to ensure its full implementation. Georgia has also joined the EU Fiscalis Programme as a full member, and double taxation agreements are in force with all EU Member States.[33]

Through the Head of the Revenue Service N11601 order, the methodical instruction "On taxation at the source of the income received from transportation services in international shipments between Georgia and foreign countries" was approved. Also, on June 7, 2024, the Minister of Finance of Georgia adopted Public Decision N195, which pertains to VAT taxation for exchange (barter) transactions involving the delivery of immovable property.[34]

Within the wider tax reform, businesses, especially for small and medium companies, were focused on reforming the tax dispute resolution system 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 takes approximately 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 the private sector's trust in the tax dispute resolution system. This can be achieved through various different approaches, including the formalizing a fully dedicated, qualified tax dispute resolution body and ensuring accurate and effective communication with businesses.

[32] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

[33] European Commission's First Annual Enlargement Report on Georgia 2023

[34] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

COMPETITION REFORM

An effective competition policy is essential for a healthy business environment and a level playing field for all participants. Equally important is a strong consumer protection policy, which safeguards the rights and interests of consumers. These two policies work hand in hand, complementing and reinforcing each other. Together, they create a fair and dynamic market, promoting both competitive business practices and the protection of consumer welfare. According to the EU-Georgia Association Agenda, both parties are encouraged to collaborate to execute the Competition and Consumer Protection Chapters of the Association Agreement and its related reforms, as well as improve dialogue on enforcing related laws.

The Georgian Competition and Consumer Agency (hereinafter – the GCCA)[35] is an independent enforcement authority with a mandate encompassing three key areas: the enforcement of the competition policy, the enforcement of the anti-dumping policy, and the enforcement of consumer protection.

In 2024, the EU-funded TWINNING project concluded successfully, with number of important achievements[36].

In 2024, to promptly and effectively address potential market threats across all three areas of its mandate, the GCCA established a hotline (15-20), which allows individuals to quickly receive guidance or responses related to competition, consumer protection, and anti-dumping policies.

In 2024, the Government of Georgia supported the first national strategy for the protection of consumer rights. The document aims to strengthen the legislative and institutional framework for consumer protection, as well as improve coordination among consumer protection authorities. The four-year strategy includes proposals for legal, institutional, and practical enhancements, promoting consumer and business awareness, improving collaboration with international and local organizations, and other important measures to address challenges in the sector.[37]

During 2023-2024, the GCCA investigated 10 potential violations of the Law on Competition,[38] finding breaches in seven cases, terminating one investigation, and concluding that no violations occurred in the remaining two. These investigations spanned various sectors, including fast food, pharmaceuticals, fuel, and e-commerce. The GCCA is currently conducting three investigations into alleged violations of Article 6 of the Law on Competition, which addresses the abuse of a dominant market position. These investigations involve the pharmaceutical, auto resale, and e-commerce/banking sectors. The important highlights of the anti-trust enforcement activities in 2023/2024 include major investigations into the alleged violations of Article 7 of the Law on Competition, which addresses restrictive cartel agreements. Furthermore, in 2024, the GCCA concluded an investigation into a potential violation of Article 7 by Mastercard EU and a major player in the online loyalty-based hotel and accommodation services market. Although no legal breach was identified, the GCCA issued mandatory recommendations to all market participants to enhance the competitive environment.[39]

Following the expansion of the GCCA's mandate and the introduction of new consumer rights legislation in November 2022, the agency established a dedicated unit to address consumer protection issues. In the first eight months of 2024, the GCCA received 570 consumer protection-related applications, confirming 59 violations across 123 cases. Non-compliance with GCCA mandates led to fines totaling 38,301 GEL for 34 traders. The agency reached 93 agreements in 108 cases where traders committed to revising their internal policies and restoring consumer rights.

Of the complaints received, 69% were related to online purchases and 31% to in-store purchases. Regionally, Tbilisi accounted for 87% of cases, followed by Adjara (4%), Imereti (2%), and other regions. The most common issues included defective goods repair or returns, refunds, poor service, delivery delays, unconditional returns, and price labeling errors. The trade sector was the most frequently reported, making up 74% of cases, followed by transportation and warehousing (12%), arts and entertainment (3%), and other sectors (11%).[40]

In 2023, 166 units of insignificant amount of individual state aid were issued in Georgia, which amounted to GEL 8 337 803. Tbilisi Municipality remained the largest provider of an insignificant amount of individual state aid, after the Autonomous Republic of Adjara and Ozurgeti Municipality. Certain gaps persist in the area of state aid, and priorities must be defined to address key issues, including the creation of a state aid registry.[41]

According to the European Commission's 2024 Enlargement Report, Georgia is between an early stage of preparation and having some level of preparation in the area of competition policy. It also has some level of preparation in the area of consumer and health protection. According to the report, Georgia should further align the legal framework on antitrust, mergers and State aid with the EU acquis on competition policy. It should strengthen the enforcement capacities of the Georgian Competition and Consumer Agency, and continue building a solid record of enforcement decisions.[42]

EDUCATION SECTOR REFORM

According to the EU-Georgia Association Agenda, 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, higher education, and research. In August 2022, the government approved a unified strategy of education and science for 2022-2030,[43] to support the holistic and sustainable development of the system, providing universal and lifelong learning opportunities based on three pillars: quality, equity, and good governance.

The resolution of the Parliament of Georgia dated June 12, 2024 approved the "Document of National Goals of General Education." The national curriculum, educational resources, and school environment will be improved based on the national goals. A complete general education in Georgia consists of three levels: primary education, basic education, and secondary education. According to the Constitution of Georgia, primary and basic education is compulsory. In 2024, the amendments were introduced to the Law of Georgia on General Education," under which compulsory general education has increased from 15 years to 16 years, which in its turn coincides with the minimum

[35] Previously known as: Georgian National Competition Agency (GNCA). After the amendments to the law "On Competition" of 2023, the official name of the authority was changed due to the expansion of its mandate.

[36] For more detailed information see: The official website of Georgian Competition and Consumer Agency (https://gcca.gov.ge)

[37] For more detailed information see: The official website of Georgian Competition and Consumer Agency (https://gcca.gov.ge)

[38] The law outlines several types of violations by undertakings and state authorities: Article 6 addresses the abuse of dominant market position, Article 7 covers restrictive agreements (such as cartels), Article 10 deals with the distortion of competition by state authorities, and Article 113 pertains to unfair competition practices.

[39] Full decision available at: The official website of Georgian Competition and Consumer Agency (https://gcca.gov.ge)

[40] Information provided by the GCCA

[41] European Commission's First Annual Enlargement Report on Georgia 2023

[42] European Commission's Annual Enlargement Report on Georgia 2024

[43] European Commission's First Annual Enlargement Report on Georgia 2023

employability age in Georgia. To improve access to education for ethnic minorities, the provision of bilingual education in kindergartens and schools continues. A bilingual education program for ethnic minorities is currently available in 34 kindergartens and 184 non-Georgian-language schools. Full coverage is planned to be achieved in 2025.[44]

The vocational education system has undergone fundamental changes in recent years since it plays a critical role in addressing the skills gap in the labor market. To promote the career and personal development of vocational students and potential students, the 2024-2030 strategy for professional orientation, counseling, and career guidance for all three levels of formal education was developed with the support of the European Union and approved by the order No. 139/N of the Minister of Education, Science and Youth of Georgia dated August 27, 2024. The VET Education Development Strategy, which was drafted through broad public consultations and stakeholder engagement, has been submitted for approval. In 2023, the revision/development of qualifications started and it is planned that by the end of 2025, qualifications will be revised/developed in all economic sectors. In the field of VET, Georgia aims to promote private sector involvement in work-based learning and dual education. Creating partnerships with businesses is a guiding principle in Georgia's technical and VET reform.

