

# Georgia

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## 1. Overview of Reforms and Economic Trends in Georgia

The sweeping political changes have brought by the November 2003; the Rose Revolution has marked the end of the old regime in Georgia. The presidential elections of January 2004 have brought a new president and new government into power with a modern vision towards reform and state building.

### Institutional Reforms

The strategic objective of the Georgian Government was to develop an effective, professional, honest and transparent public service committed to the safeguarding of democratic principles.

Significant reforms were introduced in the Government system: number of ministries was reduced from 18 to 13 by way of merger; a large number of state departments were dissolved and subordinated to the respective ministries; and a teamwork-oriented cabinet of ministers was formed under the leadership of the Prime Minister.

### Anticorruption Measures

One of the core objectives of the Government of Georgia is to fight corruption. The administered anti-corruption measures in the country were aimed at reforming law-enforcement and judicial systems, as well as the fiscal, administrative and public service sectors. Significant payroll raises for public servants in the ministries were carried out within a short time frame in order to assist fighting economic crime and corruption.

The National Security Council of Georgia developed and approved the National Anti-corruption Strategy of Georgia in 2005. The strategy was targeted at developing an effective government system, activating legal and civil measures to fight against corruption and preventing corrupt practices in governance. Anti-corruption measures have significantly improved fiscal administration and scaled down Georgia's shadow economy.

### Liberal Economic Reforms

One of the chief goals of the economic policy of the Government of Georgia is to promote the development of private entrepreneurship by creating a favorable business climate. Economic reforms are aimed at ensuring economic growth based on liberalization and private sector

development. To this end, the Government has taken series of important steps:

- Lower Tax Rates

In 2005 a new Tax Code was enacted. Under the Code, the number of taxes was reduced 3-fold and tax rates were lowered considerably.

- Fewer Licenses and Permits for Doing Business

The number of business activities subject to licensing and permitting regimes was reduced by 84%. Licensing procedures were simplified and "the one stop shop" principle was introduced.

- Improved Technical Regulation System

The technical regulation system was reformed to serve the way to a voluntary standards system and reduce state regulation in this sphere. The new laws provide for the introduction of technical regulations in compliance with international standards to significantly simplify procedures for exporters and importers.

- Less Regulation by the State

The deregulation policy has significantly reduced the number of spheres, regulated by the state and simplified the necessary regulation procedures.

- Aggressive Policy of Privatization

Privatization of state property is in progress currently, stimulating the growth and development of the private sector.

- Customs Reform

A draft Customs Code has been prepared to offer significantly simplified customs administration procedures.

- Lower Import Duties in 2006 and no Import Duties in 2008

The system of import duties is being reformed to reduce the number of tariffs 5-fold in 2006 and establish one of the simplest tariff systems in the region with only three rates (0%, 5% and 12%). The Government aims at complete abolition of import duties by 2008. After Hong Kong and Singapore, Georgia would be the third country in the world without import duties.

- Fiscal Amnesty

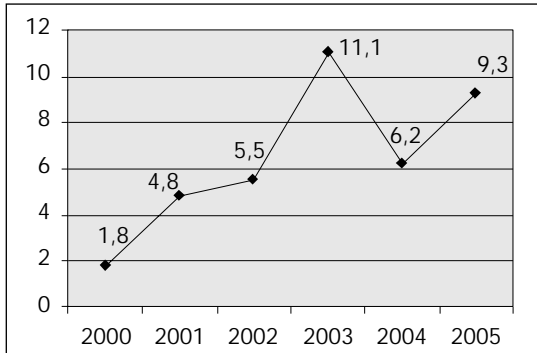
Fiscal and property amnesties have been declared in 2004 to prevent shadow economic dealings and tax evasions.

The above reforms and initiatives produced positive results as evidenced from international studies and evaluations:

- Georgia has become the second on the list of the 12 top reformer countries in terms of improved business environment in the Doing Business 2006 Report of the International Finance Corporation (IFC).
- According to the Heritage Foundation's Index of Economic Freedom for 2006, Georgia improved its rating by 28 places compared to 2005 shifting to the 68th place from "mostly unfree" to "mostly free". According to the study most EU countries have the same degree of economic freedom.
- Georgia's foreign and local currency rating is B Plus based on the evaluation of Standard and Poor's. The outlook is positive.
- The UK Export Credit Guarantee Department (ECGD) removed Georgia from the list of variable risky countries in terms of investment risk and investment insurance opportunities in 2004.

