

IGCC NEWSLETTER

010 1000

Israel-Georgia Chamber of Commerce

December Edition 2020

1

“ Israel-Georgia Chamber of Commerce will significantly increase the presence of Israeli business community in Georgia. It will play the game changer role in building sustainable commerce interest and raise awareness about advantages of Georgian market.

”

2

“ Prosperous, Secure and Confident Georgia would be a major asset not only to itself and to the region but also to Israel and the wider Middle East.

”

3

4

ISRAEL FOR GEORGIAN ECONOMY:

5

6



Dear Readers,

I am pleased to address you as the Chairman of Israel-Georgia Chamber of Commerce and present the first IGCC's Newsletter, which provides a deep insight into Georgian progressive business climate, investment opportunities and advantages of Doing Business in Georgia.

Since the establishment of diplomatic relations between the state of Israel and Georgia, the two nations have demonstrated unbreakable bond of friendship and built sustainable and responsive bilateral relations in order to develop a strong and strategic partnership. Over the course of 26 centuries the Jewish people, on their historical journey to Georgia, have experienced unprecedented peaceful coexistence with Georgian people, have maintained their unique identity, their traditions and have collectively built diverse society in Georgia.

The late Israeli Prime Minister David Ben-Gurion once said: **"In Israel, in order to be a realist, you must believe in miracles."** Since its establishment, Israel has built a prosperous nation and has become a beacon of thriving democracy, innovation, culture and commerce for the rest of the world. The Israelis have a great appreciation of the value of education, as well as invention opportunities. In consequence they created a strong educational and scientific center to train engineers, inventors and entrepreneurs. This approach has led them to economic growth and human capital advancement.



Georgia is a young democratic country with glorious history emphasizing tremendous challenges and difficulties it has gone through. Throughout the significant democratic reforms and an aspiration to the western values, Georgia has grown into an attractive country for investors, entrepreneurs and business communities worldwide. In an effort to stimulate foreign investments and economic growth, the Government of Georgia has been undertaking a series of progressive reforms such as anti-corruption efforts, amendments to labor and tax codes, elaboration of flexible tax system which includes six flat-rate taxes, DCFTA with the EU in 2014, which regulates Georgia's liberal trade regimes including "Double Taxation Avoidance" with 56 countries. According to the World Bank's doing business Index 2020, Georgia ranked the 7th in the Ease of Doing Business and the 1st position among the countries of Europe.

Bilateral economic and trade relations between Israel and Georgia is progressing into a promising future. The two countries enjoy Visa Free regime, a recently signed agreement on legal employment status and other legal regulations of joint cooperation but more is yet to come. In 2019 alone, more than 200,000 Israeli tourists visited Georgia. Israel's business interest is increasing towards Georgia as its Direct Investments and trade figures demonstrate. Both Israel and Georgia have enormous potential to cooperate in the field of high-tech industry, real estate, tourism, education, agricultural sectors and cyber security.



The launching of Israel-Georgia Chamber of Commerce (IGCC), will significantly increase the presence of Israeli business community in Georgia. It will also play as a game changer in a process of building sustainable commerce interest and raise awareness about advantages of Georgian market. Although IGCC is an independent organization, it is strongly supported by two countries governmental authorities such as Ministry of Economy and Ministry of Foreign affairs. The IGCC's main goal is to develop commercial and economic relations, strengthen bilateral trade and investment opportunities for its members and the entire Israel-Georgia business community. Through open dialogues, communication channels and platforms, we will be able to build a strong network for private companies, which will lead to the partnership and cooperation. I'm confident that the above-mentioned efforts will turn Georgia into one of the most competitive places for Israelis to invest in.

As a businessman and contributor to educational projects, I disclosed Georgia as an attractive place to invest and do business. As a real estate entrepreneur and Hi-tech joint venture investor, I have experienced Georgia as a stable investment destination, with pro-business and corruption-free government, with free trade agreement reaching 2.3 billion market, with low and efficient taxation, as a gateway between the Europe and Asia and first and foremost, the closest country to Israel with regular flight from Tel-Aviv to Tbilisi.

