

Georgia

RISK & COMPLIANCE REPORT

DATE: March 2018

Executive Summary - Georgia	
Sanctions:	None
FATF list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products: citrus, grapes, tea, hazelnuts, vegetables; livestock</p> <p>Industries: steel, machine tools, electrical appliances, mining (manganese, copper, and gold), chemicals, wood products, wine</p> <p>Exports - commodities: vehicles, ferro-alloys, fertilizers, nuts, scrap metal, gold, copper ores</p> <p>Exports - partners: Azerbaijan 13.8%, US 8.5%, Germany 8.3%, Bulgaria 7.4%, Kazakhstan 7%, Turkey 6.4%, Ukraine 6.3%, Lebanon 5.7%, Canada 4.2% (2012)</p> <p>Imports - commodities: fuels, vehicles, machinery and parts, grain and other foods, pharmaceuticals</p> <p>Imports - partners: Turkey 13.9%, China 8.2%, Ukraine 8.2%, Russia 7.4%, Azerbaijan 7.1%, US 6%, Germany 5.6%, Bulgaria 4% (2012)</p>	

Investment Restrictions:

Georgia is open to foreign investment, and the Georgia National Investment Agency is implementing an aggressive marketing campaign to encourage more foreign investors to come to Georgia.

Exceptions to national treatment may be made by Georgia for investments in maritime fisheries; air and maritime transport and related activities; ownership of broadcast, common carrier, or aeronautical radio stations; communications satellites

Foreign individuals and companies are restricted from holding agricultural land in Georgia. However, according to the US Department of State 2012, there is a loophole in which agricultural land can be purchased by non-nationals and then transferred under the name of a Georgian entity; thus, land can be up to 100% foreign-owned.

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Section 1 - Background

The region of present day Georgia contained the ancient kingdoms of Colchis and Kartli-Iberia. The area came under Roman influence in the first centuries A.D., and Christianity became the state religion in the 330s. Domination by Persians, Arabs, and Turks was followed by a Georgian golden age (11th-13th centuries) that was cut short by the Mongol invasion of 1236. Subsequently, the Ottoman and Persian empires competed for influence in the region. Georgia was absorbed into the Russian Empire in the 19th century. Independent for three years (1918-1921) following the Russian revolution, it was forcibly incorporated into the USSR in 1921 and regained its independence when the Soviet Union dissolved in 1991. Mounting public discontent over rampant corruption and ineffective government services, followed by an attempt by the incumbent Georgian Government to manipulate national legislative elections in November 2003 touched off widespread protests that led to the resignation of Eduard SHEVARDNADZE, president since 1995. In the aftermath of that popular movement, which became known as the "Rose Revolution," new elections in early 2004 swept Mikheil SAAKASHVILI into power along with his United National Movement (UNM) party. Progress on market reforms and democratization has been made in the years since independence, but this progress has been complicated by Russian assistance and support to the separatist regions of Abkhazia and South Ossetia. Periodic flare-ups in tension and violence culminated in a five-day conflict in August 2008 between Russia and Georgia, including the invasion of large portions of undisputed Georgian territory. Russian troops pledged to pull back from most occupied Georgian territory, but in late August 2008 Russia unilaterally recognized the independence of Abkhazia and South Ossetia, and Russian military forces remain in those regions. Billionaire philanthropist Bidzina IVANISHVILI's unexpected entry into politics in October 2011 brought the divided opposition together under his Georgian Dream coalition, which won a majority of seats in the October 2012 parliamentary election and removed UNM from power. A new constitution shifting many powers from the president to the prime minister and parliament, including the power to name the prime minister and government ministers, does not go into effect until after a new president is elected in the fall of 2013. Conceding defeat, SAAKASHVILI named IVANISHVILI as prime minister and allowed Georgian Dream to create a new government. Tensions remain high as IVANISHVILI, SAAKASHVILI, and their supporters struggle to co-exist until the end of the president's term.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Georgia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Georgia was undertaken by the Financial Action Task Force (FATF) in 2012. According to that Evaluation, Georgia was deemed Compliant for 3 and Largely Compliant for 21 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2012):

The Georgian AML/CFT regime has significantly improved since the last assessment in 2007. The amendments to the legal framework enacted between 2008 and February 2012 have improved technical compliance with the FATF recommendations, in particular with respect to the criminalization of ML and FT and the preventive measures for financial institutions. Significant progress has been made since 2007 with regard to the effective use of the ML criminal provisions, provisional and confiscation measures, and international cooperation.

However, weaknesses remain with regard to compliance with key elements of the standard. A combination of technical deficiencies, poor implementation, and limited resources undermine the effectiveness of the financial intelligence unit (FIU) and AML/CFT supervision. In addition, there are still major loopholes in terms of transparency of legal entities, domestic cooperation, measures to prevent terrorism financing, and preventive measures for designated non-financial businesses and professions (DNFBPs).

These weaknesses should be urgently addressed in light of the significant ML /FT vulnerabilities and threats. These include: i) customers that are, or are owned by, offshore companies for which the identity of their beneficial owners is unknown or where the identity has not been verified; ii) a rapid and ongoing increase of nonresident deposits; iii) the development of private banking activities, including a clientele of foreign politically-exposed persons (PEPs); iv) the rapid growth of the casino business and rising number of non-face-to-face transactions; v) the existence of large Georgian-led criminal organizations abroad which exposes the risk of proceeds of crime being transferred back to Georgia; and vi) domestic statistics demonstrating the existence of major proceeds-generating crimes, such as corruption, tax evasion, and drug trafficking.

Georgia is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Much of the illegal income in Georgia derives from fraud, corruption, smuggling, tax evasion, and organized crime. There is a domestic market for illegal narcotics and narcotics also transit Georgia. The Russian-occupied territories of South Ossetia and Abkhazia fall outside the control of Government of Georgia authorities and are not subject to AML monitoring.

Georgian prosecutors and law enforcement authorities should put more emphasis on pursuing the link between organized crime and money laundering. Georgia also should develop a task force approach, which will facilitate greater exchange of information and cooperation among the relevant bodies.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Illicit income is mainly generated from fraud-related crimes (scams, stolen banking cards, etc.) and cybercrime, either in Georgia or abroad. Social engineering schemes are used most commonly to commit mass marketing fraud. Narcotics trafficking by organized criminal groups operating mainly abroad can produce proceeds laundered in Georgia. In 2016, Georgian authorities reported seizing significant volumes of illicit drugs. Banking systems and money transfer services are the primary means to move funds, where Georgia acts as just one link in the chain. Georgian banking institutions are used to transfer funds from one jurisdiction to another, often under the pretense of false documents or trade information. Georgia's banks cater to non-resident depositors and many offshore companies.

The extent of black market trading in the occupied territories of Abkhazia and South Ossetia is unknown.

KEY AML LAWS AND REGULATIONS

Georgia continues to implement its national AML/CFT Strategy and Action Plan that concentrate on terrorism financing criminalization, strengthening administrative mechanisms for targeted financial sanctions, and implementing preventive mechanisms.

Georgia's 2015 legislative amendments increase the power of the Financial Monitoring Service (FMS), Georgia's FIU, to suspend suspicious transactions temporarily; extend the reporting requirements to the cross-border transportation of cash, negotiable instruments, and securities through cargo containers and mail; increase sanctions for violation of the cross-border transportation of cash and securities rules; and strengthen the fit and proper criteria for owners and managers of gaming institutions.

In 2017, the FMS drafted a new AML/CFT bill that would overhaul the existing legal framework by implementing the 4th EU AML Directive (2015/849). The new law will strengthen CDD requirements for reporting institutions, including those related to ascertaining beneficial

owners of legal entities and arrangements, such as trusts. The FMS is currently soliciting comments and suggestions and plans to submit the draft law for the government's consideration in the coming months.

Georgia implemented comprehensive KYC rules and STR regulations in compliance with international standards. According to the Georgian AML law and relevant bylaws, all transactions, including attempted transactions, shall be reported when there are reasonable grounds to believe that money laundering or a predicate offense is taking place. The FMS shares operational information with its colleagues on a regular basis. Georgia does not require a formal agreement or MOU to share information with Egmont Group member FIUs.

Georgia is a member of MONEYVAL, a FATF-style regional body

AML DEFICIENCIES

Enhanced due diligence (EDD) measures are applicable only to foreign PEPs. However, draft legislative amendments submitted for the government's consideration in May 2017 extend the requirement to apply EDD measures to domestic PEPs and the heads of international (intergovernmental) organizations.

The rapid growth of the gaming industry in Georgia and the corresponding lack of AML regulatory supervision are concerning. There are approximately 140 casinos in operation.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Governmental Commission on Implementation of United Nations Security Council Resolutions developed an AML/CFT national risk assessment tool. Georgia's first ever national money laundering and terrorism financing risk assessment (NRA) to identify relevant threats and vulnerabilities both at the national and sectorial levels is currently in progress. The NRA process will generate a report and an action plan to guide all future Georgian government efforts.

The strategy document of the prosecution service, adopted in February 2017, calls for an increase in the effectiveness of money laundering investigations and prosecutions, while focusing on the capacity development and skill-based training for prosecutors.

Investigations into narcotics, extortion, weapons of mass destruction, human trafficking, prostitution, and smuggling rarely include financial components. The Government of Georgia has not adopted a formal task force approach to money laundering; however, coordination and information sharing among various law enforcement and criminal justice agencies has improved. Georgian prosecutors and law enforcement authorities should put more emphasis on pursuing the link between organized crime and money laundering.

Between January 1 and October 1, 2017, there were 31 money laundering prosecutions and eight convictions.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Georgia conforms with regard to all government legislation required to combat money laundering

EU White list of Equivalent Jurisdictions

Georgia is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Georgia is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2017:

While not a significant illicit drug-producing country, Georgia's strategic location in the Caucasus makes it an attractive transit hub for transnational criminal organizations trafficking significant quantities of cocaine, marijuana, heroin, and synthetic drugs from Asia to European destinations via the Black Sea. In 2016, Georgian authorities reported seizing significant volumes of illicit drugs including a large seizure of 177 kilograms of heroin and other opioids at the Black Sea Port of Batumi in June.

Government, non-governmental organizations, and law enforcement seizures report that cannabis and buprenorphine, a synthetic opioid, remain the most commonly used drugs in Georgia. Experts believe an estimated 50,000 Georgians regularly use illicit drugs. During 2016, the Interagency Coordinating Council for Combating Drug Abuse drafted the 2014-2015 National Anti-Drug Strategy Action Plan, which awaited final Council approval at the year's conclusion. In 2016, the International Organization for Migration, with U.S. support and in a close partnership with the National Center for Disease Control and Public Health and Ilia State University, launched a drug abuse information and prevention campaign targeting Georgian youth in Tbilisi, Shida Kartli, and Samegrelo-Zemo Svaneti. The program focuses on psychoactive substance abuse among Georgian youth in eight schools in the three regions.

To counter organized crime and support international narcotics related investigations, Georgia has police attachés deployed to Azerbaijan, Armenia, Turkey, Ukraine, Belarus, Poland, Germany, France, Austria, Greece, and Spain. In 2016, Georgia deployed police attachés to Italy and Sweden.