In 2023, the National Center for Educational Quality Enhancement made a significant step toward internationalizing professional education and became a member of the European Association of Institutes for Vocational Training (EVBB), which aims to enhance the quality of VET within European countries and at the European level.[45] Furthermore, the Erasmus+ program in the field of vocational education was launched, in which organizations and educational institutions working in the field of vocational education are already actively participating. At the same time, a regulatory framework for joint and exchange programs was approved to support international mobility. Georgian VET teachers are able to get involved in joint projects with the colleagues from EU and partner countries for the first time.

The Skills Agency was established in 2021 by the Ministry of Education, Science and Youth of Georgia (MoESY) and the Georgian Chamber of Commerce and Industry to promote interaction and partnership with the private sector. The Action Plan of the Skills Agency for 2024 includes activities to improve qualifications, facilitate the development of partnerships in the skills system, and support adult education. It also aims to strengthen the institutional development of professional educational institutions in the direction of gender and inclusion and introduce a new model of the official language training program; introduce and develop non-formal educational services in professional educational institutions and quality assurance of career management services; promote the development of professional education in public schools; promote the digital transformation of professional educational institutions; support the internationalization of professional education; and promote the development of sectoral centers of excellence.[46]

Regarding higher education, to accelerate digital transformation in higher education, legislative amendments to the Law of Georgia on Higher Education and the Law of Georgia on Education Quality Enhancement were adopted in June 2024 to regulate distance education and e-learning in higher education. The list of fields of study was defined, as well as the maximum number of credits of higher education programs that could be covered by e-learning.

As part of the World Bank project "Georgia I2Q - Innovation, Inclusion and Quality," the Ministry created the Competitive Innovation Fund, a competitive grant mechanism (a budget of 4 million USD) coordinated by MoESY. The fund aims to ensure the modernization of higher education and strengthening of labor market linkages, including through stimulating entrepreneurship education. Project proposals were financed under two grant calls: 13 proposals were funded in the first grant competition and 14 proposals under the second competition.

[44] *Information provided by the MoESY*

[45] *NCEQE Annual Report 2023 (https://www.eqe.ge)*

[46] *Action Plan of the Skills Agency for 2024*

In 2024, Georgia continues to work to implement the principles of Open Science and the development of international cooperation in this direction. Additionally, Horizon Europe National Office of Georgia has introduced new initiatives to enhance Georgia's participation in the European research landscape. The National Contact Points network, crucial for offering guidance and support to Georgian researchers, saw an expansion in its activities. The network facilitated access to Horizon Europe's diverse funding opportunities, emphasizing sectors where Georgia has competitive advantages or strategic interests.

Furthermore, implementation of the State Youth Strategy 2023-2026 continues. The youth policy is closely aligned with the objectives of the European Union Youth Policy. Georgia became a member of the "Eurydice Network," which is part of the Erasmus+ program and comprises of the EU member and Erasmus+ associated countries. The aim of the network is to describe and systematically update the education systems of the countries on a platform. The Network promotes cooperation between countries through the exchange of information on education policies.[47]

JUDICIARY SYSTEM REFORM

Reliable, skilled, and efficient courts are crucial for the business sector. Since 2013, judicial reforms have been underway to align the judiciary's activities with European standards and meet the obligations outlined in the EU-Georgia Association Agreement. The reform group has identified several priorities for the reform process, including the improvement of disciplinary responsibility grounds and disciplinary proceedings, addressing court overcrowding issues, enhancing the regulations governing the High Council of Justice's activities, and reforming the Higher School of Justice.

In 2020, some important legislative packages were adopted to regulate Supreme Court appointments. In October 2022, the Georgian Parliament's Legal Affairs Committee published a judicial reform strategy and action plan, outlining 16 priorities with a strong emphasis on enhancing efficiency, particularly in the court system. Key measures include ensuring an optimal number of judges and court officials, reducing caseloads by promoting alternative dispute resolution channels, and improving technical infrastructure. In June 2023, Parliament adopted amendments to the Organic Law on Common Courts and, in September 2023, drafted additional amendments to implement some of the Venice Commission recommendations including rules of appealing of the High Council of Justice decision before the Supreme Court Qualification Chamber, rules of decision-making of the High Council of Justice, and restricting one of the grounds of judge's disciplinary liability—the violation of political neutrality.[48]

Broader reforms are essential to ensure the full independence, accountability, and impartiality of all judicial and prosecutorial institutions, particularly the High Council of Justice, in accordance with European standards and the recommendations of the Venice Commission. Specifically, comprehensive reform of the structure and powers of the High Council of Justice is needed, including establishing an effective right of appeal for the selection of Supreme Court judges by clarifying the binding nature of the Supreme Court's decisions for the High Council of Justice. The adoption of constitutional amendments is also necessary, including changing the procedure for appointing the Prosecutor General from a simple to a qualified majority in Parliament. Other needed changes include aligning the law on the Prosecutor's Office with European standards; and following the recommendations of the Venice Commission, OECD and the TAIEX peer review on the functioning of the justice sector and the fight against organized crime.[49]

[47] Information provided by the MoESY

[48] The official website of the High Council of Justice of Georgia (http://hcoj.gov.ge/)

[49] European Commission's First Annual Enlargement Report on Georgia 2023

Codes of ethics for judges and prosecutors are in place, as is a complaint mechanism. A system of verification of asset declarations by judges and prosecutors exists. However, the practical implementation of this system needs to be improved, particularly in terms of its scope. Open access to reasoned court decisions, in compliance with data protection rules, has yet to be fully ensured, which affects the transparency of the judiciary system. Based on the judicial amendments adopted in June 2023, all court decisions following an open court session will be fully available through formal freedom of information requests. At the same time all court decisions will be published on a dedicated website in full compliance with data protection rules. In both cases, the decisions will only be available after the case's final resolution, a process that can take years. Therefore, the May 2024 amendments specified that all judicial acts should be fully available from the moment of adoption. The draft of this rule was welcomed by the Venice Commission in its opinion of October 6-7, 2023.

The number of judges in 2022 was 329: 53.4% female, with only three female court presidents. The number of prosecutors in 2022 was 415, of which 33.7% were female. The number of staff is low compared to the European averages of 21 judges/12 prosecutors per 100, 000 inhabitants (nine judges and 12 prosecutors per 100, 000 inhabitants). The allocated 2022 budget for courts of law increased to EUR 39.4 million and the implemented total budget was EUR 35.6 million (0.14% of GDP).[50]

Despite progress, it is imperative to continue efforts to further develop Georgian justice system due to existing challenges. Addressing these challenges is essential to improve the quality of justice in the country and supporting Georgia's path toward European Union accession.

TRANSPORT AND LOGISTICS

Georgia is located at a highly strategic location; in that it serves as an entry gate to the Caucasus and Central Asia. It is a reliable corridor for transit flows between Caucasus and Europe and between European countries and Central Asia.

In 2023, Georgia's transportation and storage sector experienced moderate growth, with its contribution to GDP increasing by 5.1% despite challenges like disruptions in trade with Russia. Although the sector's share of total gross output declined slightly (-0.8 percentage points, YoY), it remains vital, contributing 6.5% to the national economy's overall output.[51]

Since December 2022, Georgia has been an observer member of the Transport Community Treaty, actively engaging within the treaty's frameworks. This association, which plays a crucial role in supporting the enlargement process by implementing the relevant EU transport ***acquis***, can significantly contribute to Georgia's closer integration into the EU transport market.

