

Georgia
Investors Council Meeting
3 February 2020

Explanatory Notes to the Agenda

Progress on decisions of the last meeting of IC dated May 7, 2019

1. Appointment of the new Head of Secretariat

After the selection process and based on a joint submission by EBRD, BAG and MoESD Mr. Giorgi Cherkezishvili has been appointed as the new Head of IC Secretariat by the decree of the Prime Minister of Georgia on January 27, 2020.

2. Addition of the new members to the Investors Council

At the previous meeting Investors Council approved addition of two business association as rotating members of the council. According to this decision, call for applications was announced in June 2019. Six business associations applied and after a competitive selection process, two rotating members were selected to join the IC: The German Business Association and Georgian and Turkish Businessmen's Association. These business associations will serve as members of the council for the period of 8 Investors Council meetings or approximately 2 years.

3. Insolvency Reform

The draft law on insolvency (New Title: Draft Law on Rehabilitation and Collective Satisfaction of Creditors) has been developed by MoJ and GIZ Drafting Group. The draft improves significantly the current insolvency legislation, and addresses concerns currently faced by both the secured and unsecured creditors.

The current Law on Insolvency Proceedings has many flaws, e.g. competences of the trustee and the managers of the debtor are not clearly defined, the obligation of the bankruptcy trustee to collect assets of the debtor for distribution to creditors is not clearly articulated, the law does not provide for a possibility to convert bankruptcy into rehabilitation.

The principal agreement on two major outstanding issues raised by ICS and other stakeholders - Role of NBE and priority of tax liens - has been reached between the involved state actors and the relevant changes have been detailed in the draft.

The document underwent the scrutiny of international experts and IFIs, whose overall assessment is very positive. Furthermore, MoJ in cooperation with the newly founded Association of

Insolvency Practitioners organized several public-private dialogue events to discuss with the stakeholders the forthcoming reform of the insolvency law.

In its current shape, we believe the draft is ready for the legislation process, and the reform should move forward as soon as feasible

4. Legislation Reform on Investment Funds Activities

ICS worked with the MoESD, MoF, and NBG on drafting a new Law on Investment Funds. For this purpose, a working group was established comprising the key players from the relevant sectors that reviewed and commented on the draft.

Detailed consolidated comments have been provided to NBG and MoESD. A part of the recommendations has already been reflected in the revised version of the draft law.

Further recommendations might be included in secondary (subordinate) normative acts to be adopted by NBG as the regulator of the capital markets.

One of the most important aspect of the relevant legal framework is taxation of investment funds and its investors. The choice of tax rules for investment funds requires balancing multiple objectives: not to obstruct the development of financial intermediaries, such as investment funds; to devise tax rules that are comparable to those that apply to other investments, and to adopt tax rules that can be administered and enforced.

ICS and the Working Group are ready to cooperate with MoESD, MoF and NBG for making the relevant legal framework as supportive as possible for this emerging and still underdeveloped industry.

Need for having a new law on investment funds in line with the international best practice while giving enough flexibility to the industry considering the level of development of the Georgian economy and financial markets is recognized by all participants. However, differences, as to the proper level of detail in the new draft, persist.

Proposed new issues

1. Investors Council Work Plan 2020-2021 (Annex 1)

2. Construction permits

Construction is one the largest sectors of Georgia's economy. The sector has been exhibiting steady growth over past several years. Over the same period construction regulations have been tightening in line with general trend of harmonization with EU regulations. While this is undoubtedly a positive development, it is important to maintain efficiency of the procedures of issuing of construction permits and to ensure adequate quality control during construction.

Complaints have been voiced by the representatives of the sectors regarding prolonged and nontransparent process of the permit issuance. Improvements in this direction will have a significant positive effect on development of the sector and on investor sentiment.

3. New Labor Legislation

Discussions of the labor code are on-going. The Parliament has engaged in intensive consultations over the last month. However, there are considerable concerns in the business community that drastic changes to regulations governing the workplace could have severe negative consequences.

There are problems that need to be addressed. Safety issues facing workers need to be regulated and those regulations enforced, but we already in the position where many regulations seem excessive. Offices have to hire 'work-safety specialists' to oversee compliance on desk set-up, office health policy etc. but the government does not have enough well-trained inspectors to manage genuine safety risks on construction sites, in factories and down mines. This creates additional costs on issues that are simply not a problem.

Also, if the current code goes into effect then it will create more unneeded and expensive regulations, for example, high-paid lawyers and accountants would not be able to work long-hours during their busiest seasons. Therefore, as we discuss below in terms of the Association Agreement implementation generally, it is important that labor regulations are subject to strong review by stakeholders, to ensure that they do not harm the Georgian economy and create unemployment.

4. Compulsory Standardization GMP 2022

Georgian pharmaceutical sector has been identified as one of the most attractive for investors, both foreign and domestic. According to numerous studies Georgia holds competitive advantage in Pharmaceutical production and has a significant export potential. However, the development of the sector has been relatively slow. This was caused to a significant extent by the lack of internationally recognized manufacturing standards (GMP - Good Manufacturing Practice). But this issue was solved by the current legislation - since 1 July of 2019, compliance with the GMP standard has been voluntary and any company interested in GMP certification has being allowed to comply with the standard. It is also worth mentioning that there is no obligation and record on mandatory (GMP) standardization under DCFTA Agreement.

According to a resolution of the Government of Georgia, such standards will come into force on January 1, 2022 and will be mandatory for all domestic producers. According to Article 8 of the same resolution (No. 349 of 2010), the Government of Georgia has, since the first quarter of 2019, been obliged to support the manufacturers of pharmaceutical products by developing and implementing a support program. The status quo as of now is such that out of about 75 Georgian pharmaceuticals manufacturers, apparently, only 3 will manage to comply with the regulations until the mentioned date. In contrast, additional 15 companies are willing and ready to invest in compliance with the standard on a gradual basis. At the same time, relevant government authorities also seem to be behind the schedule in their preparation for introduction of compulsory GMP.

Although domestic production sector is relatively small and represents an insignificant share of Georgian pharmaceuticals market keeping in mind its potential for growth and social significance, it deserves attention of the IC. This issue was raised by the IC members and the ICS deems expedient to establish a working group involving the representatives of the sector and the relevant authorities. By the initial meetings with the stakeholders it was identified that the lack of communication is one of the main problems and the working group could address this issue in the first place. ICS could also facilitate technical assistance from foreign donors to the representatives of the sector to help them quickly come up with action plan for improvement. There are certain legislative issues, lack of state support programs and potential tax benefit schemes that can also be discussed within this platform.