In 2016, the United States continued to strengthen Georgia's counternarcotics capacity through operational and training efforts for both law enforcement officers and prosecutors. Specific assistance included advanced narcotics investigation training; regional drug unit commanders' training; canine interdiction refresher training; complex and conspiracy investigations training; a regional targeting conference; airport drug interdiction training; and building Border Police capacity. Furthermore, the U.S. Drug Enforcement Administration opened an office in Embassy Tbilisi in 2016 and established a permanent country attaché. The Government of Georgia continues to show a strong interest in further collaboration with the United States.

US State Dept Trafficking in Persons Report 2016 (introduction):

Georgia is classified a Tier 1 country - is a country whose government fully complies with the Trafficking Victims Protection Act's (TVPA) minimum standards.

Georgia is a source, transit, and destination country for women and girls subjected to sex trafficking and men, women, and children subjected to forced labor. Women and girls from Georgia are subjected to sex trafficking within the country, in Turkey, and, to a lesser extent, in China and United Arab Emirates. Georgia is also a transit country for women from Central Asia exploited in Turkey. Women from Azerbaijan and Central Asia are subjected to forced

prostitution in the tourist areas of the Adjara region and in saunas, strip clubs, casinos, and hotels. The majority of identified trafficking victims are young, foreign women seeking employment. Georgian men and women are subjected to forced labor within Georgia and in Turkey, Egypt, Cyprus, and Iraq. Georgian, Romani, and Kurdish children are subjected to forced begging or coerced into criminality in Georgia. No information was available about the presence of human trafficking in the separatist regions of Abkhazia and South Ossetia; however, the government and NGOs consider internally displaced persons from these occupied territories particularly vulnerable to trafficking.

The Government of Georgia fully meets the minimum standards for the elimination of trafficking. During the reporting period, the government increased the anti-trafficking capacity of its law enforcement through funding an unprecedented number of trainings for police, prosecutors, judges, and shelter operators. The government adopted a more victim-centered approach through the inclusion of victim witness coordinators from the initial stages of investigations through the end of court proceedings. The government continued to provide comprehensive care for all identified victims and increased services available to victims, including child care for dependents of victims staying in two government-operated shelters. The government established a labor inspectorate, hired 50 full-time labor inspectors, and provided them with comprehensive training on how to identify potential cases of trafficking. However, authorities convicted fewer traffickers, identified fewer victims, and restricted labor inspectors' ability to investigate workplaces. Victim identification of children in exploitative situations on the street, including forced begging and criminality, and Georgian and foreign workers in vulnerable labor sectors remained inadequate, and the government did not conduct a study on street children or devise a strategy to address the issue.

US State Dept Terrorism Report 2016

Overview: Georgia, a longstanding member of the Global Coalition to Defeat ISIS, continued its strong engagement with the United States across a range of counterterrorism-related issues and remained a solid U.S. global security partner. In August, Tbilisi City Court convicted ISIS fighter Davit Borchashvili to 12 years in prison for being a member of a terrorist organization and participating in terrorist activities. Georgian authorities continued to work toward greater information sharing with U.S. and regional counterparts on security issues. Georgia also made progress implementing a domestic program to counter violent extremism. Press reports suggested that, as of late last year, approximately 50 to 100 Georgian nationals were foreign terrorist fighters in Syria and Iraq. Given Georgia's geographic location, Islamist extremists have transited through the country between the Russian Federation's North Caucasus, Iraq, Syria, and Turkey.

Legislation, Law Enforcement, and Border Security: Georgia continued to enhance its counterterrorism legislation in 2016 and now has a substantial legal framework for prosecuting terrorism-related offenses. In line with UN Security Council resolution 2178, the government in 2015 changed its Criminal Code and other relevant legislation to criminalize foreign terrorist fighters and the incitement of terrorist acts. These amendments built on changes to the Criminal Code in 2014 that criminalized participation in international terrorism, recruitment for membership in a terrorist organization, and failing to hinder a terrorist incident.

The State Security Service of Georgia (SSSG) has the lead in handling terrorism-related incidents, and is generally well-equipped and well trained. Overall, the government is largely capable of detecting, deterring, and responding to terrorism incidents. While several ministries and offices share policy-oriented counterterrorism roles, SSSG has taken the lead on actionable facets of counterterrorism since splitting off from the Ministry of Internal Affairs in 2015.

Georgia has improved its overall border security, in part due to its goal of attaining visa-free travel to the European Union. Nonetheless, Georgia's lack of control over the Russian-occupied territories of Abkhazia and South Ossetia, its lack of diplomatic relations with Russia, and the country's harsh terrain limited its ability to secure its borders. Law enforcement uses cameras, terrorist watch-lists, and advance passenger name records to help detect potential terrorist movement at ports of entry; however, more comprehensive biometric and biographic screening at ports of entry and the implementation of standard operating procedures for dealing with suspicious individuals would enhance this capability. With significant U.S. support, the Georgian Coast Guard is better equipped to patrol the country's maritime borders, with the exception of Russian-occupied Abkhazia's coastline. The U.S. government continued to enhance the Georgian government's ability to detect and interdict weapons of mass destruction. Georgia shares cross-border terrorism-related information with its southern neighbors – Armenia, Azerbaijan, and Turkey – through police attachés and working-level interaction at border crossings.

Countering the Financing of Terrorism: Georgia is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. Georgia's financial intelligence unit, the Financial Monitoring Service of Georgia (FMS), is a member of the Egmont Group of Financial Intelligence Units.

Georgia's amendments to terrorist financing legislation to address shortcomings highlighted in MONEYVAL's 2007 evaluation – such as gaps in the terrorist financing offense and poor financial sector supervision – came into force in 2014. The government is currently in the process of implementing an action plan for countering money laundering and terrorist financing to further improve regulations and build capacity. In response to recommendations from MONEYVAL and FATF, the government established the Interagency Commission on Implementation of UN Security Council resolutions (UNSCRs) to coordinate the government's immediate compliance with UNSCR 1373 and the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime.

International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	56
World Governance Indicator – Control of Corruption	74

Corruption presents a low business risk for companies looking to invest in Georgia. Overall, the country has had success in reducing corruption. Increasing government transparency and efficiency have led to Georgia becoming one of the easiest places in the world to start a business and to deal with licenses and permits. Georgia has made great progress in fighting visible low-level corruption, but high-level corruption by public officials remains a problem. Georgian anti-corruption legislation is largely contained within the Criminal Code which provides for a robust legislative framework for curbing corruption in the country, even though enforcement, which has been hampered by a lack of independence of law enforcement agencies, still lacks in some sectors. Deficiencies, for instance, exist in the judiciary and in public procurement. Georgian law does not make an exception for facilitation payments, so these should be assumed to be prohibited. Gifts are not commonly expected in everyday business transactions in Georgia. **Information provided by GAN Integrity.**

US State Department

Under the leadership of President Saakashvili, Georgia took dramatic action to reduce petty corruption. Saakashvili's anti-corruption efforts resulted in the arrests of former officials, the radical downsizing of state bureaucracies, and effective crackdowns on smuggling. Consequently, state revenue collection has increased several fold since 2004. The government completely disbanded the notoriously corrupt traffic police in mid-2004 and citizens' service agencies have been reformed into Public Service Halls where citizens can efficiently obtain numerous government services in a single building. They are considered a showcase of Georgia's successful reforms.

Following transfers of power in 2012 and 2013, then Prime Minister Bidzina Ivanishvili and his successor Prime Minister Irakli Garibashvili both pledged to strengthen Georgia's anti-corruption stance. Alleging elite corruption under the previous government, the new government launched a number of investigations and prosecutions against former officials, although the parliamentary opposition has alleged these prosecutions are politically motivated and amount to persecution of the United National Movement party. As of May 2014, many of these cases are ongoing.

Articles 332-342 of the Criminal Code criminalize bribery. Senior public officials must file financial disclosure forms which are posted online and Georgian legislation provides for civil forfeiture of undocumented assets of public officials who are charged with corruption offenses. Penalties for accepting a bribe start at six years in prison and can extend up to 15 years depending on the circumstances accompanying the offense. Penalties for giving a

bribe can include a fine, a minimum prison sentence of two years, or both. In aggravated circumstances, when a bribe is given to commit an illegal act, the penalty can be from four to seven years. Abuse of authority and exceeding authority by public servants are criminal acts under Articles 332 and 333 of the criminal code and carry a maximum penalty of 8 years imprisonment. The definition of a public official includes foreign public officials and employees of international organizations and courts. White collar crimes such as bribery fall under the investigative jurisdiction of the Prosecutor's Office.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Georgia is not a signatory to the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Georgia has, however, ratified the UN Convention against Corruption. Georgia cooperates with the Group of States Against Corruption (GRECO) and the OECD's Anti-Corruption Network for Transition Economies (ACN).

Following its assessment of Georgia in October 2009, the OECD released a report in March 2010 that concluded Georgia had significantly reduced corruption levels over the past four years. In September 2013, the OECD conducted its third monitoring of Georgia and its report noted further progress made since the 2010 monitoring round. The 2013 report credited Government of Georgia efforts from 2010-2013 to implement important reforms aimed at further decreasing the level of corruption and specifically for publishing an anti-corruption strategy and action plan, reforms to ensure the autonomy of criminal prosecutions and excluding the Minister of Justice from the prosecutorial hierarchy, and for establishing a legislative framework for the system of internal audits in the public sector. However, the report suggested that reforms should continue in order to strengthen the Anti-Corruption Interagency Council and improve judicial integrity. The full report is available at <http://www.oecd.org/corruption/acn/GEORGIAThirdRoundMonitoringReportENG.pdf>

Since 2003, Georgia has significantly improved its ranking in Transparency International's Corruption Perceptions Index (CPI) report. In 2013, Georgia's CPI score was 49 and it ranked 55 out of 177 countries surveyed in the Corruption Perception Index, ahead of several EU member states, including the Czech Republic, Latvia, Slovakia, Romania, and Bulgaria, and slightly below Rwanda, Lithuania, Costa Rica, and Hungary.

Corruption and Government Transparency - Report by Global Security

Political Climate

Georgia has struggled with years of civil war, unstable institutions and rampant corruption. Lack of good governance, coupled with a rigged election in late 2003, culminated in mass popular protests. The protests (also known as the Rose Revolution), was a positive turning point in Georgia's political and economic development, which forced the resignation of the President in 2003 and ended with the subsequent landslide election of Mikheil Saakashvili in 2004. In September 2007, the former defence minister accused Saakashvili of corruption, which stirred a nationwide anti-government demonstration. The government's handling of the demonstrations dealt a heavy blow to Saakashvili's government, and in a subsequent compromise solution, an early presidential election was held in January 2008 where

Saakashvili was narrowly re-elected. In 2011, billionaire Bidzina Ivanishvili formed his own political party, the Georgian Dream, which won the parliamentary election in October 2012. Ivanishvili became the Prime Minister of Georgia, ending Saakashvili's nine-year complete dominance of Georgian politics. According to a 2012 article by Reuters, it did not take long before the changes to the Georgian political arena became obvious. In December 2012, several former senior officials were detained and charged with large-scale bribery. Since the new administration was established, more than 20 officials have been arrested and some have been charged with abuse of power. Critics characterise the arrests as politically motivated, according to the article.