Georgia achieved some progress with the adoption of the National Transport and Logistics Strategy (2023-2030) and its 2023-2024 action plan in August 2023. More effort is needed in the transport sector, with a notable focus on road safety, rail sector reform, and incorporating the principles of the smart and sustainable mobility strategy.[52]

The Railway Sector Reform started in February 2023 and aims to improve legal and institutional framework in line with EU ***acquis***. As part of the reform, a national safety authority, the Rail Transport Agency, was established under the Ministry of Economy and Sustainable Development of Georgia (MoESD) on July 1, 2023. Moreover, an independent state unit, the Transport Safety Investigation

[50] European Commission's First Annual Enlargement Report on Georgia 2023

[51] Transportation and Logistics Sector in Georgia, Sector Snapshots, PMCG Research, 2024

[52] European Commission's First Annual Enlargement Report on Georgia 2023

Bureau of the MoESD, will be authorized to investigate railway incidents and accidents (starting from January 1, 2025).[53]

Completed and 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; and Kutaisi Logistics Centre. These projects are aimed at increasing the main geopolitical asset of Georgia: its 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 Sea and Black Sea has further improved regional connectivity and competitiveness for the Middle Corridor.

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, which remained almost unchanged. The average LPI score of the Europe & Central Asia region is 3.01.

Despite progress in recent years, Georgia still faces several challenges to becoming a regional transit and logistics hub, which also hinders the Middle Corridor from reaching its full potential as a viable alternative to other regional trade corridors. Transport and logistic challenges include inefficient supply chain management; outdated infrastructure and equipment; 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; congestion at port; tracing and tracking of railcars; and lack of workforce organization and qualified staff. 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.

The contribution of the international development partners and IFIs is critical in transport infrastructure development. A notable event is the recent completion of Ubisa-Shorapani section, featuring 27 km of highway with advanced safety features, enhances Georgia's regional and international connectivity. The EIB has invested around €1 billion in the highway's development, complemented by €42 million in EU grants, including a €16 million grant for road safety improvements. This project supports Georgia's economic growth and integration into global trade networks. Additionally, with support from the EBRD, the governments of Azerbaijan and Georgia are exploring the development of contrailer transportation, also known as "Rolling Road" (Ro-La). This service shows strong potential for shifting more cargo to rail, thereby easing road transport bottlenecks. The development of contrailer services is anticipated to enhance the Trans-Caspian International Transport Route, invigorate rail transport, and support sustainable development goals by reducing the transport sector's carbon footprint and improving road safety.[54]

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 outlines essential transport infrastructure projects to be completed by 2030 and aims at assisting the EaP countries to mobilize necessary investments. To successfully implement transport and energy projects, Georgia's legislative framework must align with the regulations governing the trans-European networks for transport and energy. In this context, it is necessary to improve the performance of the rail and road networks in terms of quality, capacity, and safety as well as align with the regulation on guidelines for trans-European energy infrastructure.

[53] Information Provided by the MoESD

[54] The official website of the Investors Council (https://investorscouncil.ge/)

The digitalization of Georgia's transport sector is of significant importance; investing in technology-driven solutions can enhance logistics operations and stimulate economic growth. 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. The deployment phase of the MSW started in 2023. The pilot version of the MSW was launched in January 2024 and became fully operational by October 2024. Furthermore, following an international tender, the EBRD and the Maritime Transport Agency jointly selected Actual IT as the contractor to provide the software and hardware for the Port Community System. The implementation phase of the Port Community System is expected to conclude by the end of 2025.[55]

ENTREPRENEURSHIP LAW REFORM

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. Following the reform, the Law of Georgia on Entrepreneurs has been brought into compliance with the supranational corporate law of Europe, and, in this respect, aligns with it. The law became effective on January 1, 2022, and contributes to the foreseeability and predictability of the corporate-legal relationship, which instills more confidence in the (foreign or domestic) investor in Georgian businesses.[56]

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 define 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 a company, convening the general meeting, subscribed capital currency and subscription procedures, and the clarification of terms.[57] In this context, business support organizations, the Investors Council, the Investors Council Secretariat, the public registry, and court representatives are actively collaborating with the USAID Economic Governance Program to develop a package of recommendations. Also, parliamentary committees are involved in discussions on the recommendations.

Between October 2023 and April 2024, a Gender Impact Assessment on the Law of Georgia on Entrepreneurs was implemented. The research explored the gender disparities and inequities prevalent in entrepreneurship, thus identifying various factors that contribute to the underrepresentation of women entrepreneurs. These issues include their limited access to capital; differences in business financing; stringent collateral requirements; knowledge gaps in business management; higher borrowing costs; limited investor networks; the underutilization of business support programs; gaps in venture capital and angel investment; limited access to non-financial resources; inadequate market access; networking disparities; impacts on revenue generation and sustainability; limited access to equipment and technology; inadequate training opportunities; and societal norms, gender stereotypes, and informality in female-dominated sectors.[58]

[55] The official website of the Investors Council (https://investorscouncil.ge/)

[56] Modern Georgian corporate law in the mirror of European law - General review of the reform, I. Burduli, Journal of Human Security and Global Law, 2023

[57] The official website of the Investors Council (https://investorscouncil.ge/)

[58] The official website of the Investors Council (https://investorscouncil.ge/)

Georgia also has to align with the EU ***acquis*** on takeovers and shareholders rights, including the encouragement of long-term shareholder engagement, and the disclosure of information on foreign branches. Additionally, compliance with the 2022 directive on gender equality in boards of directors is required. Further alignment is needed with the 2019 directive on digital tools and processes and the 2019 directive on cross-border operations (mergers, divisions, and conversions). Alignment is also needed on the financial reporting principles relating to small entities; the criteria to define company size categories; and country-by-country reporting by very large multinational companies. Georgia will also need to align with the most recent EU ***acquis*** on corporate sustainability reporting.[59]

CAPITAL MARKET REFORM

Significant progress has been made in recent years to develop the capital market. This includes amending the legal framework, upgrading infrastructure, introducing institutional investors through a compulsory employment pension scheme, developing the government securities market, implementing market support programs, and strengthening the regulatory framework of the market. Despite this progress, the Georgian domestic capital market remains underdeveloped and illiquid, especially in public equity. With further development of the capital market, alternative and more flexible instruments for accessing finance and savings will emerge, which, in turn, will contribute to the efficient allocation of resources in the economy and support the sustainable development of the economy.

Over the years, important advancements have been made to develop a comprehensive legal framework. In November 2022, Parliament adopted the Law on Mortgage-Covered Bonds. The National Bank of Georgia's (NBG) secondary legislation based on the law was issued on March 15, 2023. The Law on Voluntary Private Pension was adopted by the Parliament on June 28, 2023 (in force from 01.01.25). Amendments to the Law on Funded Pensions were approved in the final reading on November 1, 2023. The Law on Dematerialized Securities Holding was adopted on November 16, 2023. To complement the law, on February 2024, the NBG issued the Order on approval of the Rule on Accounting and Producing of Dematerialized Securities Account. The Law on Securitization was adopted by the Parliament on December 15, 2023 (in force from 01.04.24). Based on this law, the NBG issued the Order on the approval of the Securitization Regulatory Rule in March 2024. New amendments to the Law on Funded Pensions were approved by the Parliament on June 27, 2024. These amendments are mostly related to the governance structure of the Pension Agency.

In March 2024, the Government of Georgia issued the Resolution on the Approval of the Capital Market Support State Program. The purpose of the program is to support the development of SME businesses by promoting and incentivizing the issuance of bonds by Georgian enterprises. The Capital Market Support State Program includes the co-financing component of the issuance costs related to the placement of public debt securities and for attaining credit rating. The program also includes a technical assistance component as well. The program components are designed to support SMEs.

It should be noted that 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 originate 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.

[59] *European Commission's First Annual Enlargement Report on Georgia 2023*

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.[60] Despite those factors, the local corporate debt bond market has doubled since 2022: in 2023 it achieved GEL 1,947 million outstanding.