After global stagnation and unprecedented threats to public health since the outbreak of COVID 19, I do believe that we will overcome the challenges and reboot our strategies, our ideas and work together for many years to come. Just a few days ago, the entire Jewish world celebrates Hanukkah Holiday - a Festival of light and commemorates a victory over the enemy. So that makes us to stick together because the hope for better future and prosperity for two nations has never been more important than now. I, also would like to congratulate on the upcoming New Year holiday which will bring to all of us and our families the light for a brighter future.

Happy New Year!

Sincerely yours,

Meni Benish

Chairman of Israel-Georgia Chamber of Commerce



I arrived in Tbilisi on 3rd January 2020 as Israel's new Ambassador to Georgia. However, it wasn't my first experience of living and working in this wonderful country. I had served here as Consul between 1997-2000, a period which is now commonly referred to among Georgians as "the dark years". Nevertheless, despite the hardship, economic collapse and harsh living conditions - even back then it was impossible not to fall in love with Georgia. Twenty years later, the country has changed almost beyond recognition and has become in many ways a model for others to follow.

However, remarkable as the transformation has been so far - much remains to be achieved. Even before the corona-virus pandemic had erupted, Georgia was already facing considerable economic, demographic, political and security challenges. Now those problems have been compounded by the collapse of the tourism sector, the virtual suspension of remittances, a spiraling unemployment and deepening poverty. Admittedly, this crisis is not unique to Georgia, as the relentless spread of COVID-19 has dealt an unprecedented blow even to some of the world's most prosperous economies (like Israel). However, for a young economy such as Georgia, with a miniscule consumer market (3.7 million) and only a modest industrial base, the challenges are, indeed, momentous.

Israel is fortunate enough to possess many of the skills, resources and advantages needed in order to assist Georgia in re-embarking on the road to success and prosperity. Both nations have enjoyed excellent bilateral relations for almost 3 decades, and often extol 26 centuries of Jewish existence in Georgia - a historical feat unequalled in any other part of the world. We, Israelis (especially over 100,000 of us who were born as - or descended from - Georgian Jews) are deeply grateful for this. Many Israelis still maintain family and personal links, own property and invest heavily in the country of their birth. Last year no less than 200,000 Israeli tourists arrived in Georgia, availing themselves of a record 42 direct flights a week.

However, for Georgia to emerge triumphantly out of the current crisis, and for our bilateral relations to mature and expand - it is surely high time we started focusing on the promising future, rather than our glorious shared past. Unfortunately, the current state of our bilateral trade (42 million USD in 2019) does not reflect even a fraction of the potential for commercial traffic. Nor does the list of bilateral agreements between our 2 governments provide the entire framework needed for attracting, boosting and protecting investment. We need to move on from 1990s-style of business-making in reliance on family links and childhood friendships, and add the modern tools of a sophisticated 21st century type of bilateral relations, such as a Free Trade Agreement, specifically-tailored tax incentives and a deeper harmonization of our respective legal, regulatory & statutory systems.



That is why the recent launching of the new Israel Georgia Chamber of Commerce is such a crucial milestone. For the first time since the establishment of our bilateral relations, the business communities in both countries now have at their disposal a serious, professional and effective tool dedicated to the promotion of bilateral trade and investment. The two governments have also recently signed a bilateral agreement regulating the temporary employment in Israel of hundreds of Georgian auxiliary care-givers. Moreover, some major private sector initiatives already show promising signs of success, and Israeli experts and investors are playing a pivotal role in the creation of a Georgian high-tech ecosystem.