For several years, the Georgian government, led by President Saakashvili, placed anti-corruption efforts, together with economic reform, at the top of its agenda. Since 2004, Georgia has seen tremendous progress in the clampdown on corruption and reinstatement of good governance. Examples of such efforts include a total dissolution of the corrupt traffic police in mid-2004, and a raise in salaries of state officials. In addition, the Anti-Corruption Interagency Council was established in 2008 and significant progress was made in criminalising corruption in line with international standards. The OECD praised Georgia in its Second Round of Monitoring Report Georgia 2010, for significantly reducing the level of corruption in the past four years. In a similar vein, a 2012 report released by the World Bank also praises Georgia's unique success in combating corruption and says it has demonstrated that success can be achieved in a relatively short period of time, given strong political will and concerted action by the government.

According to Transparency International's Global Corruption Barometer 2010-2011, the judiciary and the political parties are perceived to be the two most corrupt institutions in Georgia by the general public. However, a significant percentage of the households surveyed, perceive the government's efforts in fighting corruption as 'effective', and approximately two thirds of the households perceive that the level of corruption in Georgia has decreased in the past three years. While low and mid-level corruption have largely been reduced in recent years, corruption continues to persist at the top tier of the government, and the administration's insularity has fostered opportunities for cronyism and inside deals, according to several reports, including Freedom House 2012 and the Bertelsmann Foundation 2012.

Business and Corruption

According to a 2010 report by the World Bank, Georgia has the biggest shadow economy relative to official economic activity in the world, which hampers the transparency of the country's business environment. The government's huge loss in official tax revenues results in an increased burden of taxation, combined with a rapid decline of the official economy and the decreasing quality of public goods and services. According to the World Bank & IFC Enterprise Surveys 2008, 52% of the companies surveyed claim to be competing against unregistered companies. The US Department of State 2012 reports that additional issues companies have to deal with are often connected to the lack of judicial independence, lack of intellectual property right enforcement, and selective enforcement of economic laws.

In order to encourage foreign investment, the Georgian government promotes comparatively low income taxes and liberal regulation. The Heritage Foundation 2013

describes the Georgian economy as 'mostly free' as a result of its remarkable regulatory reforms in recent years. On the other hand, a 2010 article by Carnegie Endowment points out that free and fair competition is still lacking in Georgia, and monopolies continue to dominate nearly every sector of the economy.

While low-level corruption appears to be on the retreat in Georgia, companies identify crime, theft and disorder as some of the major constraints that hamper the business climate, as illustrated in the Enterprise Surveys 2008. According to World Economic Forum Global Competitiveness Report 2012-2013, business executives rank access to financing as the most problematic factor for doing business in Georgia, followed by an inadequately educated workforce and inflation. On the other hand, corruption is ranked among the least problematic factors for doing business. It is important to note that the experience level of corruption varies depending on the size of the company surveyed. For instance, according to the Enterprise Surveys 2008, 79% of small-sized companies expect to give gifts to obtain import licences, compared to none of the medium-sized and large companies. None, regardless of size, expect to bribe in order to secure a government contract. Except for obtaining import licences, the level of corruption within the business sector in Georgia is considered relatively low compared to the rest of Eastern Europe and the Central Asia region. Despite that nearly 15% of the surveyed companies stated that they expect to give gifts to 'get things done', the percentage is still well below the regional and world averages. It is recommended that companies develop, implement and strengthen integrity systems and conduct extensive due diligence when planning to invest in or are already doing business in Georgia.

Regulatory Environment

Most government reforms since 2003 have been aimed at improving the business climate by reducing administrative burdens. Several international sources, such as the Heritage Foundation 2013, the US Department of State 2012, and the Transparency International National Integrity System 2011, note that the regulatory environment in Georgia is efficient as a result of the government's efforts in pursuing a policy of deregulation and reducing administrative barriers to business. These efforts include improving and streamlining the tax and fiscal administration, streamlining licensing requirements, and deregulating and simplifying customs and border formalities. According to Freedom House 2012, many of the state services are now available electronically, thereby contributing to an increased transparency of regulations. According to the World Bank & IFC Enterprise Surveys 2008, senior management can expect to spend an average of only 2% of its time dealing with government requirements and regulations. Figures from the World Economic Forum Global Competitiveness Report 2012-2013 also illustrate that the burden of government regulation is amongst the least troubling; however, tax regulations are among the five most problematic factors for doing business in Georgia. The World Bank & IFC Doing Business 2013 ranked Georgia 9th out of 185 countries in regard to the ease of doing business worldwide. Starting a company in Georgia only requires 2 procedures and takes 2 days, at a cost of 3.8% of GNI per capita.

To promote investment in Georgia, the Georgia National Investment Agency (GNIA) was established to function as a 'one-stop shop' for investors. GNIA provides information about investment opportunities and relevant regulations and laws. Furthermore, GNIA assists in project implementation and liaises with the government. According to the Ministry of

Economic Development of Georgia Georgian Economic Outlook report, the Law on Licences and Permits was introduced in 2005 aiming to combat corruption, and to streamline licence and permit requirements. As a result, the total number of licences and permits was reduced by 84%. The Law contains two key principles: 'Silence is Consent Principle', meaning that if an administrative body fails to respond within the set timeframe, the licence or permit will automatically be granted. Under the 'One-Stop Shop Principle', the administrative body issuing the licence has to ensure the approval of additional licensing conditions by the other relevant administrative bodies. A simplified 2004 Tax Code that was enacted in 2006 has reduced the number of taxes and the level of corruption and abuse of power in this sector. In 2012, several service agencies were transformed in the one-stop-shop called Public Service Halls, where citizens, among other services, can access public records, get issued passports and submit business registrations. The largest public service hall in Georgia was opened on 21 September 2012. Besides the public services, the hall also houses branches of the private sector, such as banks, insurance companies, and consulting firms.

Foreign individuals and companies are restricted from holding agricultural land in Georgia. However, according to the US Department of State 2012, there is a loophole in which agricultural land can be purchased by non-nationals and then transferred under the name of a Georgian entity; thus, land can be up to 100% foreign-owned. The same source strongly recommends that investors exert extreme caution when looking to purchase property in Abkhazia, as identifying legal title is particularly troublesome in the region and the property may have been improperly placed on the market by the de facto authorities in Abkhazia. Despite that the legal framework to protect property rights has improved since the Rose Revolution, companies should still be aware that due to deficiencies in the judicial system, it can still pose problems protecting property rights, as reported by the Bertelsmann Foundation 2012. According to Georgian investment law, disputes between a foreign investor and a government office may be resolved in Georgian courts or at the International Centre for Settlement of Investment Disputes (ICSID), unless the parties agree to a different method of settlement. If the dispute is not taken to the ICSID, the foreign investor has the right to take the dispute to an international arbitration authority set up by the UN Commission on International Trade Law (UNCITRAL) to settle the dispute in accordance with the rules of the international arbitration agreement. Due to irregularities in the Georgian court system, companies that enter into contracts with private Georgian companies are advised to include a provision for international arbitration of disputes in their contracts. Access the Lexadin World Law Guide for a collection of laws in Georgia.

Section 3 - Economy

Georgia's main economic activities include cultivation of agricultural products such as grapes, citrus fruits, and hazelnuts; mining of manganese, copper, and gold; and producing alcoholic and non-alcoholic beverages, metals, machinery, and chemicals in small-scale industries. The country imports nearly all of its needed supplies of natural gas and oil products. It has sizeable hydropower capacity that now provides most of its energy needs.

Georgia has overcome the chronic energy shortages and gas supply interruptions of the past by renovating hydropower plants and by increasingly relying on natural gas imports from Azerbaijan instead of from Russia. Construction of the Baku-Tbilisi-Ceyhan oil pipeline, the South Caucasus gas pipeline, and the Kars-Akhalkalaki railroad are part of a strategy to capitalize on Georgia's strategic location between Europe and Asia and develop its role as a transit point for gas, oil, and other goods. The expansion of the South Caucasus pipeline, as part of the Shah Deniz II Southern Gas Corridor project, will result in a \$2 billion foreign investment in Georgia, the largest ever in the country. Gas from Shah Deniz II is expected to begin flowing in 2019.

Georgia's economy sustained GDP growth of more than 10% in 2006-07, based on strong inflows of foreign investment and robust government spending. However, GDP growth slowed following the August 2008 conflict with Russia, and sunk to negative 4% in 2009 as foreign direct investment and workers' remittances declined in the wake of the global financial crisis. The economy rebounded in 2010-13, but FDI inflows, the engine of Georgian economic growth prior to the 2008 conflict, have not recovered fully. Unemployment has also remained high.

The country is pinning its hopes for renewed growth on a determined effort to continue to liberalize the economy by reducing regulation, taxes, and corruption in order to attract foreign investment, with a focus on hydropower, agriculture, tourism, and textiles production. Georgia has historically suffered from a chronic failure to collect tax revenues; however, since 2004 the government has simplified the tax code, improved tax administration, increased tax enforcement, and cracked down on petty corruption, leading to higher revenues. The government has received high marks from the World Bank for its anti-corruption efforts. Since 2012, the Georgian Dream-led government has continued the previous administration's low-regulation, low-tax, free market policies, while modestly increasing social spending, strengthening anti-trust policy, and amending the labour code to comply with International Labour Standards. The government published its 2020 Economic Development Strategy in early 2014 and former Prime Minister Bidzina IVANISHVILI launched the Georgian Co-Investment Fund, a \$6 billion private equity fund that will invest in tourism, agriculture, logistics, energy, infrastructure, and manufacturing. In mid-2014, Georgia signed an association agreement with the EU, paving the way to free trade and visa-free travel.

Agriculture - products:

citrus, grapes, tea, hazelnuts, vegetables; livestock

Industries:

steel, machine tools, electrical appliances, mining (manganese, copper, gold), chemicals, wood products, wine

Exports - commodities:

vehicles, ferro-alloys, fertilizers, nuts, scrap metal, gold, copper ores

Exports - partners:

Azerbaijan 10.9%, Bulgaria 9.7%, Turkey 8.4%, Armenia 8.2%, Russia 7.4%, China 5.7%, US 4.7%, Uzbekistan 4.4% (2015)

Imports - commodities:

fuels, vehicles, machinery and parts, grain and other foods, pharmaceuticals

Imports - partners:

Turkey 17.2%, Russia 8.1%, China 7.6%, Azerbaijan 7%, Ireland 5.9%, Ukraine 5.9%, Germany 5.6% (2015)

Banking

The economic reforms implemented since 2004 have greatly boosted the health of banks and financial institutions in Georgia. Banking is now a major economic forces and one of the fastest growing sectors in Georgia. In 2007, banking assets represented 42% of GDP. This sector has gained strength and stability in several areas, including: capital adequacy, profitability, asset quality and risk management.

Liberal regulations have made commercial and investment banking, insurance, credit cards and securitization attractive areas of investment. This sector's development has led to diversification of loans and the lowering of interest rates, further stimulating investment opportunities.

The National Bank of Georgia is the central bank of Georgia. Its status is defined by the Constitution of Georgia. The main objective of the National Bank is to ensure price stability.

For the purpose of facilitating financial stability and transparency of the financial system, as well as for protecting rights of the sector consumers and investors, the National Bank exercises supervision over the Financial Sector. Through the Financial Monitoring Service of Georgia - the Legal Entity of the Public Law, the National Bank undertakes measures against illicit income legalization and terrorism financing. In addition, the National Bank represents a banker and fiscal agent of the Government. The NBG is the banker and fiscal agent of the government.