The Government of Georgia approved the 2023-2028 Capital Market Development Strategy of Georgia and the accompanying 2023-2024 Capital Market Development Strategy Action Plan in December 2022.[61] Currently, the Capital Market Development Strategy Action Plan for the years 2025-2026 is under development. The strategy aims to increase access to finance through capital market instruments (development of the local bond market and development of the local equity capital market), as well as stimulate and mobilize capital for local securities (deepening of institutional investors; increasing engagement of professionals and retail investors; and attracting more foreign investment in the local capital market).

The contribution of the international finance institutions is critical for overall access to capital for SMEs in the country. For instance, the EIB has strengthened SME access to finance through partnerships with local banks. A guarantee agreement with TBC Bank unlocks over €31 million for small businesses, focusing on underserved groups like women-led enterprises and start-ups. Similarly, a €50 million loan to the Bank of Georgia supports SMEs and mid-caps, with 30% allocated to green investments. These initiatives, aligned with the EU's Economic and Investment Plan for the Eastern Partnership, aim to foster sustainable development, green growth, and financial inclusion, reinforcing Georgia's path toward EU integration.

A number of activities are planned to address existing obstacles. The MoESD along with the NBG developed a draft Law of Georgia on Factoring that was submitted to Parliament in August 2024. The adoption of the legal framework for factoring will increase access to alternative sources of financing in the country and help the market develop a new segment of factoring companies. According to the draft law, an electronic trading platform for trading in receivables is planned. The factoring companies will be regulated by the NBG. In 2022, the Government of Georgia invested in 500 Georgia, a venture capital fund, through Georgia's Innovation and Technology Agency. To continue that process, the MoESD plans to develop an instrument together with Enterprise Georgia that will support the establishment of the Private Equity Growth Fund, which will concentrate on SME sector support and development.

The other activities that are planned include:

- The development of crowdfunding, trust vehicles, real estate investment trust (REIT), commodity trading, benchmark yield curves with the increase in the size of the benchmark bonds with various maturities, local currency government securities inclusion in the international indices (JP Morgan GBI-EM, FTSE Frontier Emerging Markets Government Bond Index, *etc*.).
- The enhancement of the primary dealers' pilot program and its convergence to a fully-fledged system.
- Regular and effective communication with stakeholders to increase transparency and predictability of debt management.
- The creation and development of the retail securities market and improving and diversifying the accessibility of local bonds by international investors.

To develop insurance products, a legal framework based on the international best practices for life insurance instruments will be developed. This framework will affect not only the development of institutional investors but also increase access to long-term savings for ordinary citizens.

[60] *The official website of ISET Policy Institute (https://reformeter.iset-pi.ge/)*

[61] *The official website of the Ministry of Economy and Sustainable Development of Georgia (https://www.economy.ge/)*

E-COMMERCE REFORM

The MoESD with the technical assistance of the World Bank elaborated the draft National Strategy for Development of Digital Economy and Information Society of Georgia 2025 – 2030. The draft covers digital government platforms, digital financial services, digital business/ entrepreneurship, digital skills, digital infrastructure and legal/regulatory aspects, *etc*. It also outlines coordination mechanisms for the digital economy and information society in the country. The draft strategy considers the EU's strategic documents, Digital Compass and Digital Decade, which are planned to be adopted in 2024.[62]

Additionally, the 2021 National Broadband Development Strategy is significant as it addresses key digital challenges and aims to bridge the urban-rural divide by investing in broadband infrastructure. To align with EU *acquis* requirements, it is crucial to ensure high-level and inter-institutional coordination on digitalization reforms and to swiftly implement recently adopted laws related to infrastructure sharing and e-commerce.[63] In order to fulfill the obligations defined by the Law of Georgia on Sharing Telecommunication Infrastructure and Physical Infrastructure Applicable for Telecommunication Purposes, ComCom adopted resolutions in June 2024 regulating the access of authorized persons to electronic communication and physical infrastructure, the methodology for calculating access fees in case of a dispute, and the rules for administering the unified information platform.

In this context, Georgia has made notable progress in the e-commerce reform over recent years. The reform aims to enhance the e-commerce ecosystem, boost Georgia's export potential, build trust in e-commerce and electronic transactions, and enforce high standards for consumer rights in e-commerce.[64]

The MoESD developed the draft Law of Georgia on Electronic Commerce based on the EU Directive on Electronic Commerce (2000/31/EC). Adopted on June 13, 2023, the law's primary objective is to establish a legal framework for e-commerce, safeguard the rights of users engaged in e-commerce transactions, delineate the rights and responsibilities of intermediary service providers, and protect 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.

In conjunction with the e-commerce reform, the legal framework for personal data protection has been revised. A new law on personal data protection, which came into force on March 1, 2024, has reshaped legal issues related to personal data protection, aligning them more closely with European standards.

Regarding future activities, in accordance with the Law of Georgia on Electronic Commerce, there are plans to establish rules and procedures for conducting electronic commerce case studies. Under this law, the authority of the National Competition Agency has been expanded to oversee matters related to consumer rights protection within the electronic commerce domain. Adequate budgetary allocations are also planned to support these functions. The issuance of related normative acts is currently underway and there are also plans to modify the legal framework on copyright and related rights.[65]

Additionally, the recent establishment of the Dispute Resolution Commission (DRC) under the NBG is a significant development. This independent body provides an alternative dispute resolution

[62] Information Provided by the MoESD

[63] European Commission's First Annual Enlargement Report on Georgia 2023

[64] The official website of ISET Policy Institute (https://reformeter.iset-pi.ge/)

[65] The official website of ISET Policy Institute (https://reformeter.iset-pi.ge/)

mechanism. It is anticipated that the DRC's activities will enhance user security on e-commerce platforms and boost trust in electronic payments, thereby promoting e-commerce growth in Georgia.[66]

CUSTOMS REFORM

Efficient, simplified, and streamlined customs procedures are key to businesses that are involved in international trade. The relevant chapter of the DCFTA envisions facilitating operational cooperation between the customs services of the EU and Georgia. In order to fulfill obligations under the Association Agenda, Georgia has conducted a number of customs reforms in recent years. This included increasing transparency and the set-up of e-services with full automatization of all customs operations; the robot customs officer project has been introduced and is operating in pilot mode; mechanisms for detecting, avoiding, and preventing violations of customs legislation have been strengthened;[67] and 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 2023, to streamline remote services and promote self-service, several improvements were introduced to the customs services:

- In the process of consideration of customs declarations, priority was given to electronic declarations.
- Payers now have the opportunity, via the Revenue Service authorized user page, to access information about declarations selected based on the yellow corridor payment criteria.
- The search service on the Revenue Service website, specifically for "cargo and vehicle search," has been fully optimized.

The Electronic Registration Economic Zone (e-gezi) has been further enhanced, allowing interested parties to complete cargo registration procedures electronically by uploading the necessary documentation to the Revenue Service's website, without the need to visit the economic zone in person. In 2023, use of the service dynamically increased. The number of trucks moving across the customs border of Georgia increased by 14% in 2023, compared to the previous year, and amounted to 1,763,518 units.[68]

To enhance analytical capabilities in risk management, the integration of the "Elastic & Kibana" platform was implemented in 2023 and launched in pilot mode. Georgia, Azerbaijan, and Turkey developed and signed a technical agreement to establish systems for the automatic advance exchange of customs information.