But this is not enough. Israel can and should play a much more active role in the agricultural, water, telecommunications, infrastructure, telemedicine, cyber, coding and vocational training sectors of the Georgian economy. We have to acknowledge that a prosperous, secure and confident Georgia would be a major asset - not only to itself and to the region (especially against the background of the recent war in Nagorno-Karabakh) - but also to Israel and the wider Middle East. We call upon the business communities in both countries to explore this enormous potential, while the Israeli Embassy in Tbilisi - together with the Israel-Georgia Chamber of Commerce - are certainly ready and willing to support and lead this effort.

Ran Bidor

Ambassador Extraordinary and Plenipotentiary of Israel to Georgia

PwC's follow up survey on "Georgian Business in the face of the COVID-19 Pandemic"

How has the COVID-19 pandemic impacted micro-, small-, medium-, and large-sized enterprises? - The insights from PwC Georgia's recent survey outlines the real sentiments of local businesses and how their challenges have shifted throughout the pandemic.



Key findings

Surveyed companies and interviewed businesses have seen a significant decrease of demand as a result of COVID-19. Revenues have dropped by more than half for 39% of respondents. Despite the decline in demand, respondents have a more positive future outlook than our earlier survey. Only around 1/5th of respondents, compared to half of companies in April, expect to have more than a 50% drop in revenue in the upcoming 3 months, compared to the same period of last year.

Sixty-three percent of all surveyed businesses have suspended business activity during the quarantine, while 75% of those businesses that have renewed their activity continue to experience complications in their day-to-day operations.

Increased costs, especially in raw material stock, motivated companies to rethink their operations and consider creative opportunities to improve efficiency. Companies

with Hazard Analysis and Critical Control Points (HACCP) or International Organization for Standardization (ISO) certification appreciated the processes already put in place that simplified the fulfillment of COVID-19 sanitary and health and safety regulations.

The unpredictability of COVID-19 and the quarantine measures put significant pressure on employment. Our findings show 23% of companies in the first and 11% in the second survey have reduced their headcount by 100%. Almost half of the respondents have used salary subsidy and personal income tax exemption initiatives offered by the Government.

Although problems associated with the COVID-19 pandemic are a temporary occurrence, its consequences on the economies and businesses will have longer-term implications.

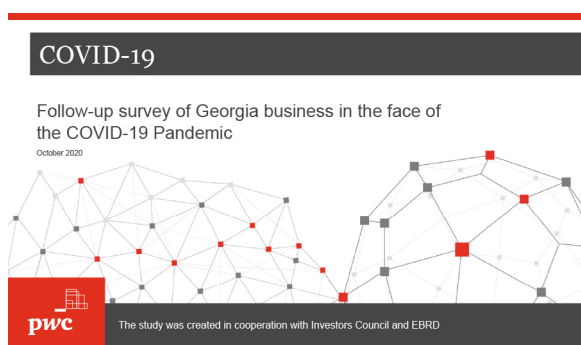


In terms of the lessons learnt from COVID-19, we can summarize few takeaways:

1. **Digital flexibility** is crucial to enable business operations during lockdowns
2. **Online presence** allows some continuation in sales and revenue generation
3. **Continuous monitoring** of consumer needs is important to accomodate to rapid changes.

The follow up survey has been conducted in cooperation with the Investors Council and EBRD between 11 September and 2 October of 2020 and generated in total 774 responses.

Link to the report:



Contacts:



Tamta Shermadini

Director of Advisory

tamta.shermadini@pwc.com

PwC Georgia



Nino Cholokashvili

Senior Manager

nino.cholokashvili@pwc.com

PwC Georgia

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with more than 284,000 people who are committed to delivering quality in assurance, advisory, tax and legal services. Find out more and tell us what matters to you by visiting us at www.pwc.com/ge

PwC Georgia opened its office in Tbilisi in 2005. We, at PricewaterhouseCoopers Georgia LLC work to help our clients in the local market to become more successful and globally competitive. Today we employ about 120 professionals in our Tbilisi office.

"PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. Please see www.pwc.com/structure for further details.

©2020 PricewaterhouseCoopers Georgia LLC. All rights reserved.

New law on Investment Funds - A breath of Hope for struggling Financial Market

Historically, access to finance has been major challenge for business in Georgia.

In spite of several waves of reform and the declared policy of the Georgian government to develop capital markets, these remain at an inception stage. Although the Georgian banking sector is rather strong, a predominant part of businesses are not bankable. In addition, absence of competition among funding sources impedes product development and the financial institutions, while advanced technologically, remain conservative in product development. In response to the above problem, in recent years the National Bank of Georgia (NBG) has championed a number of reforms to strengthen capital markets in the country and create alternative sources of funds. Setting up a functional legislative framework for investment funds has long been declared part of this agenda. Although the previous law was around for almost 7 years, it fell short of any modern standard, regulatory depth, and predictability and proved to be a non-starter - over the course of its existence, no single investment fund was registered.

Largely modeled around the experience and directives of the European Union, the new Law on Investment Funds was drafted by the NBG, with the involvement of private sector representatives. We are privileged that two partners of BLC - Tamta Ivanishvili and Giorgi Batlidze were actively involved in the process and even provided technical assistance to the regulator.

The Law on Investment Funds was published on 14 July 2020 and enters into force on 12 October 2020. It establishes a transitional period of 12 months. Every entity engaged with the investment activities characteristic to an investment fund has the obligation to obtain registration or authorization with the NBG throughout this transitional period.

It is now prohibited to use the phrase 'investment fund' in a company legal name unless the relevant entity can qualify as such and is duly registered by the NBG. This limitation is inapplicable to companies registered prior to enactment of the new law.

The law provides a regulatory framework for investment funds established or operating in Georgia, asset management companies, foreign investment funds and other players similar to special depository, auditors and other actors.

Herewith, the law defines investment Fund as a collective investment vehicle, the primary objective of which is to attract funds with the purpose of their further investment. As of the enactment, it becomes prohibited to carry out activities characteristic for investment funds without first obtaining authorization or registration with the NBG.



From the standpoint of a target investor base, the new law differentiates between authorized investment funds (which have the authority to raise funds from retail investors through public offerings) and registered funds (aimed primarily at qualified investors and authorized to raise funds through private offerings only). Following best international practice, the registration requirements, as well as the scrutiny of regulation, is much more extensive for authorized funds since retail investors are considered more vulnerable due to the lack of experience and funds required to bear risks associated with investment activities.

The law defines public offering as an offering of securities to more than 20 retail investors. It is worth noting that this is a stricter standard since, under general circumstances, the Law on Securities Market considers offering of securities as public if the offering is made to more than 100 persons or unidentified pool of addressees.

When it comes to legal form, an investment fund can be registered in the form of an incorporated entity such as a limited liability company, a joint stock company or a limited partnership (investment company) or a contractual scheme (common fund). Investment companies are not obliged to contract an asset manager, while common funds have such obligation. Both investment companies and common funds can obtain the status of registered fund or an authorized fund and thus, they will be subject to the relevant level of regulatory oversight. Regardless of the opted legal form, the law provides for limitation of liability of the investors for the activities of the investment fund and vice versa.

The law also differentiates open and closed funds. Investors in open funds have the ability to exit the fund any time through exercising their redemption rights, while no such right exists in close funds until the latter is liquidated. The valuation and financial reporting requirements are thus different for open and closed funds. As a mixture of these two sub categories, the law also regulates interval funds, which periodically offer investors the possibility to buy back a percentage of outstanding shares at net asset value.

A special procedure is introduced for the recognition of foreign investment funds. For such recognition to be obtained, the following conditions must be satisfied: the country of origin must allow public offering of units; it must not be categorized as noncooperative by the FATF (Financial Action Task Force), and it must have a legislative framework comparable to the one established for authorized funds in Georgia.