The National Bank of Georgia may provide banking services to foreign governments, foreign central banks and foreign monetary authorities, as well as international organizations. The National Bank participates in the activities of international organizations that pursue economic stability in the monetary sector through international cooperation.

Stock Exchange

The Georgian Stock Exchange was created by the "Joint Stock Company Georgian Stock Exchange Charter" which was registered and approved in 1999. It is located in the capital city of Tbilisi

Executive Summary

Georgia is located at the crossroads of Western Asia and Eastern Europe. Since the Rose Revolution, Georgia has made sweeping economic reforms, moving from a near-failed state in 2003, to a relatively well-functioning market economy in 2015. Through dramatic police and institutional reforms, the government has mostly eradicated low-level corruption. According to a 2015 Georgia Messenger poll, only two percent of the population reported that they had to pay a bribe in the previous year to receive a government service or decision. In 2005, the government eliminated 84 percent of licensing requirements, and Georgia ranks 15th in the 2015 World Bank’s Ease of Doing Business index. Fiscal and monetary policy are focused on low deficits, low inflation, and a floating real exchange rate, although the latter has been affected by regional developments, including sanctions on Russia and other external factors such as a stronger dollar and weaker regional economies.

In early 2014, the government published its medium-term economic strategy Georgia 2020, which outlines Georgia’s economic policy priorities. It stresses the government’s commitment to business friendly policies such as low taxes, but also pledges to invest in human capital and to strive for inclusive growth across the country, not just in Tbilisi. The strategy also emphasizes Georgia’s geographic potential as a trade and logistics hub along the New Silk Road linking Asia and Europe via the Caucasus.

In June 2014, Georgia signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA) with the European Union. In 2012, following President Obama’s meeting with former Georgian President Mikheil Saakashvili, the U.S. and Georgia established a High-Level Dialogue on Trade and Investment to identify ways of increasing bilateral trade and investment. The U.S. and Georgia also discussed economic cooperation within the bilateral Strategic Partnership Commission’s Economic Working Group. Both countries signed a Bilateral Investment Treaty in 1994, and Georgia is eligible to export many products duty-free to the U.S. under the Generalized System of Preferences (GSP) program.

Under Prime Minister Giorgi Kvirikashvili, the current government has carried on the previous government’s low-regulation, low-tax, free market policies, while increasing social spending, strengthening anti-trust policy, amending the labor code to strengthen protections for workers, and consulting the private sector in the development of sound economic policies.

Companies in past years reported occasional problems arising from a lack of judicial independence, lack of intellectual property rights enforcement, lack of effective anti-trust policies, selective enforcement of economic laws, and difficulties resolving disputes over property rights. Georgia’s government continues to address these issues and, despite remaining challenges, Georgia stands far ahead of its post-Soviet peers as a good place to do business.

Table 1

	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	48 of 168	http://www.transparency.org/cpi2015#results-table

World Bank's Doing Business Report "Ease of Doing Business"	2015	24 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	73 of 143	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2015	35	http://www.geostat.ge/index.php?action=page&p_id=140&lang=eng
World Bank GNI per capita	2014	USD 3,720	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of \$4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

Georgia's Millennium Challenge Corporation Country Scorecard is available online: <https://assets.mcc.gov/scorecards/score-fy15-english-georgia.pdf>

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Georgia is open to foreign investment, and the Georgia National Investment Agency (www.investingorgia.org) is implementing an aggressive marketing campaign to encourage more foreign investors to come to Georgia. Legislation establishes favorable conditions for foreign investment, but not preferential treatment for foreign investors. The Law on Promotion and Guarantee of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investments for a period of ten years.

Other Investment Policy Reviews

The Organization for Economic Cooperation and Development (OECD) conducted an abbreviated Investment Policy Review in 2014, based on its Policy Framework for Investment.

In January 2016, the World Trade Organization (WTO) concluded its second Trade Policy Review of Georgia, updating the organization's assessment of Georgia's trade and investment policies since the previous review in 2009. In this year's review, WTO members reiterated their approval of Georgia's broadly open, transparent and predictable trade and investment regimes. During the review period, Members noted that Georgia had undertaken an impressive range of reform initiatives aimed at streamlining, liberalizing and simplifying trade regulations and their implementation. The review lauded Georgia's trade openness

and commitment to the multilateral system through its responsible contribution to the work of the WTO.

WTO Members commended Georgia for the ratification of the WTO's Trade Facilitation Agreement, which would benefit Georgia's role as a trade transit corridor in the region, and the related notification to the WTO of Category A, B and C commitments. Members also noted that Georgia was an observer to the Government Procurement Agreement and was currently assessing the prospects for joining the Agreement. Members welcomed the announcement that Georgia was considering joining the expanded Information Technology Agreement, which would constitute a significant step forward for attracting further investment. (see more at https://www.wto.org/english/tratop_e/tpr_e/tp428_crc_e.htm)

Laws/Regulations of Foreign Direct Investment

The U.S.-Georgia Bilateral Investment Treaty (BIT), in force since 1994, guarantees U.S. investors national treatment and most favored nation treatment. Exceptions to national treatment have been carved out for Georgia in certain sectors such as; maritime fisheries; air and maritime transport and related activities; ownership of broadcast, common carrier, or aeronautical radio stations; communications satellites; government-supported loans, guarantees, and insurance; and landing of submarine cables.

Georgia's legal system is based on civil law. Legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, and the Customs Code. Other relevant legislation includes the Law on Entrepreneurs, the Law on Promotion and Guarantee of Investment Activity, the Bankruptcy Law, the Law on Courts and General Jurisdiction, the Law on Limitation of Monopolistic Activity, the Accounting Law, and the Securities Market Law.

Georgia has concluded agreements for avoidance of double taxation with 46 countries. These countries are Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, China, Czech Republic, Croatia, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, Ireland, Italy, Israel, Kazakhstan, Kuwait, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Norway, Poland, Qatar, Romania, San Marino, Serbia, Singapore, Slovakia, Slovenia, Spain, Switzerland, Turkey, Turkmenistan, UAE, Ukraine, UK, and Uzbekistan. A double taxation avoidance treaty has been ratified, but has not yet entered into force with Portugal. Treaties have been negotiated but are awaiting ratification with Cyprus, Lebanon, Sweden, Oman, Liechtenstein and Iceland. Treaties negotiations have started with Belarus, South Korea, Jordan, Montenegro, Saudi Arabia, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Colombia, Moldova, Mongolia, Morocco, New Zealand, Peru, the Philippines, Tajikistan, Uruguay, Brazil, Cuba, Ecuador, Canada, and South Africa. Georgia and Russia signed a double taxation avoidance treaty in 1999, which the Georgian Parliament ratified in 2000. Although it has not been ratified by the Russian Duma, Russia regards it as an active agreement.

Ownership and privatization of property is governed by the following acts: the Civil Code, the Law on Ownership of Agricultural Land, the Law on Private Ownership of Non-Agricultural Land, the Law on Management of State-Owned Non-Agricultural Land, and the Law on Privatization of State Property. Property rights in extractive industries are governed by the Law on Concessions, the Law on Deposits, and the Law on Oil and Gas. Intellectual property rights are protected under the Civil Code and the Law on Patents and Trademarks. Financial sector legislation includes the Law on Commercial Banks, the Law on National Banks, and the Law on Insurance Activities.

Business Registration

A. In general, the process of registering a business in Georgia is quick and streamlined, and Georgia tops the list of countries in the World Bank's Doing Business Report with regard to this particular component. The registration process takes only one day to complete. Registration of companies is carried out by the [National Agency of Public Registry](http://www.napr.gov.ge) (NAPR) (webpage www.napr.gov.ge is in Georgian only), located in the Public Service Halls (PSH) under the Ministry of Justice of Georgia. The webpage of the Public Service Halls (<http://www.psh.gov.ge/main/page/2/85>) outlines procedures and requirements for business registration in English as well. For registration purposes, the law does not require a document verifying the amount or existence of the charter capital. A company is not required to complete a separate tax registration. Pursuant to Georgian legislation, the initial registration includes both the state and tax registration together. For several years running, Georgia is one of the easiest places in the world for registering property according to its high ranking in the World Bank's, Doing Business Report. The Public Registry provides purchase title registration in four business days for GEL 50 (USD 25), and offers expedited registration in 1 business day (1-2 calendar days) for GEL 150 (USD 75). Electronic extracts are available from the Georgian National Agency of Public Registry (NAPR) website for 10 to GEL 40 (USD 5-20) depending on the urgency.

The following information is required to register a business in Georgia: personal information of the founder and principal officers, articles of incorporation, and the company's area of business activity. Other required documents depend on the type of entity to be established. Registration fees are minimal.

Business registration process consists of two procedures:

1) Paying the registration fee and registering the company with the Entrepreneurial Register and obtaining an identification number and certificate of state and tax registration. Registration fees are: GEL 100 (around USD 45) for regular registration, and GEL 200 (USD 90) for expedited registration, plus GEL 1 (bank charges).

2) Opening a bank account (free of charge).

B. The Georgian National Investment Agency is a governmental institution accountable to the Prime Minister of Georgia. It plays a role of moderator between foreign investors and the Government of Georgia, ensuring that the investor receives different types of updated information and has means of effective communication with the Government bodies. The agency's webpage offers useful information (<http://www.investinggeorgia.org/en/>), and any investor is eligible to use the Agency's services free of charge.

C. A micro-size business is defined as an individual entrepreneurship (economic activity of an individual, not involving employment of others), with annual income from this business not exceeding GEL 30,000 (around USD 13,000); A small business is defined as entrepreneurship with total annual proceeds not exceeding GEL 100,000 (around \$44,000). Such businesses enjoy reductions and VAT exemptions, which are equally applicable to local and foreign entities. In addition, there are a number of state programs providing benefits to micro and small enterprises.

Industrial Promotion

In 2013, Georgia launched the Georgian Co-Investment Fund (GCF) to promote foreign and domestic investments. GCF was announced as a reported USD 6 billion (equal to approximately 38 percent of Georgia's GDP) private investment fund, with the mandate to provide investors with unique access through a private equity structure to opportunities in Georgia's fastest growing industries and sectors. The GCF includes the international and domestic investment communities as Limited Partnerships (LPs), including sovereign wealth funds, major global corporations and private family offices from countries including United Arab Emirates, China, Azerbaijan, Turkey, and Kazakhstan. Ivanishvili's personal contribution to the fund is reportedly USD 1 billion. The remaining 85 percent is held by the Abu Dhabi Group, the Ras Al Khaimah Investment Authority (both United Arab Emirates), Milestone International Holding from China, Mr. Alexander Moshkevich from Kazakhstan, capital from the estate of the late Badri Patarkatsishvili, Batumi Industrial Holdings (a subsidiary of KazTransOil), Çalik Holdings from Turkey, and the State Oil Fund of Azerbaijan (not SOCAR but SOFAR).

GCF is registered offshore; it intends to attract additional capital from other sources. Approximately 80 percent of the fund will be invested in Georgia over a period of five years (2013-2018). About 20 percent will be invested internationally. Priority areas are: energy; hospitality and real estate; agriculture and logistics; and manufacturing. Primary allocations have been announced from the outset:

- Energy – up to USD 3 billion
- Hospitality and Real Estate – up to USD 1 billion
- Agriculture and Logistics – up to USD 0.5 billion
- Manufacturing – up to USD 1.5 billion
- Other – up to USD 0.5 billion

GCF's minimum internal rate of return (IRR) threshold for investment in projects is 17 percent and it intends to invest 25 to 75 percent of the total equity investment, with a minimum investment of USD 5m. GCF is expected to retain its ownership interest in the Portfolio Companies for up to seven years, extendable to a maximum of nine. During that period the Fund will exit from its investments by selling its ownership interest through different ways:

- Sale to existing co-owners or partners of the project;
- Sale to external third parties;
- IPO on local and international stock exchanges.