Starting in 2023, the Revenue Service put in place a New Computerized Transit System (NCTS). Accession to the CTC and SAD conventions and the introduction of the NCTS allows cargo to be transported to member countries of the convention (27 countries of the European Union, the countries included in the European Union and the European Free Trade Area—Iceland, Norway, Liechtenstein, Switzerland), as well as the Republic of Turkey, Serbia, Macedonia, Great Britain, and Ukraine with one transit declaration and one guarantee submitted electronically to the customs authority. Georgia is progressing with legislative changes, and the customs service is working to inform big and small companies on what potentially NCTS means for each of them.[69]

[66] The official website of ISET Policy Institute (https://reformeter.iset-pi.ge/)

[67] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

[68] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

[69] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

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 to complete a customs declaration.
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 tax and customs issues are presented. The information posted on the online platform is available both for employees of the service and for taxpayers. In 2023, the number of users of Infohub.rs.ge consistently grew dynamically, surpassing one million.[70]
Additionally, the system of an Authorized Economic Operator (AEO) has been introduced. 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, including reduced frequency of physical examinations and documentary inspections, and expedited customs clearance procedures for goods owned or possessed by the status holder. Georgia has reported up to 10 AEO authorizations.
According to the 2024 Action Plan of the Revenue Service,[71] the main focus in customs will be developing the customs risk management and preliminary information exchange system; introducing the customs information exchange system between Georgia, Azerbaijan, and Turkey; introducing the information exchange system on the customs value of goods moved between Georgia and Turkey; enhancing mechanisms for detecting, preventing, and avoiding customs law violations; and improving information technology systems.
Despite the measures Georgia has taken in the area of customs services, there are still some issues that must be addressed. Fostering the practical implementation of conventions, particularly on A.T.A. Carnet for temporary admission of goods is significant. 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.

INSOLVENCY REFORM

Efficient and business-friendly insolvency processes in the country improve flexibility for businesses and substantially increase the attractiveness of the business climate. The insolvency legislation from 2020 (fully effective from 1/04/21) has facilitated insolvency proceedings, made them more transparent, and reduced their duration and costs.[72] The Ministry of Justice has adopted the secondary legislation necessary for the new legal framework to start working. In particular, normative acts to regulate the profession of insolvency practitioners: authorization and creation of the unified registry of insolvency practitioners as well as the electronic system to randomly assign insolvency cases to insolvency practitioners.
This process has been 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 co-authors of the new Law on Rehabilitation and Collective Satisfaction of Creditors' Claims. 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.

[70] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

[71] The official website of the Revenue Service of Georgia (https://www.rs.ge/)

[72] European Commission's First Annual Enlargement Report on Georgia 2023

In 2023, with the support of the USAID Economic Governance Program, Georgia hosted the region's first international insolvency conference. Attendees included 10 international guests. Georgia had the opportunity to learn from the best international practices in the field.

Under the current legal framework, 39% of insolvency cases are initiated under the rehabilitation regime, compared to only 10% 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.

Despite the success achieved with the reform, there are some obstacles. For example, the National Enforcement Bureau has not yet established an electronic system for insolvency proceedings. There are procedural challenges with the Revenue Service related to the enforcement of the new law. The system development process has not yet started. 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 for the private sector, particularly about the benefits of this law, the regulation of insolvency for individuals, and gaps in the formation of infrastructural/professional institutions supporting the reform.[73]

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. Stakeholders like BRIPA are planning to initiate legislative changes to the current insolvency law to address certain obstacles.

PUBLIC PROCUREMENT REFORM

To fulfill the obligations outlined in the EU-Georgia Association Agreement, the State Procurement Agency (SPA) of Georgia developed the draft law of Georgia on Public Procurement (PP Law) with an accompanying legislative package that was approved by the Government of Georgia and submitted to Parliament as a legislative initiative on June 8, 2022. On February 9, 2023, Parliament adopted the Law on Public Procurement.[74] The new law introduces different implementation timelines. In September 2024, Parliament approved a package of draft amendments to the law, passing both the second and third readings. The main provisions of the PP Law, originally set to take effect on January 1, 2025, will now come into force on January 1, 2027.[75]

The new PP 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. The adoption of the PP 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. Additionally, it will assist the Georgian authorities in meeting their duties under Georgia's international free trade agreements. The changes made 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.

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. This is significant because it grants any business registered in Georgia the right to participate in tenders announced by central government authorities of the 27 EU member states for the supply of goods.

The PP Law and its legislative package advocate significant reforms to the existing legal framework governing public procurement. Key changes include the adoption of new public procurement procedures, innovative tools, and approaches to address various procurement-related concerns. The new PP 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. Moreover, non-discrimination and equal treatment principles are embedded in the law; the law also provides for the reservation of procurement procedures aiming at "the social and professional integration of persons with disabilities or members of other vulnerable groups (including persons of the underrepresented gender)."[76]

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 a 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. Additionally, the contracting authority has the right to disseminate information about a planned procurement through the publication of a prior information notice on the Georgian Electronic Government Procurement System. The prior information notice published according to determined procedures shall entitle a contracting authority to decrease the minimum time limits for getting acquainted with the terms of procurement and will facilitate more active business participation and competitiveness.

As compared to 2022, in 2023 the total value of public procurement contracts awarded through e-tenders and consolidated tenders increased by roughly 3.2 billion GEL amounting to 9,319,247,729 GEL and constituting 88.8% of the total volume of public procurements. Engagement in public procurements on the part of the business sector is increasing annually: 3,508 new suppliers were registered in the eProcurement System in 2023. In total, there are 56,232 suppliers registered in the system. Out of the suppliers registered in the system, 2,505 are non-resident business entities from 77 countries across different continents.[77]

The SPA is actively involved in the drafting and preparation of new secondary legislation required under the new PP Law. It runs the e-procurement system and provides consistent training to contracting authorities and economic operators. With a view to strengthening the capacity of public, business, and civil sector representatives, the SPA has elaborated an internal roadmap that plans a series of capacity-building activities during 2024-2025.[78] 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.[79]

As a result of the reforms, Georgia's legislation has moved closer to aligning with EU directives. However, further steps are needed to harmonize the country's legal framework with the EU public

[73] The official website of ISET Policy Institute (https://reformeter.iset-pi.ge/)

[74] The official website of Legislative Herald of Georgia (https://matsne.gov.ge)

[75] The official website of the Parliament of Georgia (https://www.parliament.ge/)

[76] The official website of the Investors Council (https://investorscouncil.ge/)

[77] Annual Report of 2023 of the State Procurement Agency

[78] European Commission's First Annual Enlargement Report on Georgia 2023

[79] The official website of the State Procurement Agency (http://www.procurement.gov.ge/)

procurement ***acquis***, particularly in the areas of utilities and concessions. The EU directive on procurement by entities operating in the water, energy, transport, and postal services sectors has yet to be fully integrated into Georgia's legislative framework. Additionally, alignment is required with the directive on procurement in the fields of defense and security, as is strengthening the capacity of the Procurement Dispute Resolution Council, which is "institutionally hosted" by the Competition Agency.

The council is independent and its members are selected through a public competitive procedure and later appointed by the Prime Minister. The Council handled 1006 complaints in 2023; 63% were resolved in favor of the business, either fully or partially.[80] The Council lacks jurisdiction over complaints submitted by bidders involved in tender procedures for contracts financed by international financial institutions, which leaves the harmed party without effective legal remedy. Consequently, to address this gap, the legislation governing the right to legal remedy must be harmonized with the EU ***acquis***.[81]

TOURISM SECTOR REFORM

Tourism boosts the revenue of the economy, creates jobs, and plays a crucial role in fostering the growth of SMEs. According to the EU-Georgia Association Agenda, parties are encouraged to share information on tourism in Georgia and the EU, including relevant events and best practices, through a dedicated subcommittee.