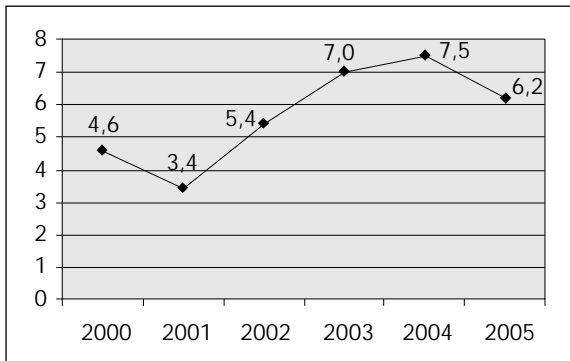
The consistent and sustainable macroeconomic policy pursued by the Georgian Government produced positive results as evidenced by a high economic growth trend. The nominal Gross Domestic Product (GDP) amounted to 6.4 bln USD in 2005. The real GDP growth rate for 2005 amounted to 9.3%; 3.1% increase, compared to 2004. The average rate of annual inflation at the end of 2005 was equal to 6.2%.

Chart 2.1 Real Gross Domestic Product Growth Rate



Source: Department for Statistics of the Ministry of Economic Development of Georgia

Chart 2.2 Annual Inflation (end of period)



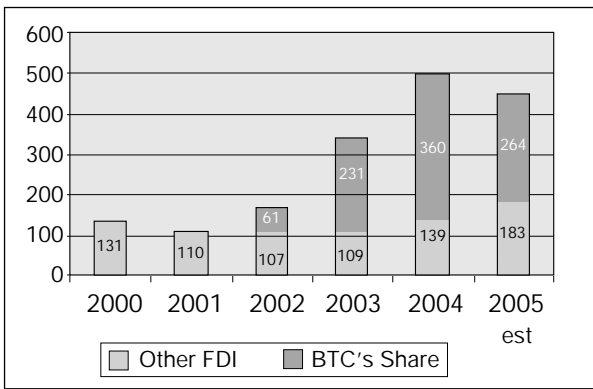
Source: Department for Statistics of the Ministry of Economic Development of Georgia

Agriculture (14.8%), trade (11.4%), processing industry (8.5%) and transport (8.5%) sectors has been accounted for the largest shares of

GDP in 2005. The Economical growth has been also seen in virtually every field (other than mining industry). The highest growth rates were registered in finance (52.2%), communication (29.5%), and processing industry (14.3%).

Creating attractive investment climate and ensuring favorable conditions for business activities is an indispensable precondition for economic development of the country. Foreign direct investments have been made in Georgia in 2005 that amounted to 447 mln USD. The decline from the previous year was caused by the completion of the Baku-Tbilisi Ceyhan Oil Pipeline Construction Project. However, non-pipeline investments increased by 44 mln USD.

Chart 2.3 Foreign Direct Investments



Source: Department for Statistics of the Ministry of Economic Development of Georgia

## 2. Strategic Geographic Location

Georgia is a bridge, connecting several economical regions and is a particularly important transit country. Located at the crossroads of Europe and Central Asia, it serves as a natural transport corridor. Georgia is the shortest transit route between the West and Central Asia for transportation of oil and gas as well as dry cargo.

The Black Sea ports of Georgia, with their well-developed railway systems, oil and gas pipelines together with airports serve as the infrastructure linking the largest markets and regions.

### 3. Georgian National Investment Agency

Georgian National Investment Agency was founded according the law on Georgian National Investment Agency in the Ministry of Economic Development of Georgia. GNIA is the only state organization in Georgia responsible for investment promotion.

Main objectives of the Agency are:

- Significantly increase FDI in Georgia
- Improve the competitiveness of Georgian companies.
- Increase Georgian exports
- Contribute to economic regeneration

Main functions of the Agency are:

- Promotion of inward investment
- Advise government on policy issues
- SME development
- Promote Innovation
- Investor Protection

GNIA's main goals are elaboration investment policy, country branding and systematic search for potential investor, informing them about investment opportunities in Georgia and providing comprehensive assistance.

GNIA acts as "one-stop shop" agency for investors assisting them in setting up their business in Georgia, helping in project implementati-

on, performing a liaison role with the Government, providing information on investment related regulations and laws.

One of the most important goals of GNIA is country branding.

International conferences, business-forums, trade fairs and exhibitions are being organized by GNIA to facilitate international linkages and establish relations and dialogue between investors and the Georgian businessmen. In order to raise awareness about Georgia.

International business forums called "Invest in Georgia" have been organized twice in London, Rome, Tokyo, New York and Astana. Such business forums will assist to create new opportunities for future business partnership that will also support Georgia's integration to the European Union and World's Economy. GNIA is also planning to organize same forums in Ukraine, Baltic countries, Poland, India, etc. in the nearest future.