In 2014, the government implemented the state program called Produce in Georgia. The program aims to develop and support entrepreneurship, encourage creation of new enterprises and increase export potential and investment in the country. The program is coordinated by the Ministry of Economy and Sustainable Development of Georgia through its Entrepreneurship Development Agency, National Agency of State Property, and Technology and Innovation Agency of Georgia. The project provides the following support:

- Access to finance
- Access to real property

- Technical assistance

For more information please visit the website: <http://qartuli.ge>

Within the framework of this program the National Agency of State Property is in charge of the Physical Infrastructure Transfer Component, i.e., free-of-charge transfer of government-owned real property to an entrepreneur under certain investment obligations.

Limits on Foreign Control

Georgia does not formally screen foreign investment in the country, other than imposing a registration requirement and certain licensing requirements as outlined below. Foreign investors have participated in most major privatizations of state-owned property. Transparency of privatization has at times been an issue. No law or regulation authorizes private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation or control. Private firms in Georgia do not use Cross-shareholder or stable-shareholder arrangements. Georgian legislation does not protect private firms from takeovers. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control over domestic enterprises.

Privatization Program

Georgia's government has privatized most large, formerly state-owned enterprises. Successful privatization projects include major deals in energy generation and distribution, telecommunications, water utilities, port facilities, and real estate assets. A list of entities available to be privatized can be found on the website www.privatization.ge. Information on investment conditions and opportunities can be obtained from the Georgia National Investment and Export Promotion Agency. Further information is also available at a website maintained by the American Chamber of Commerce in Georgia, www.amcham.ge.

Screening of FDI

In 2005, the government eliminated 84 percent of existing licensing requirements and created a one stop shop for licenses. By law, the government has 30 days to make a decision on licenses, and if the licensing authority does not state reasonable grounds for rejection within that time, the license or permit is deemed to be issued. The government only requires licenses for activities that affect public health, national security, and the financial sector. The government currently requires licenses in the following areas: weapons and explosives production, narcotics, poisonous and pharmaceutical substances, exploration and exploitation of renewable or non-renewable substances, exploitation of natural resource deposits, establishment of casinos and gambling houses and the organization of games and lotteries, banking, insurance, securities trading, wireless communication services, and the establishment of radio and television channels.

The law requires the state to retain a controlling interest in air traffic control, shipping traffic control, railroad control systems, defense and weapons industries, and nuclear energy.

Only the state may issue currency, banknotes, and certificates for goods made from precious metals, import narcotics for medical purposes, and produce control systems for the energy sector.

Competition Law

The agency in charge of reviewing transactions for competition-related concerns is the Competition Agency, an independent legal entity of public law, subordinated to the Prime Minister of Georgia. The agency aims to promote market liberalization, free trade, and competition. (www.competition.ge)

Georgia has also signed a number of international agreements containing competition provisions including the Partnership and Cooperation Agreement between the EU and Georgia, which was superseded by the EU-Georgia Association Agreement (AA) signed in June 2014 and ratified by the Georgian Parliament in July 2014.

The Deep and Comprehensive Free Trade Area (DCFTA) within the AA goes further than most FTAs, with elimination of non-tariff barriers and regulatory alignment, as well as binding rules on investments and services. The AA/DCFTA aims to integrate Georgia into the EU market, with priorities for cooperation in areas such as foreign and security policy as well as justice and freedom, leaving open the way for future progressive developments.

2. Conversion and Transfer Policies

Foreign Exchange

Georgian law guarantees the right of an investor to convert and repatriate income after payment of all required taxes. The investor is also entitled to convert and repatriate any compensation received for expropriated property. Georgia has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement, effective as of December 20, 1996, undertaking to refrain from imposing restrictions on payments and transfers for current international transactions and from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. By accepting the obligations of Article VIII, Georgia indicates to the international community that it will pursue sound economic policies that will obviate the need to use restrictions on the making of payments and transfers for current international transactions. Parliament's 2011 adoption of the Act of Economic Freedom further reinforced this provision.

Under the U.S.-Georgia Bilateral Investment Treaty, the Georgian government guarantees that all money transfers relating to a covered investment by a U.S. investor can be made freely and without delay into and out of Georgia.

Foreign investors have the right to hold foreign currency accounts with authorized local banks. The sole legal tender in Georgia is the lari (GEL), which is traded on the Tbilisi Interbank Currency Exchange and in the foreign exchange bureau market. There is no difficulty in obtaining foreign currency, nor are there significant delays in remitting funds overseas through the normal channels. Several Georgian banks participate in the SWIFT and Western Union interbank communication networks. Businesses report that it takes a maximum of three days for money transferred abroad from Georgia to reach a beneficiary's account, unless otherwise provided by a customer's order. There are no known plans to change remittance policies. Travelers must declare at the border currency and securities in their possession valued at more than GEL 30,000 (around USD 13,000).

Georgia has a floating exchange rate. The Central Bank (National Bank of Georgia) does not intend to fix the exchange rate regime and does not generally intervene in the foreign exchange market, except under certain circumstances when the fluctuation has a high

magnitude. Due to external shocks that led to a sharp depreciation of the GEL in Nov/Dec 2014, the Bank intervened four times in 2015.

3. Expropriation and Compensation

The Georgian Constitution protects property ownership rights, including ownership, acquisition, disposal, and inheritance of property. Foreign citizens living in Georgia possess rights and obligations equal to those of Georgia citizens. The Law of Procedures for Forfeiture of Property for Public Needs establishes the rules for expropriation. When the Georgian government uses its eminent domain powers to acquire property it is done for certain enumerated public needs, amidst adequate and fair compensation to the property owners. Recourse to the courts is available if necessary.

The Georgian Law on Investment allows expropriation of foreign investments only with appropriate compensation. Recent amendments to the Law on Procedures for Forfeiture of Property for Public Needs allow payment of compensation with property of equal value as well as money. Compensation includes all expenses associated with the valuation and delivery of expropriated property. Compensation must be paid without delay and must include both the value of the expropriated property as well as the loss suffered by the foreign investor as a result of expropriation. The foreign investor has a right to seek review of an expropriation in a Georgian court. In 2007, Parliament passed a law generally prohibiting the government from contesting the privatization of real estate sold by the government before August 2007. The law is not applicable, however, to certain enumerated properties. While expropriation disputes in Georgia are not common, some reputable NGOs claim that the creation of tourist zones by the previous government involved illegal revocation of historic ownership rights in Svaneti, Anaklia, Gonio, and Black Sea-adjacent territories. There were also allegations that the previous government improperly used eminent domain to seize property in Tbilisi at unfairly low prices during the Tbilisi Railway Bypass Project, though in March 2014 the government announced a two-year moratorium on this railway construction project until 2016 to allow for further cost-benefit analysis.

The U.S.-Georgia Bilateral Investment Treaty permits expropriation of covered investments only for a public purpose, in a non-discriminatory manner, upon payment of prompt, adequate and effective compensation, and in accordance with due process of law and general principles of fair treatment.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Georgia's legal system is based on civil law. The Ministry of Justice's Public Service Halls provide property registration.

Georgia does not have an integrated commercial code. There are, however, a number of different laws and codes (Tax Code, Law on Entrepreneurs, and Law on Insolvency) that constitute the legislative body for regulating the commercial activity in Georgia.

Bankruptcy

The World Bank 2016 Doing Business report upgraded Georgia's ranking in the 'Resolving Insolvency' category (Georgia ranked 101 out of 189 economies), assessing that Georgia expedited the process of resolving insolvency by establishing or tightening time limits for all

insolvency-related procedures, including auctions. However, the bankruptcy process remains clumsy. Various assessments of Georgia's insolvency law by the World Bank, the European Bank for Reconstruction and Development (EBRD) and USAID cited numerous systemic weaknesses and deficiencies with the law and its enforcement. The Ministry of Justice has been slow to implement the related reforms and so far, no substantial changes to the legislation have been submitted to the Parliament.

Investment Disputes

Georgian investment law allows disputes between a foreign investor and a government body to be resolved in Georgian courts or at the International Centre for the Settlement of Investment Disputes (ICSID convention); unless a different method of dispute settlement is agreed upon between the parties. If the dispute cannot be heard at ICSID, the foreign investor can submit the dispute to ad hoc international arbitration under United Nations Commission for International Trade Law (UNCITRAL model law) rules. The right to use ICSID or UNCITRAL model law is guaranteed under the U.S.–Georgia Bilateral Investment Treaty.

Georgia is a signatory to the convention on the Recognition and Enforcement of Foreign Arbitration Awards (1958 New York Convention). The Ministry of Justice oversees the government's interests in arbitrations between the state and private investors.

Disputes over property rights have at times undermined confidence in the impartiality of the Georgian judicial system and rule of law, and by extension, Georgia's investment climate. The government identified judicial reform as one of its top priorities and Parliament has passed reforms aimed at strengthening judicial independence. In May 2013, parliament reorganized the High Council of Justice, the institution charged with overseeing the administration of the judiciary, to make it more independent and free from political considerations.

Over the past 10 years, there have been five investment disputes involving U.S. citizens, and all of them were resolved through arbitral awards or out-of-court settlements.

International Arbitration

Georgia's Law on Arbitration went into force on January 1, 2010. The law is based on the UNCITRAL Model Law.

Georgia has signed bilateral investment treaties (BIT) with over 30 countries including the U.S.

ICSID Convention and New York Convention

Since 1992, Georgia is a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention), and a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention)

Georgia must accept international arbitration and recognize arbitral awards. The Ministry of Justice oversees the government's interests in arbitrations between the state and private investors.

Duration of Dispute Resolution

While the law limits the duration of investment/commercial disputes to 15-18 months, in some cases, primarily due to a shortage of specialized judges, proceedings have lasted up to three years.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Georgia has been a member of the World Trade Organization (WTO) since 2000 and consistently meets the Agreement on Trade Related Investment Measures (TRIMs) requirements and obligations.

In January 2016, the WTO announced that Lesotho and Georgia are the two newest members to have ratified the Trade Facilitation Agreement (TFA). The WTO Secretariat received the countries' instruments of acceptance on January 4th. These two ratifications bring to 65 the number of WTO members that have formally accepted the TFA.

Investment Incentives

Low labor costs contribute to the attractiveness of Georgia as a foreign investment destination. It is also increasingly recognized as a regional transportation hub that provides access to the New Silk Road trade corridor linking Asia and Europe.

Georgia's free trade regimes with a number of regional countries, as well as the recently signed Association Agreement with EU and related Deep and Comprehensive Free Trade Agreement, provide easy access for goods produced in Georgia to foreign markets. Foreign investors can benefit from these agreements if their investments are targeted at the production of goods to be exported to these markets.