To harmonize policies with EU standards and to guarantee compliance with the new trends and demands in the tourism industry, Parliament, in close cooperation with the Georgian National Tourism Administration (GNTA) and the private sector, developed a draft Law on Tourism, which was adopted by Parliament. The primary objectives of the tourism 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 GNTA's recently held and planned activities include: M&I Tbilisi 2024; Winter Festival Giz-Giz; Gemo Fest; improving the service quality via up to 2,000 retrained professionals; international tourism exhibitions; integrated marketing campaigns via TV, radio, printed media, and outdoor and digital advertisement; and hosting up to 1000 top international journalists and bloggers in Georgia.

In a unanimous decision, UN Tourism awarded Georgia the honor of hosting World Tourism Day in 2024. This resolution was made during the 68th commission meeting in Sofia, Bulgaria, where representatives from 38 member countries deliberated and finalized the selection. The 2024 theme, "Peace and Tourism," holds profound significance in today's world. Through dialogue and collaboration, World Tourism Day 2024 aims to foster understanding, promote cultural exchange, and build bridges of peace across borders.

On January 29-31, in Madrid, Spain, Georgia attended the world's most influential gastro congress Madrid Fusión 2024, including a "show kitchen" at the Georgian stand. By participating in Madrid Fusión 2024, people from all over the world had a chance to discover Georgian cuisine.

The world-famous chef Jamie Oliver visited Georgia as part of the GNTA marketing campaign. He has since begun sharing videos, stories and photos about Georgian tourism destinations and Georgian dishes on various online platforms (over 20 million followers on Instagram and Facebook combined, and nearly six million on YouTube).

[80] Procurement Dispute Resolution Council Activity Report 2023

[81] European Commission's First Annual Enlargement Report on Georgia 2023

The GNTA also promoted the country's gastronomic tourism potential for the first time at the National Geographic Traveler Food Festival in London. Four sessions of masterclasses of wine and food from the country were delivered at the event and included wine tasting and a kitchen show at the Georgian stand over two days. About 15,000 people visited the event during both days.

BUILDING REGULATIONS REFORM

The requirement to bring specific construction norms in line with European standards in Georgia is based on a provision of the EU-Georgia Association Agreement. According to the agreement, Directive 305/2011 (Construction Products Regulation) 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 for the European single internal market.

Although the Association Agreement (AA) does not explicitly require the introduction of Eurocodes, adherence to the AA indirectly implies the need for implementing these codes. The AA obliges the integration of several European norms, which cannot be achieved without the corresponding European standards, namely, Eurocodes. Therefore, Georgia has decided to implement the European Design Codes and started the process to strengthen the economic and geographical (logistical) ties with the European Union and to approximate its construction sector to the European model. An important part of the Eurocodes, together with the national annexes, are in force in country via government resolutions.

The legislation on construction products is now extended to 22 different types of construction products. However, starting from January 1, 2025, 101 additional construction product groups will be regulated under the relevant technical regulation. Georgia is aligned with the directives on energy labeling and energy performance in buildings. Fifteen energy efficiency bylaws were adopted in 2022 and 2023. The remainder of the implementing legislation is waiting to be adopted. On energy labeling, 14 technical regalements have been submitted to the government for approval. The first draft of the long-term building renovation strategy has already been developed. In 2024, amendments to the Law on Energy Efficiency of Buildings were approved in accordance with recast Energy Performance of Buildings Directive. The Georgian law on the energy efficiency of buildings aims 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.[82]

It's noteworthy that the Minimum Energy Performance Requirements for Buildings, Parts of Buildings, or Building Elements (MEPRS) have been enforced. The resolution governing MEPRS was recently amended, introducing an alternative way of verifying compliance based on a new software tool that was designed to issue and validate declarations of conformity. During the transitional phase, these minimum energy efficiency requirements are applicable to all newly constructed buildings, building units, and building elements. After the transitional period, MEPRs will also apply to existing buildings in the event of major reconstruction (the reconstruction of more than 25% of the surface of a building envelope). However, there can be exceptions to the rule if carrying out these requirements during the building's lifecycle is proven to be not cost-effective.[83]

Particular emphasis should be placed on the EBRD-financed project to digitalize the construction permit and administration process for buildings of special importance, which envisages the

[82] European Commission's First Annual Enlargement Report on Georgia 2023

[83] The official website of Georgian National Energy and Water Supply Regulatory Commission (https://gnerc.org/ge)

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.[84]

INTELLECTUAL PROPERTY REFORM

The protection of intellectual property rights (IPR) is crucial for international trade facilitation. Georgia has long been a member of the World Intellectual Property Organization (WIPO) and the WTO. In accordance with the EU-Georgia Association Agenda, Georgian intellectual property legislation is aligned with international agreements and normative acts of the European Union.

From January 15, 2024, the Agreement between the Government of Georgia and the European Patent Organisation on Validation of European Patents entered into force. On the basis of this agreement, it is now possible to validate European patent applications and patents granted by the European Patent Office in Georgia. Georgia became the fifth country with validation status and the 45th country where patent protection is possible on the basis of a European patent application. European patent applications and patents validated in Georgia under the Validation Agreement will have the same legal effect and be subject to the same legal conditions as a national patent application and a national patent.

On March 8, 2024, the Law of Georgia "On Making Amendments to the "Trademark Law" of Georgia" entered into force. By enacting of the Law, the mechanisms of legal protection of trademarks in Georgia has been improved and elaborated, efficiency and uniformity have been ensured, and Georgian legislation in the field of trademark protection has been harmonized with the European Union legislation, and the powers of the Chamber of Appeals, the dispute hearing body functioning at Sakpatenti, have been increased. Namely, a decision on a trademark registration can be appealed against at the Chamber of Appeals on the same grounds as, according to the current legislation, was possible to request annulment of the registration only in court. The issue of recognition of a well-known trademark has been brought into compliance with international standards. Along with this, a new category – certification mark – has been added to the existing category of trademarks.

From January 1, 2024, by the initiative of the European Union Intellectual Property Office, a new regional project of the European Union – EU4IP – was launched, which together with Sakpatenti will be implemented with the State Agency on Intellectual Property of Moldova and the Ukrainian National Office for Intellectual Property and Innovations. The objective of the new project is to contribute to an adequate and effective level of registration, protection, and enforcement of IP rights in Georgia, Moldova, and Ukraine. The project aims to support the adoption of European and international best practices to create a favorable environment for innovation, creativity, and free competition in the participating countries. To date, the first meeting of the Steering Committee took place, during which the first work plan was approved. The plan describes in detail the activities to be implemented during the first phase of the Project (July 1, 2024 – December 31, 2025).

On May 30, 2024, the Law of Georgia on Patent Attorneys and the related draft amendments entered into force, on the basis of the amendments made to the Law of Georgia on Patents. This law establishes a new legal regulation based on best international practices for patent attorneys in terms of education, work experience, qualification exam as well as continuous education after receiving qualification and insurance of professional responsibility. A new standard for the qualification exam of patent attorneys were developed based on this law.

[84] *The official website of the Ministry of Economy and Sustainable Development of Georgia (https://www.economy.ge/)*

In 2024, the process of digitization of paper archival materials started at Sakpatenti. Sakpatenti is guided by the recommended standard of the National Archives, according to which, the first stage of creating the archive is examining all documents from the foundation of Sakpatenti to the present day, drafting descriptions, and signing a waste paper act for documents to be destroyed. Next, the paper material can be digitalized, which will enable easy and fast access to documents in electronic and material formats at Sakpatenti. The initial version of the electronic system necessary for digitization was created using the agency's own resources. After scientific-technical processing, the archival material at Sakpatenti will be digitized fully.

The Intellectual Property Teaching and Training Center in cooperation with WIPO Academy administers the Distance Learning General Course on Intellectual Property. In 2024, the spring session of the general course on intellectual property was held.

To enhance the professional development of the examiners at the Sakpatenti Department of Inventions and New Varieties and Breeds, in May and June 2024 a cycle of training sessions was conducted on freedom to operate search in various fields (chemistry, biotechnology) as part of the Sakpatenti and the Swiss Federal Institute of Intellectual Property joint project.

