



Doing Business in Georgia: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Georgia

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Market Overview

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- Georgia is a small transitional economy that is undergoing rapid and positive change. While it is itself a small market of 4.5 million people, with a GDP per capita of \$3400 at purchasing power parity, it is located at the crossroads between Europe and Central Asia.
- The World Bank has recognized Georgia as the world's fastest reforming economy and as a leader in the fight against corruption, following the 2003 Rose Revolution. Georgia can offer a platform for trade and investment in the Caucasus, Central Asia and Russia that is ranked by the World Bank as 37th in the world for ease of doing business.
- The Georgian economy grew at an 8% rate in 2006, despite restrictions on key Georgian exports imposed by Russia, which has traditionally been Georgia's largest trading partner. It is expected to grow by 6.5% in 2007.
- Because of difficulties with its main trading partner Russia, arising from Georgia's pro-western orientation, Georgia is trying to re-orient its trade patterns and find new trading partners in Europe, North America and Asia.
- Georgia's main exports are scrap metal, wine, ferro-alloys, nuts, aircraft, copper, ammonium nitrate, gold, mineral water and sugar.
- It imports mainly petroleum products and natural gas, motor cars, medicines, sugar, turbines for power generation, aircraft, wheat and electric power. After years of declining domestic industry, most consumer goods are imported from abroad as well. Total imports to Georgia increased by 35% in 2005, reflecting the tempo of growth in the economy.
- In 2005, after Russia, its main export markets were the other countries of the former Soviet Union, the EU, Turkey, Canada and the United States. Russia has traditionally been Georgia's main source of imported goods, followed by Turkey, Azerbaijan, Ukraine, Germany, and the United States. Oil and gas imports dominate the range of goods imported from Russia and Azerbaijan.
- The government of Georgia has no control over the separatist regions of Abkhazia and South Ossetia. However, tensions in those regions have little impact on peace and security in the rest of the country.

Market Challenges

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- The Georgian Government has committed itself to further reducing obstacles to doing business in Georgia. It has already reduced all but a few tariffs to a zero rate and has stated its intention to abolish tariffs altogether.
- The main practical challenges to doing business in Georgia stem from linguistic and cultural differences. Most business is conducted in Georgian, official laws and regulations are printed in Georgian, and products must be labeled in Georgian, which in many ways is a unique language. Many Georgians involved in international business know English, however, and its use is becoming more widespread.
- Communications and marketing skills are still developing, and personal connections are of great importance.
- Laws and regulations, especially in the areas of tax and customs, are subject to uneven and arbitrary interpretation and enforcement by bureaucrats and courts. A good local attorney is indispensable for other than simple transactions.
- Enforcement of intellectual property rights is weak.

Market Opportunities

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- The Georgian economy is growing rapidly, and most inputs must be imported.
- The tourism and agriculture sectors are receiving special attention from the government and from international donors such as the Millennium Challenge Corporation. Furnishings and equipment for these sectors will be in demand.
- Construction of roads, energy distribution infrastructure, water systems, hotels and office space is booming across Georgia, presenting opportunities for producers of building equipment and materials and providers of architectural and engineering services.
- While consumers' spending power is somewhat constrained, they will be interested in processed foodstuffs, automobiles and aftermarket accessories, and security equipment.
- Information technology, systems and software are needed to support new business growth.
- International organizations and foreign governments have procurement needs that can be filled by U.S. exporters. These agencies include the IMF, the World Bank, European Bank for Reconstruction and Development, USAID, and the Millennium Challenge Corporation.

- Connecting with good local representation is the most successful way to enter the Georgian market. American exporters should consider visiting Georgia before signing a sales or representation contract. There are several U.S.-trained and licensed attorneys and Western consulting firms operating in Georgia.

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Chapter 2: Political and Economic Environment

- For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/5253.htm>

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Using an Agent or Distributor

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- There are no directories, catalogs or commercial centers providing reliable information about local distributors, wholesalers and retail outlets. Word of mouth is probably the most reliable way to locate a local partner.
- The United States Embassy in Tbilisi is ready to assist U.S. businesses. Information may also be available from the Ministry of Economic Development's Business Information Centers and from BISNIS, the U.S. Government's primary market information center for U.S. companies exploring export and investment opportunities in Russia and Eurasia.