Research and Development

Georgia's Innovation and Technology Agency (GITA) has developed research and innovation centers across Georgia and provides training in a variety of technical fields. More information is available at: <http://gita.gov.ge/eng.html>

In December 2015, the Government of Georgia launched the "Tbilisi Technology Park Free Industrial Zone" a large-scale project aimed at developing technology and innovation. The Technology Park is foreseen to be a place for business and inventors to cooperate. It will also give Georgia an opportunity to create local branches of international companies and attract foreign investments. The new facility consists of small incubators, educational centers and laboratories, large offices for companies, conference rooms and recreational areas.

Performance Requirements

Performance requirements are not a condition of establishing, maintaining, or expanding an investment, but have been imposed on a case-by-case basis in some privatizations. Conditions include: commitments to maintain employment levels or to make additional investments within a specified period of time. The scope and time limit on licenses to extract natural resources have been a topic of dispute, and the Ministry of Energy has rescinded several mining licenses then re-auctioned them. In other instances, there have been disputes between the government and concessioners regarding production-sharing agreements. While many privatizations have proceeded smoothly and regularly, there are allegations that the previous government used non-fulfillment of performance requirements to justify

rescinding privatizations and re-selling enterprises, usually for higher prices, sometimes to the benefit of other interested parties. Most types of performance requirements are prohibited by the U.S.-Georgia Bilateral Investment Treaty.

Data Storage

The government does not follow forced localization policy; foreign investors have no obligation to use domestic content in goods or technology.

In addition, there are no requirements for foreign IT providers to turn over source codes and/or provide access to surveillance.

The Data Exchange Agency (DEA), a principle entity of the Ministry of Justice, aims to coordinate e-governance development processes data exchange infrastructure, unified governmental networks, informational and communication standards, and cybersecurity policy. The DEA requires any company managing critical data to implement a number of security protocols to protect that information. (www.dea.gov.ge)

6. Protection of Property Rights

Real Property

Secured interests in both real and personal property are recognized and recorded. However, deficiencies in the operation of the court system can hamper investors from realizing their rights in property offered as security. In the past, foreign investors' interests have sometimes been harmed by biased court proceedings and by legislation and decrees that clearly favored a Georgian entity or partner involved in the enterprise. It is recommended that contracts between private parties include a provision for international arbitration of disputes. Additionally, some observers believe economic regulations were inconsistently enforced under the previous government based on the company's relationship with the government.

The government has developed an electronic registry system for recording land titles and is cooperating with international donors to improve land cadaster in order to promote the development of Georgia's land market. Only 25% of land in Georgia has a clear title, and the government has suggested set of measures to simplify land registration and title clarification processes.

Foreign individuals and companies may buy non-agricultural land in Georgia. However, Parliament has amended legislation to place some new restrictions for non-Georgian citizens (including Georgian entities with foreign minority shareholders) from purchasing or inheriting agricultural land. According to the new bill, foreigners may own agricultural land only if they: inherit the land; co-own the land through marriage to a Georgian citizen or by being a member of a Georgian citizen household; or hold a residence permit. If foreign agricultural land owners can no longer meet the requirements for agricultural land ownership, the alien must sell the agricultural land within six months or the government could seize the land. Also, agricultural plots owned by foreigners must be no larger than 20 hectares. For entities founded by foreigners, the land plot is limited to 200 hectares. Restrictions on land plot size do not apply to international financial institutions, commercial banks and microfinance organizations. Lastly, the bill stipulates that all agricultural land sales to foreigners require a notarized contract. The notary must check if the alien, or the entity registered by an alien under Georgian jurisdiction, meets all the legal requirements for agricultural land ownership.

The United States Government (as the majority of the international community) does not recognize the jurisdiction of the de facto authorities in either the Abkhazia or South Ossetia regions, and warns American citizens against undertaking business ventures in those Russian-occupied regions. Furthermore, due to the volatility of the political situation, reported high levels of crime, and the limited ability of embassy personnel to travel to the Abkhazia or South Ossetia regions to assist American citizens in distress, the U.S. embassy also strongly discourages travel to these areas for any purpose. Land for sale in those regions may rightfully belong to internally displaced persons forced to leave the breakaway regions in the early 1990s and may have been placed improperly on the market. In such cases, the government of Georgia considers the sale of property in Abkhazia and South Ossetia illegal and the property could be reclaimed by original owners at a future date.

Intellectual Property Rights

Georgia acceded to the World Trade Organization (WTO) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement in 2000. The Ministry of Economy and Sustainable Development is responsible for WTO compliance. In 2004, the Georgian Parliament ratified the Rome Convention for Protection of the Rights of Performers, Producers of Phonograms and Broadcasting Organization, and the Lisbon Agreement on Denomination of Origin. In 2005, Georgia joined the World Intellectual Property Organization's (WIPO's) International Convention for the Protection of New Varieties of Plants. Georgia is a party to the Bern Convention, a member of two WIPO digital treaties – the Copyright Treaty and the Performance and Phonograms Treaty-- The Hague Agreement, and the Budapest Treaty Concerning the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedures.

Six laws regulate intellectual property rights (IPR) in Georgia: the Law on Patents, Law on Trademarks, Law on Copyrights and Neighboring Rights, Law on Appellation of Origin and Geographic Indication of Goods, Law on Topographies of Integrated Circuits, and Law on IP-Related Border Measures. Georgian law now provides retroactive protection for works of literature, art, science, and sound recordings for 50 years.

Georgia has aligned its intellectual property legislation with international standards, but enforcement remains weak as judges and lawyers lack sufficient knowledge of IPR laws and IPR issues. Pirated video and audio recordings, electronic games, and computer software are freely sold in Georgia. Internet service providers host websites loaded with unlicensed content free for users to download or stream. In January 2014, the Georgian National Intellectual Property Center Sakpatenti launched an electronic platform for streamlining the registration, processing, and viewing of IPR objects. In general, while compliance with IPR laws across the public and private sectors is inconsistent, the number of patent filings during the last year showed a dramatic increase and Sakpatenti remains an active and engaged partner of the U.S. on training to educate the public on IPR issues.

In January 2015, the Government of Georgia and Microsoft signed an agreement for the sale of Microsoft's Genuine OS Licenses and Enterprise Licensing for all Georgian government workstations. Georgia will be the first post-Soviet country to have legal, licensed Microsoft programs.

Georgia is not listed in USTR's Special 301 report. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

- Charles F. Seten
- Economic Officer
- (995) 32 227 7629
- SetenCF@state.gov

For a list of lawyers in Georgia, please visit http://georgia.usembassy.gov/list_of_attorneys.html.

- American Chamber of Commerce in Georgia
- 36a Lado Asatiani St., 0105, Tbilisi, Georgia
- Tel: (995) 32 222 6907
- E-mail: amcham@amcham.ge

7. Transparency of the Regulatory System

The Georgian government has committed to greater transparency and simplicity of regulation. The government publishes laws and regulations in Georgian in the official gazette, the Legislative Messenger. Since 2004, the government has reduced the number of taxes from 22 to 6. The tax on corporate profits is 15 percent. The Value Added Tax is 18 percent. The tax on personal income is 20 percent. The dividend income tax rate is 5 percent. Most goods, except for some agricultural products, have no import tariff. For those with tariffs, the rates are 5 or 12 percent, except in cases where FTAs exist.

In 2010, the Georgian Parliament passed a new Tax Code aimed at increasing transparency in both policy and implementation. The Revenue Service began implementing the Code in early 2011. The Code introduced several new concepts into Georgian tax law including giving the Ministry of Finance the authority to issue legally binding advance rulings to companies on tax questions. Additionally, the Revenue Service will now consider the intent of a company when a tax mistake is made, and if the mistake is deemed to have been innocent, fines can be reduced or waived. The new Tax Code also includes tax benefits for small and micro-businesses. In 2011, the Revenue Service took further steps to ease relations with businesses, including introducing a program of alternative audits, to allow companies to choose to outsource their tax inspection to private auditing companies, allowing declaration of technical losses, and regulating the process of writing down fuel expenses. The government plans to phase out the alternative audit program over the next few years, as the Revenue Service develops sufficient capacity to conduct all audits itself.

The new Tax Code established the Office of the Business Ombudsman as an independent body accountable to the Prime Minister. It is authorized to investigate complaints filed by taxpayers with his office. The website www.businessombudsman.ge was launched in November 2011 to publish information on business registration, amendments to tax legislation, liabilities on cash counters' use and rules of litigation, etc.

International accounting standards became binding for joint stock companies in Georgia as of January 1, 2000. For other institutions, such as banks, insurance companies and companies

operating in the field of insurance, as well as limited liability companies, limited partnerships, joint liability companies, and cooperatives, the standards became binding on January 1, 2001. Private companies are required to perform accounting and financial reporting in accordance with international accounting standards. Sole entrepreneurs, small businesses, and non-commercial legal entities perform accounting and financial reporting according to simplified interim standards approved by the Parliamentary Accounting Commission. Despite the legal requirement, the conversion to international accounting standards is going slowly, in part because in the past, many businesses operated in the shadow economy or maintained two sets of books. Qualified accounting personnel are also in short supply. The previous government abolished anti-monopoly service in the country, which resulted in dominant positions for certain companies, especially in pharmaceutical, petroleum, and other sectors.

On March 21, 2014 the Parliament of Georgia adopted the amendments to the Law of Georgia on Free Trade and Competition. These amendments were developed as part of the anti-monopoly reform and aims to promote a free, competitive marketplace. The law provided for the establishment of an independent structure named the Competition Agency to exercise effective state supervision over a free, fair, and competitive market environment.

Georgia upgraded from 72 to 69 in a new Global Competitiveness report 2014-2015, which measures competitiveness landscapes in 144 economies.

On February 2016 the Legislative Herald (a public entity under the Minister of Justice) published a draft law to reform the system of corporate income taxation. The draft law, still under discussion by the government and private sector, envisages a fundamental reform of corporate income taxation. It replaces the current tax on corporate income with a tax on the distribution of profits (referred to as the Estonian model of corporate taxation). This means that corporate income will be taxed only at the time of distribution, instead of at the time of earning, while income reinvested in the company's business activities will be exempt. The new corporate income tax rules would not apply to commercial banks, insurance organizations, micro-finance organizations, pawnshops and nonprofit organizations.

8. Efficient Capital Markets and Portfolio Investment

The National Bank of Georgia regulates the securities market. All market participants submit their reports in line with international standards, bringing market participants closer to international investors and partners. All listed companies must make public filings, which are then uploaded on the National Bank's website, allowing users to evaluate a company's financial standing. The Georgian securities market includes the following licensed participants: a Stock Exchange, a Central Securities Depository, nine brokerage companies, and six registrars.

The Georgian Stock Exchange (GSE) is the only organized securities market in Georgia. Designed and established with the help of USAID and operating under a legal framework drafted with the assistance of American experts, the GSE complies with global best practices in securities trading and offers an efficient investment facility to both local and foreign investors.

The GSE's automated trading system can accommodate thousands of securities that can be traded by brokers from workstations on the GSE floor or remotely from their offices. As of January 1, 2016, 128 companies were trading on the GSE, with total market capitalization of

USD 651.2 million. In 2015, however, 129 companies traded a total of USD 1,154.8 million. A total of 2,284.7 million securities were traded on the Stock Exchange and OTC market last year (which is a considerable growth compared to 85.4 million securities of 2014) at a value of USD 394.8 million. In 2015 the value of transactions made at the stock exchange trading sessions amounted to USD 0.67 million.