GNIA has launched its web page ([www.investimgorgia.org](http://www.investimgorgia.org)), which provides comprehensive information to the potential investors regarding the relevant procedures for doing business in Georgia, business climate, legislation, taxation, and other useful information.

GNIA also established the partnership with similar organizations of different countries in order to exchange experience and study best practice of mentioned agencies.

GNIA needs the government's assistance as well as from Donor Organizations to achieve mentioned ambitious goals. In this order GNIA actively cooperate with International Organizations such as Multilateral Investment Guarantee Agency (MIGA), United States International Investment Agency (USAID).



In order to attract FDI, the agency has recently started cooperation with Multilateral Investment Guarantee Agency (MIGA). A Delegation of MIGA visited Tbilisi last year as one of the results of this cooperation. Purpose of the delegation was to do "needs assessment" for the agency and design future cooperation strategy.

The GNIA and USAID/Business Climate Reform have created Business Information Center (BIC). BIC serves as a liaison between the government of Georgia and private businessmen/potential investors; the following focal directions have been identified within the framework of its activities:

- Privatization one-stop-shop;
- Comprehensive information service to investors:
  - Creating counterpart network in the governmental agencies in order to streamline information gathering process and channel information through Investor Service Unit;
  - Create list of relevant companies and in case of specific inquiries make referrals;
- Promote public-private partnership;
- Maintain web site to publish info about GoG initiatives, solicit private sector's feedback.

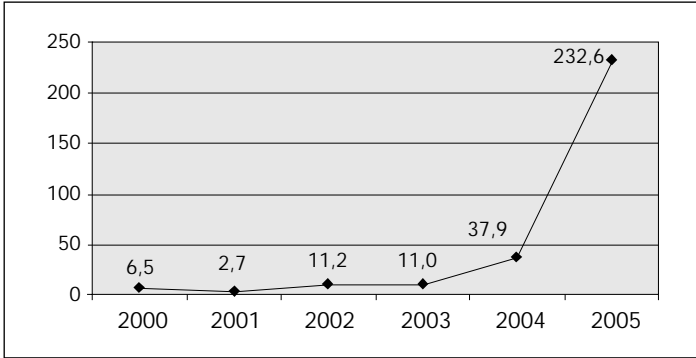
#### 4. Privatization of State Property – FDI Attraction

Privatization is one of the most dynamic processes underway in the post-revolutionary Georgia. The process is aimed at attracting private capital to state owned assets in order to introduce efficient management, increase investment and boost economic growth and jobs creation. It is guided by the following principles:

*4.1. Attract Local and International Private Capital*

The Government of Georgia received 270.5 mln USD from the privatization process in 2004-2005. That exceeds privatization income from 2000-2003 by almost 8.6 times.

Chart 5.1 Income from privatization in 2000-2005



Source: Department for Statistics of the Ministry of Economic Development of Georgia

*4.2. Efficient Use of all Resources Available in Georgia*

At this stage, Georgia's privatization policy is mainly targeted towards the sale of large enterprises. Hydropower generation plants, energy distribution companies and telecommunication enterprises will be planned to privatize in 2006. Privatization of land and forest resources will gradually be implemented as well. Today 74.8%, of agricultural land and 2,5 mln hectares of forests are under state ownership. The law on privatization of state-owned agricultural land has been passed in 2005 in order to promote efficient use of land plots through private ownership and increased efficiency in the agricultural sector.

*4.3. Jump-start Economic Growth*

The main target of large-scale privatization is to jump-start economic

growth through private sector development. Post-privatization investments, approximately 300 mln USD, are expected over the next two years.

#### *4.4. Flexibility - Use Various Methods of Sale*

The Government of Georgia utilizes various methods to privatize state-owned property such as tender, auction, lease and redemption, and direct sale to promote an efficient privatization process.

#### *4.5. Transparency - [www.privatization.ge](http://www.privatization.ge)*

The Government of Georgia actively works towards establishing international contacts with interested organizations and potential investors to ensure a high level of fairness and transparency. A private web site, [www.privatization.ge](http://www.privatization.ge), has been created to provide privatization-related information.

#### *4.6. Fairness – Equal Opportunities for all Potential Buyers*

Any Georgian or foreign person or a company has right to take part in the privatization process in compliance with the laws of Georgia.

#### *4.7. Dynamism –A 2-3 Year Process*

The most active phase of the privatization process, which has been started in the second half of 2004, will be finished in 2006. Recently 14 companies, operating in telecommunication, energy generation and distribution spheres have privatized. The full list of the companies that will be privatized consists of 800 assets.