As mentioned above, among other actors, the new law sets regulatory requirements for two entities instrumental to the functioning of the investment fund: (1) asset manager companies, which are entrusted with the competence to manage the fund's portfolio and risks; and (2) special depository, which has the obligation of safe-keeping the fund's assets and exercising oversight over the asset manager's activities. To exclude any potential conflict of interest, asset manager and special depository cannot be the same person. Only the authorized funds have the obligation to contract special depository.

Certainly, the structure of investment funds cannot be functional without a proper tax framework.



This is why related amendments were also introduced to the Tax Code of Georgia. According to these amendments, activities related to the management and administration of investment funds is categorized as financial services and thus, exempt from VAT. As regards corporate income tax, the tax code attempts to treat an investment fund as a pass through entity to ensure that the tax burden of the investors is not increased due to involvement of intermediary into the structure rather than investing directly.

The sophistication of the Law on Investment Funds creates high hopes for the sector, while it is also understood that much will be dependent on how the law is administered, interpreted and enforced. Meanwhile, we remain hopeful that it will prove to be what every enthusiast of the field hopes for – a new breath for development and innovation of otherwise quite stagnant financial markets of Georgia.



Giga Batlidze
Partner



Tamta Ivanishvili
Partner

**For more information and advise please
contact BLC:**

📍 129 David Aghmashenebeli Ave, Tbilisi, 0102,
Georgia

☎ +995 32 292 24 91, 292 00 86, 200 04 91

✉ blc@blc.ge

🌐 www.blc.ge

Please apply for the professional advice prior to relying on the information given in this article.

BLC and its team shall be ready and pleased to provide full information.

ISRAEL FOR GEORGIAN ECONOMY



Webiz Georgia - Your Development Partner in Georgia

Webiz Georgia is a software development company, started as an adventure of two Israeli entrepreneur David Zerah and Eyal Bar-Oz, looking for a development of e-commerce related start-ups. With help from Meni Benish, Chairman of Israel-Georgia Chamber of Commerce, entrepreneurs came across an opportunity to hire developers in Georgia and fell in love with the country, its culture and people.

Webiz Georgia is a dynamic, creative and young company that understands how to seek opportunities and conquer them. The company offers a wide range of software, marketing and design related services for businesses and startups all around the globe.



Webiz Academy

Webiz Academy is a brainchild of **Webiz Georgia** designed to contribute to the development of its local High - Tech professionals. Webiz academy presents mentoring programs, integrated educational courses and high-quality lectures to help achieve these goals. With the experience and well-established connections with Georgia's Innovation and Technology Agency GITA, the company has been on a constant rise and now hosts more than 100 developers in Tbilisi.

Eyal Bar-Oz - Co-founder and CEO of Webiz Georgia:

“First of all, there is an untapped potential in the younger generation to be part of the digital economy industry. Our strategy at Webiz Academy will be to open and train the best candidates for free.

Secondly, the cost of human resources compared to Israel is low and is competitive with the other Eastern European countries. This, along with the support of the government and the benefits of reducing the tax from 20% to 5% make it even more attractive.

Finally, the family-oriented culture of Georgia will help us reduce turnover within the staff and create personal loyalty to ensure our staff stays with us for a long tenure. This is one of our key success factors to building long-term relationships with clients.

I believe that this combination of factors along with the geographical location and what this country has to offer will make this place the Silicon Valley of the region.

”



Arie Weisbort - Founder and Chairman of W.B Investments



Arie Weisbort is a senior board member of Israel-Georgia Chamber of Commerce IGCC with an outstanding knowledge of working and doing business in Georgia. The former Israeli Air Force base commander, high-tech and aerospace industry leader moved to Georgia in 2018 to launch ATC Aero-Structure Technologies Cyclone, a JV between Israel's Elbit Systems and the Georgian state-owned Partnership Fund. In the engineering field ATC is a unique factory for local market, which will lead to the reconstruction of Georgian Aerospace Industry.