No law or regulation authorizes private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation or control. Cross-shareholder or stable-shareholder arrangements are not used by private firms in Georgia. Georgian legislation does not protect private firms from takeovers. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control over domestic enterprises.

Banking is one of the fastest growing sectors in the Georgian economy. As of February 1, 2016, 19 commercial banks, including 17 foreign-controlled banks and one branch of non-resident banks, made up the banking sector in Georgia. In January 2016, the total assets of Georgian commercial banks totaled 25.3 billion GEL (around USD 10.5 billion). The banking sector's own funds (equity capital) were equal to 3.5 billion GEL, or 13.9 percent of commercial banks' total assets.

Credit from commercial banks is available to foreign investors as well as domestic clients, although interest rates are high. Banks continue offering business, consumer, and mortgage loans.

The International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), U.S. Overseas Private Investment Corporation (OPIC), Millennium Challenge Corporation (MCC), Asian Development Bank (ABD), and other international development agencies have a variety of lending programs that make credit available to large and small businesses in Georgia. In the beginning of 2016 there were up to 70 microfinance organizations operating in Georgia, with total assets of around USD 672 million, making small credit available to businesses.

The limited number of foreign banks operating in Georgia reflects, in part, the small size of Georgia's financial market. Foreign investment in the sector, however, is significant, and is present in 16 out of 19 banks. More specifically, Russian, Kazakh, U.S., German, French, Chinese and UAE capital was invested in Georgian banks in 2015.

Money and Banking System, Hostile Takeovers

Georgian banks remained solvent during the global credit crisis largely due to the central bank-mandated 13 percent capital reserve requirement and conservative lending practices. The National Bank of Georgia (central bank) relaxed the capital reserve requirement to five percent in the aftermath of the 2008 Russo-Georgian war and in response to the global credit crisis to try to inject liquidity into the market and spur new lending. In order to promote development of the interbank money market and restore the relationship between interest rates, the NBG increased the reserve requirements for GEL-denominated funds to 10 percent starting from April 2010. Legislation entering into force in January-February 2011 gradually increased reserve requirements for foreign liabilities from 5 to 15 percent.

The government and Central Bank (National Bank of Georgia) respect IMF Article VIII and impose no restrictions on payment and transfers in current international transactions.

In June 2014, Georgia's TBC Bank debuted on the London Stock Exchange, the first Georgian company to go public since the Bank of Georgia did so in 2006. TBC priced so-called global depository receipts at USD 13 apiece, valuing the company at USD 640 million.

<http://blogs.wsj.com/frontiers/2014/06/06/georgian-banks-london-ipo-highlights-investor-confidence/>

9. Competition from State-Owned Enterprises

After the fall of the Soviet Union, the new Georgian government privatized most state-owned enterprises (SOEs). At the end of 2013, the major SOEs were Georgian Railways, Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem (GSE), Electricity System Commercial Operator (ESCO), and Enguri Hydropower plant. Of these companies, only Georgian Railways is a major market player. The energy-related companies largely implement the government's energy policies and help manage the electricity market. There are also a number of Legal Entities of Public Law (LEPLs) -- independent bodies that carry out government functions, such as the Public Service Halls.

In May 2012, the GOGC successfully priced its first-ever 144A/RegS corporate bond of USD 250 million. In June 2012, Georgian Railways floated Eurobonds of USD 500 million with a 7.750 percent coupon, maturing in 2022. As part of its Eurobond issuance, this organization conducts regular financial reporting.

During 2012, 100 percent of the assets of Georgian Railways, Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem, and Electricity System Commercial Operator LLC, were placed into the Partnership Fund, a state-run fund to facilitate foreign investment into new projects. In addition, the fund controls 25 percent of shares in TELASI Electricity Distribution Company, but has stated its intention to sell those shares. In the coming period, the government plans to convert the Partnership Fund into the Sovereign Wealth Fund (SWF). The latter will be composed of two components reflecting their separate functions: SWF for asset management and SWF for investment. This move follows the recommendations of international financial institutions to mitigate risk with the strategic assets owned by the Fund, particularly those that issue bonds. Under the new organization, they will be completely independent arms and the SWF will have more flexibility over investments and an increased flexibility to shape its investment portfolio. It also plans to hire the World Bank's International Finance Corporation as a consultant for the SWF.

Despite state ownership, SOEs act under the general terms of the Entrepreneurial Law. Georgian Railway and GOGC have supervisory boards, while GSE and ESCO do not. Major procedures and policies are described in the charters of respective SOEs. Georgia particularly encourages its SOEs to adhere to OECD's Guidelines on Corporate Governance for SOEs as they are sufficient to ensure a level playing field between SOEs and private sector enterprises.

The senior management of SOEs report to Supervisory Boards where such exist (GRW, GOGC); in other cases they report to the line ministries. Governmental officials can be on the supervisory board of the SOEs and the Partnership Fund has five key governmental officials on its board. SOEs explicitly are not obligated to consult with government officials before making business decisions, but informal consultations take place depending on the scale and importance of the issue.

To ensure the transparency and accountability of state business decisions and operations, the government conducts regular outside audits (in case of large SOE by a big four auditing company) and publishes annual reports. SOEs with more than 50 percent state ownership are obliged to follow the State Procurement Law and make procurements via public tenders. The Partnership Fund, GRW and GOGC are subject to valuation by international rating agencies. There is no legal requirement for SOEs and sovereign wealth funds to publish an annual report or to submit their books for independent audit, but this is still practiced. In addition, GRW and GOGC are Eurobonds issuer companies and therefore required to publish reports.

SOEs are subject to the same domestic accounting standards and rules as private companies and these standards are comparable to international financial reporting standards. There are no SOEs that exercise delegated governmental powers.

OECD Guidelines on Corporate Governance of SOEs

Georgia encourages its SOEs to adhere to OECD's Guidelines on Corporate Governance for SOEs as they are sufficient to ensure a level playing field between SOEs and private sector enterprises.

Sovereign Wealth Funds

Georgia does not have a Sovereign Wealth Fund (SWF). The government plans to convert the Partnership Fund into a Sovereign Wealth Fund, but the exact timing is still uncertain.

10. Responsible Business Conduct

While the concept of Corporate Social Responsibility (CSR) is not highly developed in Georgia, it is growing. Most large companies engage in charity projects and public outreach as part of their marketing strategy. In 2012, in order to promote the awareness of, and standards for, responsible business conduct, the Ministry of Justice, together with the Canadian International Development Agency, launched a "Former Prisoners Re-socialization-Rehabilitation" program. The program, which relies on the participation of the business sector, has provided jobs and social rehabilitation opportunities to thousands of former inmates. The program and a related social campaign "Change Scenario" continues to date.

The American Chamber of Commerce in Georgia has a Corporate CSR committee that works with member companies on CSR issues. The Global Compact, a worldwide grouping of UN agencies, private businesses, and civil society groups promoting responsible corporate citizenship, is active in Georgia. The Eurasia Partnership Foundation (EPF) launched in 2014 a program on corporate social investment promoting greater engagement of private companies in addressing Georgia's development needs. EPF has sponsored CSR classes at five Georgian universities and Global Compact Georgia is currently focused on educating Georgian companies on the benefits of such policies. Other notable initiatives include the Students for Social Changes Project developed by the British Council, the Eurasia Partnership Foundation and the Center for Strategic Research and Development of Georgia to promote CSR in business schools, including the publication in 2012 of a Corporate Social Responsibility Manual to serve as a textbook on CSR for business faculties; and a number of workshops and events around these programs and projects. Civil society organizations working on labor and environmental issues have become increasingly strong and vocal over the past few years, pushing to ensure that companies conduct business in a socially responsible manner.

OECD Guidelines for Multinational Enterprises: The Government of Georgia undertook an OECD CSR policy review in 2014, based on the OECD Policy Framework for Investment. Despite the ongoing economic and social reforms that aim to reduce the gap with international standards in fields such as human rights, labor relations, and the environment, actual CSR-specific initiatives are generally undertaken by private actors. In 2010, as part of the UNDP/Global Compact activities in Georgia, a coordinating group of different stakeholders from the private sector and civil society developed a Corporate Social Responsibility Handbook featuring case studies from Georgia and other part of the world. It provides guidance to Georgian enterprises and other relevant stakeholders as to how better translate CSR principles into daily operations. This CSR Handbook gives an overview of best practices by national enterprises in such areas as workplace, marketplace, environment and community, as well as providing examples of international CSR initiatives.

11. Political Violence

Georgia suffered considerable instability in the immediate post-Soviet period. After independence in 1991, civil war and separatist conflicts flared up along the Russian border in the areas of Abkhazia and South Ossetia. The status of each region remains contested, and the central government does not have effective control over these areas. The United States supports the territorial integrity of Georgia within its internationally-recognized borders. In August 2008, tensions in the region of South Ossetia culminated in a brief war between Georgia and Russia. Russia invaded and occupied areas of undisputed Georgian territory, destroyed portions of vital infrastructure, blocked the main east-west highway, and blockaded the Georgian port of Poti. Nearly all damaged infrastructure has been repaired and commerce has returned to normal. While the separatist regions of South Ossetia and Abkhazia – where Russian troops and border guards have established a long-term presence - have declared independence, only Russia, Venezuela, Nicaragua, and the island nation of Nauru recognize them. Tensions still exist and there are occasional reports of limited violence both inside the breakaway regions and near the administrative boundary lines, but other parts of Georgia, including Tbilisi, are not directly affected.

Violent street protests in Georgia are rare, though some smaller political skirmishes have occurred. In recent years, police have fulfilled their duty to maintain order even in cases of unannounced protests.

12. Corruption

In 2015, Georgia's CPI score was 52 and it ranked 48th out of 168 countries surveyed in the Corruption Perception Index. Georgia is ahead of its regional and Eastern European peers in this regard, as it outscores Hungary, Croatia, Slovakia, Greece, Romania, Italy, Turkey, Russia, Armenia or Azerbaijan. Through reform of the police and citizen service agencies in the mid-2000s, the Georgian government has largely eliminated low-level corruption. Georgian citizens and business owners can quickly and efficiently obtain an array of government documents from Public Service Halls, which have become emblematic of the government's low-corruption, business friendly reputation. The business ombudsman's office and the Investors Council have also proven to be effective ways for businesses to air complaints or clarify confusion over the government's business-related policies and decisions.

Articles 332-342 of the Criminal Code criminalize bribery. Senior public officials must file financial disclosure forms which are posted online and Georgian legislation provides for civil forfeiture of undocumented assets of public officials who are charged with corruption

offenses. Penalties for accepting a bribe start at six years in prison and can extend up to 15 years depending on the case's circumstances. Penalties for giving a bribe can include a fine, a minimum prison sentence of two years, or both. In aggravated circumstances, when a bribe is given to commit an illegal act, the penalty can be from four to seven years. Abuse of authority and exceeding authority by public servants are criminal acts under Articles 332 and 333 of the criminal code and carry a maximum penalty of 8 years imprisonment. The definition of a public official includes foreign public officials and employees of international organizations and courts. White collar crimes such as bribery fall under the investigative jurisdiction of the Prosecutor's Office.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Georgia is not a signatory to the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Georgia has, however, ratified the UN Convention against Corruption. Georgia cooperates with the Group of States against Corruption (GRECO) and the OECD's Anti-Corruption Network for Transition Economies (ACN). The full OECD report is available at <http://www.oecd.org/corruption/acn/GEORGIAThirdRoundMonitoringReportENG.pdf>

Resources to Report Corruption

Government agency responsible for combating corruption:

- Mr. Zurab Sanikidze
- Head of Analytical Department
- Ministry of Justice of Georgia
- 24 A Gorgasali Street, Tbilisi, Georgia
- zsanikidze@justice.gov.ge

Non-governmental organization:

- Ms. Eka Gigauri
- Director
- Transparency International
- 26, Rustaveli Ave, 0108, Tbilisi, Georgia
- +995-32-292-14-03
- ekag@transparency.ge

13. Bilateral Investment Agreements

Georgia has bilateral agreements on investment promotion and mutual protection with 32 countries, including the United States, Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, Czech Republic, Estonia, Egypt, Finland, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Kuwait, Latvia, Lithuania, Luxemburg, Moldova, Netherlands, Romania, Sweden, Turkey, Turkmenistan, Uzbekistan, the United Kingdom, and Ukraine.