Moreover, according to a resolution adopted by Parliament on September 17, 2024, Georgia joined the "Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired, or Otherwise Print Disabled" of June 27, 2013.[85]

Some of the planned future initiatives include the ratification of the Geneva Act – the "Lisbon Agreement for the Protection of Appellations of Origin and their International Registration" of October 31, 1958; the drafting amendments to the Law of Georgia "On Design"; drafting amendments to the Law of Georgia "On Copyright and Related Rights"; reforming qualification of patent attorneys, including holding the qualification exam of patent attorneys, the introduction of a special preparatory course, the introduction of standards of continuous professional education and relevant courses; the introduction of the Master's Program "Intellectual Property, Innovation and Entrepreneurship".

2.5. THE EU MARKET AND DCFTA

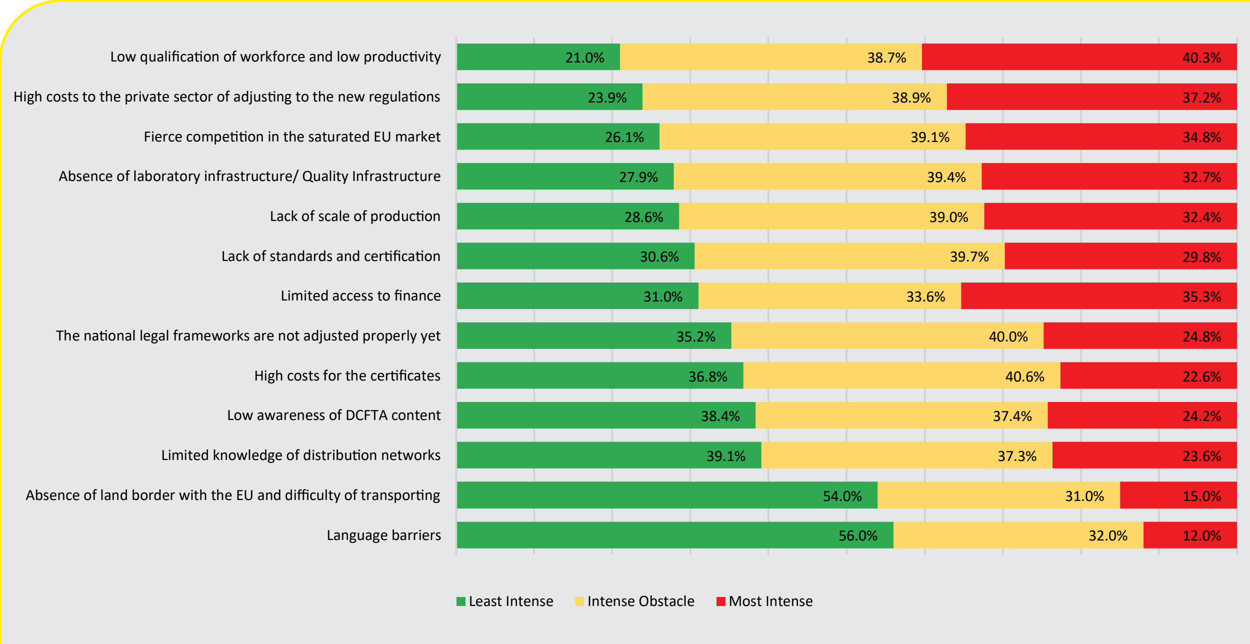
Many companies participating in the EU Business Climate Survey already trade or aim to trade with the EU. Therefore, our report continuously addresses the issues related to the EU market and DCFTA.

Nearly a decade after the EU and Georgia signed the DCFTA, it remains unclear whether this agreement is achieving its desired objectives. While long-term and indirect benefits often surpass direct ones, trade between the EU and Georgia has stagnated, making it urgent to take steps to reverse the trend and implement the measures needed to reap the advantages the DCFTA offers.

As highlighted in the introductory section of this report, this year marked a decline in trade figures with the EU, which underscores the need for decisive action to reverse this trend.

According to the surveyed businesses, the key obstacles preventing Georgian companies from fully benefiting from the DCFTA and accessing the EU market include a low-skilled and low-productivity workforce, high regulatory compliance costs, and intense competition in the EU market. Absence of laboratory/quality infrastructure comes next in the list.

[85] *The official website of Sakpatenti (https://www.sakpatenti.gov.ge/)*



Barriers to Accessing the EU Market (2024)*

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

It is not surprising that micro and small firms are more concerned about competition in the EU market and access to finance, low qualification of workforce, and low productivity. For medium and large firms, compliance costs come into play, compounded by the absence of regular laboratory/ quality infrastructure. This varied landscape underscores the need for a tailored approach by firm size and industry to better prepare companies for exporting to the EU.

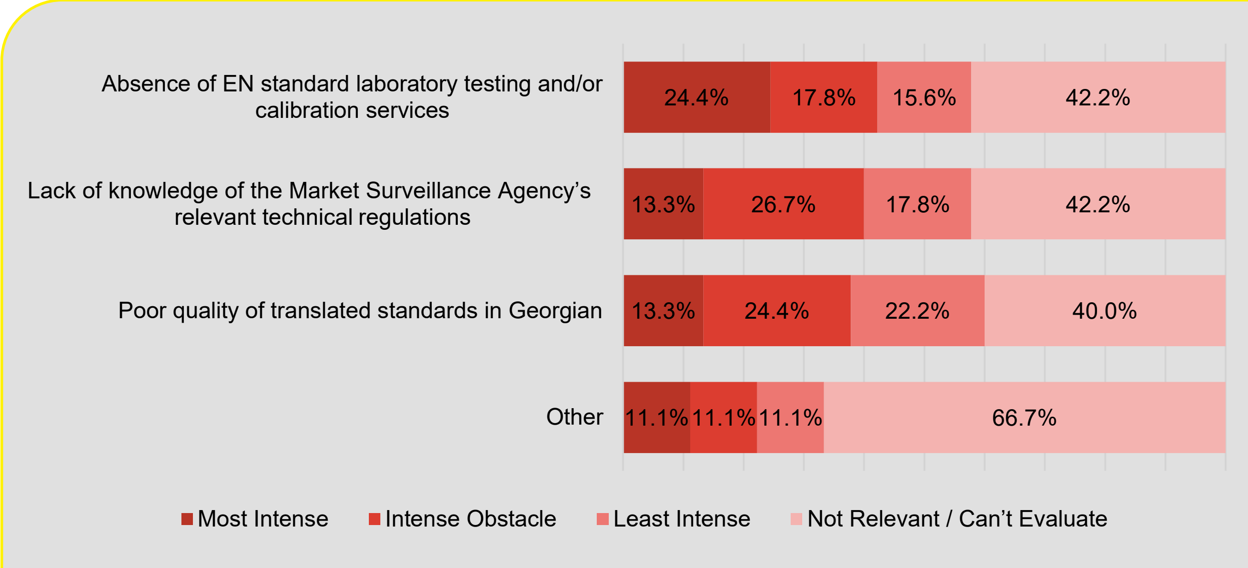
Rankings of Top Five Barriers to Access the EU Market by Firm Size

#	MICRO (UP TO 10 EMPLOYEES)	SMALL (11-50 EMPLOYEES)	MEDIUM (51- 250 EMPLOYEES)	LARGE (OVER 250 EMPLOYEES)
1	Fierce competition in the saturated EU market	Low qualification of workforce and low productivity	High costs to the private sector of adjusting to the new regulations	Absence of laboratory infrastructure/ Quality Infrastructure
2	Limited access to finance	Lack of scale of production	Absence of laboratory infrastructure/ Quality infrastructure	High costs to the private sector of adjusting to the new regulations
3	Low qualification of workforce and low productivity	Lack of standards and certification	Lack of standards and certification	Fierce competition in the saturated EU market
4	High costs for the certificates	High costs to the private sector of adjusting to the new regulations	Low qualification of workforce and low productivity	Low qualification of workforce and low productivity
5	Lack of standards and certification	Absence of laboratory infrastructure/ Quality infrastructure	Fierce competition in the saturated EU market	The national legal frameworks are not adjusted properly yet

2.6. QUALITY INFRASTRUCTURE FOR INDUSTRIAL PRODUCTS

Georgian producers of industrial products face a range of challenges when attempting to trade both locally and in the EU market. Despite the country's significant trade agreements, such as the DCFTA with the EU, these producers encounter obstacles that hinder their ability to compete effectively. Besides overall obstacles to do business that complicate efforts to expand both domestically and internationally, this industry has its specific challenges. These challenges include ensuring compliance with international standards, navigating complex regulatory environments, dealing with high production costs, and overcoming logistical difficulties. Addressing these barriers is essential to increase Georgia's industrial competitiveness and unlock the full potential of its markets.