ATC Georgia is an exceptionally successful joint project producing composite components for the commercial aircraft industry, composites aerostructure sub-assemblies and assemblies for various commercial aerospace applications. The JV employs 170 young Georgian professionals and plans to increase the quantity of human capital up to 300. That enterprise is an analogue to the Elbit Systems factory in Haifa, which has already formed a partnership with Airbus, the Boeing Company and supplies them with aircraft composites produced at ATC Georgia.

“The operational costs are so much lower, there was no comparison. It's 25%, and not more than 40%, of the normal costs in Europe, the U.S. and Israel.” - That's how Arie Weisbort evaluates Georgian market and business environment including low-cost land and power, business-friendly tax regime and professional workforce profitable for light industry.

All of those investment perspectives and progressive business climate has encouraged the former Israel Air Force pilot and Air Force Base Commander to push the boundaries, boost innovative ideas and pursue his goal to create a modern industrial park for international companies in Tbilisi and Kutaisi.



GEORGIA - Country Overview

Area:	69,700 sq. km	GDP 2018:	USD 17.74 billions
Population:	3.7 mln	GDP real growth rate 2019:	5%
Life expectancy at birth 2019:	73.5 years	GDP CAGR 2013-2019 (GEL):	4%
Official Language:	Georgian	GDP per capita 2019:	USD 4 696.2
Literacy:	99.8%	Inflation rate (December) 2019 (Y-o-Y):	3.8%
Capital:	Tbilisi	Total Public Debt to Nominal GDP (%) 2019:	42.2%
Currency (code):	Lari (GEL)		

Advantages of Investment Climate in Georgia

- ✓ A politically stable investment destination Efficient
- ✓ Pro-business and corruption-free government
- ✓ Free trade agreement with 2.3 billion markets
- ✓ Competitive cost of labor and energy
- ✓ Entry gate between Europe and Asia
- ✓ Stable Macroeconomic situation and solid sovereign balance sheet Simple, low and efficient taxation
- ✓ 6th easiest country to do business in (World Bank's Ease of Doing Business Report 2019)
- ✓ 6th safest country in the world (Numbeo's Crime Index, 2019)

Overview of Georgia's BPO Sector



Young, Energetic and Competitively Priced Labor Force

- ✓ 54% of the unemployed population is in 20-40 age category
- ✓ Average monthly salary for BPO sector was 380 USD
- ✓ Georgia has one of the most liberal labor codes, not only in the region, but globally and ranks 17th in the world in Labor Freedom Index
- ✓ Vast majority of younger population speaks fluent English and Russian (German is the 3rd most frequent foreign language)



Education

- ✓ 75 higher education institutions and 125 professional education centers
- ✓ Economics and Business, Juridical Sciences and medicine are the most popular faculties
- ✓ Georgia provides vocational education training, most of the course's fees are financed by the state



Investment Opportunities

- ✓ Based on Georgia's and Global market study, BPO sector has an opportunity to capitalize on competitive advantages that country offers
- ✓ Functions like F&A, CRM and many more could be serviced from Georgia, giving investors high returns on investment
- ✓ With good quality of life, availability of high class offices and good infrastructure Tbilisi could be ideal destination for BPO centers



Israel-Georgia
Chamber of Commerce



Ministry of Economy
Sustained Economy



ENTERPRISE GEORGIA



ICC
GEORGIA
INTERNATIONAL
CHAMBER OF COMMERCE



Israel Ministry of Foreign Affairs



Ministry of Foreign
Affairs of Georgia



Ministry of Economy and Sus
Development of Georgia

Please contact us:

📍 51 Havatzelet Ha-Sharon,
Herzliya Pituach, Israel

☎ +972 54-667-6753

✉ info@igcc.org.il

🌐 <https://igcc.org.il>