Negotiations are underway with the governments of 24 countries: Bangladesh, Belarus, Bosnia and Herzegovina, Croatia, Cyprus, Denmark, Iceland, India, Indonesia, Jordan, Korea, Lebanon, Malta, Norway, Philippines, Portugal, Saudi Arabia, Slovakia, Slovenia, Spain, Switzerland, Syria, Tajikistan, and Qatar. Additionally, in 2007, Georgia signed a Trade and Investment Framework Agreement (TIFA) with the United States.

On June 27, 2014, Georgia signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. A free trade agreement is in force with the Commonwealth of Independent States and others exist bilaterally with Ukraine, Russia (though trade is restricted by the Russian Government), Kazakhstan, Azerbaijan, Armenia, Moldova, Turkmenistan, and Turkey. An agreement is signed, but not yet ratified, with Uzbekistan. Georgia has ongoing free trade agreement consultations with Belarus, Kyrgyzstan, the Cooperation Council of Gulf Arab States, and Tajikistan.

Following President Obama's January 2012 meeting with former Georgian President Mikheil Saakashvili, the U.S. and Georgia established a High-Level Dialogue on Trade and Investment, a bilateral dialogue aimed toward identifying measures to increase bilateral trade and investment. The U.S. and Georgia have shared a Bilateral Investment Treaty since 1997, and Georgia can export many of its products duty-free to the U.S. under the Generalized System of Preferences (GSP) program.

Bilateral Taxation Treaties

The U.S. and Georgia are beneficiaries of the U.S.-Georgia Bilateral Taxation Treaty as Georgia is one of the former Soviet Republics which is covered under the U.S. treaty with the Commonwealth of Independent States (CIS), formerly known as the Union of Soviet Socialist Republics (USSR). Double taxation issues are covered under the Convention with the Union of Soviet Socialist Republics on Matters of Taxation of 1973 (<http://www.irs.gov/pub/irs-trty/ussr.pdf>).

Georgia has concluded agreements for avoidance of double taxation with 46 countries. These countries are Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, China, Czech Republic, Croatia, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, Ireland, Italy, Israel, Kazakhstan, Kuwait, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Norway, Poland, Qatar, Romania, San Marino, Serbia, Singapore, Slovakia, Slovenia, Spain, Switzerland, Turkey, Turkmenistan, UAE, Ukraine, UK, and Uzbekistan. A double taxation avoidance treaty has been ratified, but has not yet entered into force with Portugal. Treaties have been negotiated but are waiting to be ratified with Cyprus, Lebanon, Sweden, Oman, Liechtenstein, and Iceland. Treaty negotiations have started with Belarus, South Korea, Jordan, Montenegro, Saudi Arabia, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Colombia, Moldova, Mongolia, Morocco, New Zealand, Peru, the Philippines, Tajikistan, Uruguay, Brazil, Cuba, Ecuador, Canada, and South Africa. Georgia and Russia signed a double taxation avoidance treaty in 1999, which the Georgian Parliament ratified in 2000. Although it has not been ratified by the Russian Duma, Russia regards it as an active agreement.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

In June 2007, the Parliament of Georgia adopted the Law on Free Industrial Zones, which defined the form and function of free industrial/economic zones. Financial operations in such

zones may be performed in any currency. Foreign companies operating in free industrial zones are exempt from taxes on profit, property, and VAT. UAE-based RAK Investment Authority (Rakia) purchased LLC Poti Sea Port in 2008 and began development of a free industrial zone on 300 hectares of land adjacent to the port. In 2011, Rakia sold 80 percent of the Port to APM Terminals, based in the Netherlands and part of the Danish A.P. Moller-Maersk group, but maintains 100 percent ownership in Poti Free Industrial Zone, the first of its kind in Georgia and the whole Caucasus region. More information is available at www.potifreezone.ge.

Georgia's second free industrial zone is a 27-hectare plot in Kutaisi, where the Egyptian company Fresh Electric constructed a kitchen appliances factory in 2009. The company has committed to building about one dozen textile, ceramics, and home appliances factories in the zone, and announced its intention to invest over USD 2 billion.

The third Free Industrial Zone, established in 2015 in the western city of Kutaisi, is being developed by the Chinese private corporation "Hualing Group," founded in 1988 in Urumqi, China. Hualing Group launched its investment in Georgia in 2007 and has realized eight large projects in infrastructure, hospitality and other areas, totaling \$500 million.

<http://hualing.ge/language/en/hualing-georgia/>

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2015	13,960	2014	16,530	http://data.worldbank.org/indicator/NY.GDP.MKTP.CD
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2015	35	2014	1	http://bea.gov/international/factsheet/factsheet.cfm?Area=337
Host country's FDI in the United States (\$M USD, stock positions)	n/a	n/a	2013	0	http://bea.gov/international/factsheet/factsheet.cfm?Area=337
Total inbound stock of FDI as % host GDP	2014	9.6	2014	7.7	

* GeoStat (Georgia National Statistics Office)

Table 3: Sources and Destination of FDI

The IMF's calculations of foreign direct investment (FDI) in Georgia differ from the Georgian government's official calculations. The most recent IMF statistics available regarding Georgia's FDI are from 2014.

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	13,262	100%	Total Outward	N/A	100%
United States	1,408	11%			
Netherlands	1,370	10%			
United Kingdom	1,270	10%			
Azerbaijan	1,043	8%			
Turkey	999	8%			

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

IMF Coordinated Portfolio Investment Survey data are not available for Georgia.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law system

International organization participation:

ADB, BSEC, CD, CE, EAPC, EBRD, FAO, G-11, GCTU, GUAM, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCs, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, ITUC (NGOs), MIGA, OAS (observer), OIF (observer), OPCW, OSCE, PFP, SELEC (observer), UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO
































Section 6 - Tax




















Exchange control

Georgia does not have exchange controls governing exchange rate arrangements

Treaty and non-treaty withholding tax rates

Georgia has signed **49 agreements (49 DTC agreements)** providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Armenia	DTC	18 Nov 1997	3 Jul 1997	Unreviewed	No	
Austria	DTC	11 Apr 2005	1 Mar 2006	No	No	
Austria	DTC Protocol	4 Jun 2012	not yet in force	Yes	Yes	
Azerbaijan	DTC	18 Feb 1997	1 Dec 1997	Unreviewed	No	
Bahrain	DTC	18 Jul 2011	1 Aug 2012	Unreviewed	Yes	
Belgium	DTC	14 Dec 2000	4 May 2004	Unreviewed	No	
Bulgaria	DTC	26 Nov 1998	1 Jul 1999	Unreviewed	No	
China	DTC	22 Jun 2005	10 Nov 2005	Unreviewed	No	
Croatia	DTC	18 Jan 2013	not yet in force	Unreviewed	Yes	
Czech Republic	DTC	23 May 2006	4 May 2007	Unreviewed	No	
Denmark	DTC	10 Oct 2007	1 Jan 2009	Unreviewed	Yes	
Egypt	DTC	25 May 2010	20 Dec 2012	Unreviewed	Yes	
Estonia	DTC	18 Dec 2006	27 Dec 2007	Unreviewed	No	
Finland	DTC	11 Oct 2007	23 Jul 2008	Unreviewed	Yes	
France	DTC	7 Mar 2007	1 Jun 2010	Unreviewed	No	
Germany	DTC	1 Jun 2006	21 Dec 2007	Unreviewed	No	
Greece	DTC	10 May 1999	20 Oct 2002	Unreviewed	No	
Hungary	DTC	16 Feb 2012	13 May 2012	Unreviewed	Yes	
India	DTC	24 Aug 2011	8 Dec 2011	Unreviewed	Yes	
Iran	DTC	3 Nov 1996	14 Feb 2001	Unreviewed	No	
Ireland	DTC	20 Nov 2008	6 May 2010	Unreviewed	Yes	
Israel	DTC	12 May 2010	1 Jan 2012	Unreviewed	Yes	
Italy	DTC	31 Oct 2000	19 Feb 2004	Unreviewed	No	
Japan	DTC	18 Jan 1986	27 Nov 1986	Unreviewed	No	
Kazakhstan	DTC	11 Nov 1997	5 Jul 2000	Unreviewed	No	
Kuwait	DTC	13 Oct 2011	17 Apr 2013	Unreviewed	No	
Latvia	DTC	13 Oct 2004	25 Mar 2005	Unreviewed	No	
Lithuania	DTC	11 Sep 2003	20 Jul 2004	Unreviewed	No	
Luxembourg	DTC	15 Oct 2007	14 Dec 2010	No	No	
Malta	DTC	23 Oct 2009	1 Jan 2010	Unreviewed	Yes	
Netherlands	DTC	21 Mar 2002	21 Feb 2003	Unreviewed	No	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Norway	DTC	10 Nov 2011	23 Jul 2012	Unreviewed	Yes	
Poland	DTC	5 Nov 1999	1 Jan 2007	Unreviewed	No	
Portugal	DTC	21 Dec 2012	not yet in force	Unreviewed	Yes	
Qatar	DTC	20 Dec 2010	11 Mar 2011	Unreviewed	Yes	
Romania	DTC	11 Dec 1997	15 May 1999	Unreviewed	No	
Russian Federation	DTC	4 Aug 1999	not yet in force	Unreviewed	No	
San Marino	DTC	28 Sep 2012	12 Apr 2013	Unreviewed	Yes	
Serbia	DTC	4 Apr 2012	9 Jan 2013	Unreviewed	Yes	
Singapore	DTC	17 Nov 2009	28 Jul 2010	Unreviewed	Yes	
Slovakia	DTC	27 Oct 2011	29 Jul 2012	Unreviewed	Yes	
Slovenia	DTC	7 Dec 2012	not yet in force	Unreviewed	Yes	
Spain	DTC	7 Jun 2010	1 Jul 2011	Unreviewed	Yes	
Switzerland	DTC	15 Jun 2010	7 Jul 2011	No	No	
Turkey	DTC	21 Nov 2007	18 Feb 2010	Unreviewed	No	
Turkmenistan	DTC	5 Dec 1997	26 Jan 2000	Unreviewed	No	
Ukraine	DTC	14 Feb 1997	1 Apr 1999	Unreviewed	No	
United Arab Emirates	DTC	25 Nov 2010	28 Apr 2011	Unreviewed	Yes	
United Kingdom	DTC	13 Jul 2004	11 Oct 2005	Unreviewed	No	
Uzbekistan	DTC	28 May 1996	20 Oct 1997	Unreviewed	No	

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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