Establishing an Office

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- Business entities include sole proprietorships, joint liability companies, limited partnerships, limited liability companies, joint stock companies and cooperatives.
- Opening an office in Georgia requires registration with the local district tax administration. The company is then registered on the Unified Register of Entrepreneurs, a public document maintained by the Tax Department of the Ministry of Finance of Georgia.
- The following information is required for registration: personal information on the founder and principal officers, articles of incorporation, the company's area of business activity, and proof of charter capital. Other required documents depend on the type of entity to be established.

- Registration fees are minimal, and the tax department is required to complete the registration of a sole proprietorship within one calendar day, and of a company within three days of receipt of required documentation.
- Current legislation does not consider a representative of an international company as a legal entity. However, the registration procedure is the same as for other types of enterprises. Companies should consult with attorneys and accountants prior to opening a business in Georgia.

Franchising

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- Franchising is becoming popular in fast food, production of soft drinks, and retail trading of consumer goods, cosmetics, and apparel in Georgia. Coca-Cola, McDonalds, Baskin-Robbins and Pepsi operate in Georgia.
- Franchise relationships are governed by contract and by normal commercial laws.

Direct Marketing

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- Direct marketing is difficult in Georgia because of poor postal services and limited (but growing) use of the Internet. Express services including FedEx, UPS, and DHL operate in Tbilisi.

Joint Ventures/Licensing

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- Joint ventures can be structured as any of the available entities for doing business in Georgia and operate subject to normal commercial laws.
- Licensing is regulated by contract and by the Law on Enterprise Activity Licensing & Basis of Permission Issues.

Selling to the Government

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- Georgia uses tenders to carry out product procurement contracts exceeding GEL 20,000 (approx. USD 11,000) and service procurement contracts exceeding GEL 50,000 (approx. USD 27,000).
- The Law on State Procurement requires an international tender announcement for contracts exceeding GEL 600,000 (approx. USD 333,000) for products and GEL 8 million (approx. USD 4.4 million) for services.
- Budgetary constraints limit the government's purchasing power. International organizations and foreign governments finance many major procurement purchases.
- Credit terms are one of the most important factors in government purchasing decisions. Product quality and supplier reputation are other factors.

- The time allowed for preparing bids after the announcement of a tender is frequently short and documentation requirements, including Georgian translations, can be onerous for companies not based in Georgia.
- Information about tenders is available from the [Georgian State Procurement Agency](http://spa.ge/en/), <http://spa.ge/en/>, and individual ministries such as the [Ministry of Defense](http://www.mod.gov.ge/?l=E&m=8), <http://www.mod.gov.ge/?l=E&m=8>. See full listing in Chapter 9.

Distribution and Sales Channels

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- Specialists in distribution services are in their infancy. Most importers handle their own distribution.
- The majority of retail stores are sole proprietorships with one outlet, but there are a growing number of mini-market chains such as Populi and Babylon. Chains of retail shops sell western brands of cosmetics, household goods, garments, and electronics.
- Turkish trading companies operate successfully in Georgia and opportunities may exist to form alliances with these traders to use their networks.

Selling Factors/Techniques

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- American goods enjoy an excellent reputation. Price usually is the consumer's principal purchasing decision factor.
- Local entrepreneurs often request concessionary payment terms, credit or barter. American exporters should be wary of extending credit before establishing long and satisfactory trading history with a customer, and limit exposure. Cash in advance or the use of irrevocable letters of credit through a reputable local correspondent bank are advised. Enforcement of contractual rights by the local court system remains problematic.

Electronic Commerce

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- E-commerce is still in its infancy because of limited Internet and credit card penetration. Cardholders can pay electronically for public utilities and buy certain goods.

Trade Promotion and Advertising

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- The Advertising Law sets advertising standards in Georgia. Advertisements must be in Georgian, and trademarks in a foreign language need to be accompanied with a text in Georgian. Pharmaceutical and medical equipment advertising requires a permit from the Ministry of Health. Advertising of firearms (including sporting arms) requires special permission from the Georgian Ministry of Interior. Alcohol and cigarette advertising is subject to restrictions in the Advertising Law. Municipalities supervise and monitor compliance with the Advertising Law.