The EU Business Climate Survey identified suitable industrial enterprises to respond to the question about the key obstacles related to trade on the local and the EU market. The question was marked for industrial companies only and about 30% of the respondents replied to this question as relevant to them. To ensure a high level of legitimacy in the analysis, only responses from qualified sectors were used for the evaluation. A total of 45 responses met the criteria for sector relevance. Below is a detailed breakdown of the selected responses, categorized by company sector and size. Overall, cumulatively 42.2% of relevant enterprises identified the lack of EN-standard laboratory testing and calibration service infrastructure as either the most critical issue (24.4%) or a significant concern (17.8%). This was followed by the lack of awareness about the Market Surveillance Agency and its technical regulations, which was highlighted by 40% of respondents. The third most pressing issue, with a cumulative intensity of 37.7%, was the poor quality of Georgian language translation of the standards.



Key Obstacles for Georgian Producers of Industrial Products to Trade on the Local and the EU market (2024) * **

**Relevant responses/sectors only*

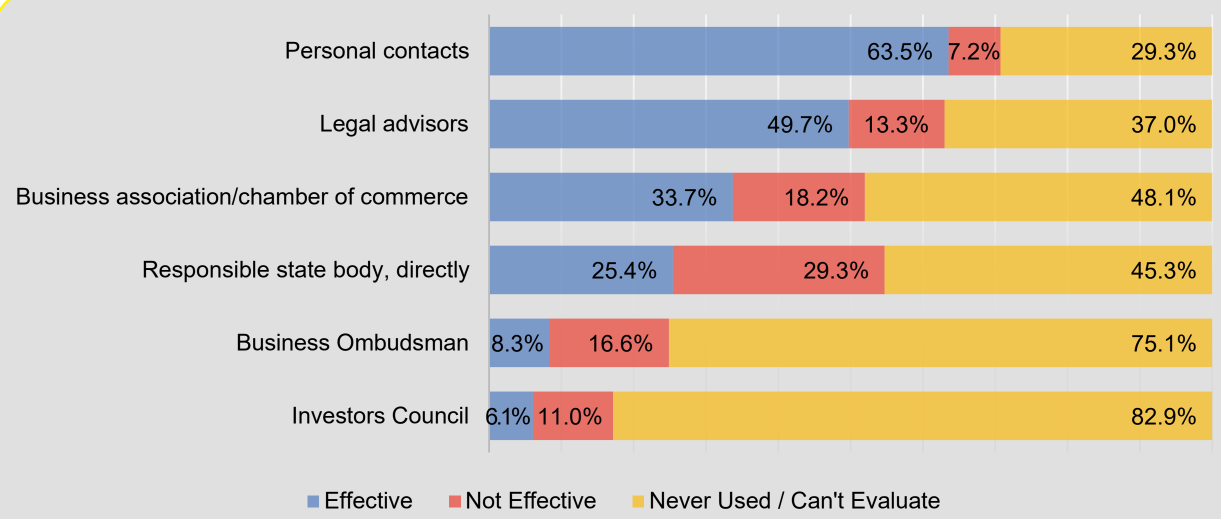
***Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

To enhance the competitiveness of the industrial sector in Georgia, efforts must focus on implementing the DCFTA and related EU commitments. These initiatives should prioritize key areas such as business, trade, environmental sustainability, and aligning workforce skills with market needs. A critical step is optimizing the regulatory and policy framework for quality infrastructure and ensuring alignment with EU and international standards to increase the competitiveness of Georgian goods and services. There is also a need to strengthen the compliance of conformity assessment bodies, laboratories, and local producers with these standards. Equally important is raising awareness among Georgian companies about the benefits of adhering to private standards or state regulations, as well as promoting the services provided by public and private organizations in the system. Finally, fostering closer cooperation between quality infrastructure institutions and private sector actors is essential to achieving these goals and building a more resilient and competitive economic landscape.

2.7. WAYS TO SOLVE BUSINESS ISSUES

Business Support Organizations (BSO) play a crucial role in shaping a country's business climate. By offering targeted advocacy and member services, BSOs support private sector organizations and address challenges that individual businesses cannot tackle alone. Robust BSOs can help overcome numerous obstacles for businesses, fostering a more resilient and supportive environment for growth.

In spite of this, the results showed that that BSOs in Georgia still play a mediocre role: 48.1% of the responding businesses did not use this channel for solving issues. Businesses gave high scores in both usage and effectiveness to personal contacts as a way to solve issues with the business climate. Of the surveyed businesses, 33.7% used BSOs effectively, whereas 18.2% used BSOs but ineffectively. Legal advisors come next in terms of usage and effectiveness.



Usage and Effectiveness of Different Ways to Solve Business Issues (2024)*

**Due to rounding percentage figures to the nearest decimal, the total may not sum to exactly 100%.*

BSOs clearly need to improve their effectiveness at addressing issues, as there is significant potential to shift the burden away from reliance on personal contacts and costly legal advisors. Instead, BSOs and associations can play a greater role in this process, particularly for smaller firms that lack the capacity to engage directly with relevant state bodies or leverage personal networks for support.

Platforms like EECP can play a critical role in strengthening the effectiveness of BSOs and associations, amplifying their collective voice, and advocating for improvements that benefit the overall business climate in the country.

METHODOLOGY

The EU Business Climate Report uses three main methodological elements, which complements each other.

Desk Research. This is the basic starting point and the first stage, which includes a comprehensive desk study of the available materials on the subject of business obstacles, economic reforms in the country, attitudes of enterprises toward these reforms, and other topics covered by the research. This includes secondary reports, statistics, and descriptive texts from responsible state agencies.

Again, this year, special gratitude goes to 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 method is mainly used for fact-finding and for developing insights into the featured topic, which this year was *workforce deficit and skills development*. We approached and interviewed key informants, experts, and business representatives, who provided valuable insights and inputs on the subject.

Quantitative online survey of businesses. This is a central element of the EU Business Climate Report. The quantitative survey gives us the possibility to approach the wider private sector, assess and test a different subject and validate the findings about this subject. The questionnaire is a semi-structured instrument, which is distributed online, primarily targeted at a convenience sample of EU-related enterprises working in Georgia. The questionnaire is distributed among the members of the associations under the EECP as well through the embassies and missions of the EU countries to their contact list of the European businesses operating in Georgia. A large majority of questions were similar to the previous year's survey, allowing the team to make valuable comparisons.

Case study approach. This year's featured topic section highlighted workforce deficit and as well as need for skills development by the companies. To demonstrate an exemplary cost-benefit analysis for skills development efforts, a case of a specific company, a member of the EBA, was developed. This was a methodological novelty for the report.

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