- There are several advertising agencies in Georgia, but businesses usually contact TV, press and radio advertising departments directly. There is one state television channel and seven independent TV stations. Four have nationwide coverage:

Rustavi 2: www.rustavi2.com

Imedi, www.imesi.ge

Adjara TV, www.adjaratv.com/en/

Georgian State Television: www.geotvr.ge

- Tbilisi-based TV channels and Adjara TV have formed the National Association of Broadcasters, while smaller regional TV channels have formed an Association of Regional Broadcasters.
- The major newspapers are *24 Saati*, *Akhali Taoba*, *Akhali Versia*, *Alia*, *Khvalindeli Dge*, *Kviris Palitra*, *Resonansi*, *Sakartvelos Respublika*. *Georgia Today*, *The Messenger* and the *Georgian Times* are English language dailies publications.
- Major periodicals are *The Georgian Business Week* (in Russian and English), *Bank and Finance*, *Banki Plus*, *Finance*, *Macro-Micro Economics*, and *Economics* (in Georgian and English). There are a variety of relatively new magazines in Georgia: the quarterly *Amarta*, the glossy monthly *Tskheli Shokoladi*, *Anabechdi*, and *Caucasus International* (in English). The Association of Regional Publishers, which was founded by the regional newspapers, is based in Tbilisi. The American Chamber of Commerce in Georgia issues the quarterly *AmCham News* magazine in English.
- Expo Georgia, a local exhibition and conference center offers online advertising service, advertising banners placement, and links on its website.

Pricing

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- Because of limited consumer purchasing power, the primary selling factor is price. In sectors where American exporters do not enjoy a technological advantage, there is significant price competition from low-cost suppliers in Russia, Turkey, Iran and East Asia.
- Imports of taxable goods and taxable operations at every stage are subject to an 18 percent VAT.

Sales Service/Customer Support

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- A growing number of official distributors and individual retailers are offering delivery and installation services as well as issuing their own warranties on big-ticket items, usually for up to one or two years. U.S. firms entering the Georgian market should consider the logistics of supporting their products in country.

Protecting Your Intellectual Property

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- Although Georgia has signed all relevant treaties and enacted legislation in compliance with its international obligations, as a practical matter protection and enforcement of intellectual property rights is weak in Georgia. See Chapter 6 for

more information. Companies whose intent to invest or trade in Georgia might be affected by intellectual property rights issues are invited to discuss the matter with the Commercial Section of the United States Embassy in Tbilisi.

Due Diligence

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Information on potential business partners and clients can be difficult to obtain in Georgia. Laws and regulations are subject to change. Local attorneys and consulting firms can be of assistance. A list of attorneys is available from the U.S. Embassy in Tbilisi. See also the lists below.

Local Professional Services

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The Commercial Section – U.S. Embassy in Tbilisi, <http://georgia.usembassy.gov/comsec.html>, offers a range of assistance to U.S. firms interested in developing market opportunities or increasing their business in Georgia

Business Consulting and Support Services:

Tbilisi Business Service Center, <http://www.tbsc.ge>

Georgian Research Institute for Scientific and Technical Information, <http://www.tech.ge.org>

Georgian Opinion Research Business International (GORBI), <http://www.gorbi.com>

American Chamber of Commerce in Georgia, <http://www.amcham.ge>

Georgian Chamber of Industry and Trade, <http://www.gcci.ge>

Federation of Georgian Businesses, <http://www.fgb.ge>

DLA Piper Rudnick Gray Cary, <http://www.dlapiper.com/georgia/>

Ernst & Young, http://www.ey.com/global/content.nsf/georgia_E/Home

UBC International, <http://www.ubc-i.com>

PricewaterhouseCoopers,

<http://www.pwc.com/extweb/home.nsf/docid/415FDE1A7F04A19E802571480044C788>

Deloitte & Touche, <http://www.deloitte.com/dtt/home/0,1044,sid%253D21767,00.html>

Web Resources

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References are hyperlinked

U.S. Embassy, Tbilisi, Georgia, <http://georgia.usembassy.ge>

Georgia Department of Tourism, <http://www.tourism.gov.ge/geo/>

America Georgia Business Development Council (AGBDC), <http://www.agbdc.com>

American Chamber of Commerce in Georgia - Search for Partners,

<http://www.amcham.ge/partners.htm>

ExpoGeorgia <http://www.expo.com.ge>

Tbilisi Yellow Pages, <http://www.yellowpages.ge/index.php?lan=2>

Civil.ge (news), <http://www.civil.ge/eng/>

<http://www.info-tbilisi.com>

Georgia National Investment and Export Promotion Agency,

<http://www.investingeorgia.org>

<http://www.investmentguide.ge>

Embassy of the Republic of Georgia to the United States, <http://georigaemb.org>

United States Agency for International Development - Georgia, <http://georgia.usaid.gov>

Millennium Challenge Corporation Georgia,

http://www.mcg.ge/english/Millennium_Challenge_Georgia.htm

International Monetary Fund - Georgia, <http://www.imf.ge>

World Bank - Georgia,

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/GEORGIAEXTN/0,,menuPK:301751~pagePK:141159~piPK:141110~theSitePK:301746,00.html>

Georgia State Procurement Agency, <http://www.spa.ge/en>

Ministry of Economic Development, <http://www.privatization.ge>

BUSNIS, <http://www.bisnis.doc.gov/bisnis/bisnis.cfm>

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- [Computer Services \(CSV\)](#)
- [Architecture/Construction/Engineering Services \(ACE\)](#)
- [Mining Industry \(MIN\)](#)
- [Security/Safety Equipment \(SEC\)](#)

Agribusiness

Georgia's fertile soil and good climate are favorable for production of a wide variety of high-value agricultural products, including grapes and wine, nuts (hazelnuts, almonds, walnuts, chestnuts), citrus fruits, and apricots. Russia has traditionally received most of Georgia's exports, but new European markets are developing. Georgia also grows an increasing quantity of crops, including vegetables and corn, which are primarily for domestic consumption. Georgia relies on imported powdered milk, meat products, and wheat imports. Agricultural production was 15% of GDP in 2005,

Until recently the state held legal title to all agricultural land, which farmers leased from the state. This prevented farmers from using the land as collateral against loans to expand and improve. With no market for agricultural land, it was impossible to consolidate or expand holdings into more efficient units. Plots average less than one hectare. However, the government has completed work on registration and titling of small farms in order to allow transfer from the state, except in the breakaway regions of Abkhazia and South Ossetia, and the autonomous Adjara. Several international donors, most notably the U.S. and German Governments, have sponsored micro-lending programs in an effort to extend credit to farmers, as the lack of local credit sources has also constrained development in this sector.

As a result of land reform, the Georgian government has privatized 25 percent and leased about 30 percent of the country's arable land. A new law on Privatization of State-owned Agricultural Land was passed in July 2005 and is expected to increase efficiency and output in the agricultural sector.

Food Processing & Packaging

Georgia is near potential export markets in Russia and the EU, and offers high quality raw materials, making it a good location for food processing. This sector is growing steadily, with a proliferation of Georgian-brand products - wine, beer, dairy, fruit juices and mineral waters - filling local stores and beginning to find new export markets. Several years ago Georgia imported the majority of such products. Only recently has improved processing and packaging technology made Georgian products attractive for both domestic and export sales. Georgian still and sparkling wines and spirits have long enjoyed an excellent reputation in the former Soviet Union, and improved bottling and packaging now allows Georgian firms to sell to a wider export market. The U.S. Government recently launched a five-year program to support local value added enterprises by promoting agricultural products aimed at international markets.

There are opportunities for U.S. exporters of food processing and packaging equipment for fruits, nuts (particularly hazelnuts) vegetables, citrus, meat and dairy products. Based on information provided by local authorities and managers, the best sales prospects are for small and medium capacity bottling lines, production plants for wine and juice and machinery for tea processing and packaging. Additional prospects involve seed crushing and oil refining machinery. There is also demand for mini-bakeries and

machinery for the manufacture of confections. Price and payment terms are important factors affecting customers' purchasing decisions. In many cases, the lease or purchase of used equipment may be a means by which local enterprises can acquire plant machinery and equipment for restarting production.

Oil, Gas, Mineral Production/Exploration Services

Overview

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In USD millions	2003	2004	2005	2006 6 months
Natural gas production and distribution services	185*	15 *	20*	
Oil and gas, mineral exploration and production	20*	20*	23*	
Import of crude oil and oil products	105	186	336	203
Export of crude oil and oil products	3	9	1	n/a
Import of natural gas and aerated hydrocarbons	66	80	91	102
Export of natural gas and aerated hydrocarbons	4	4	1	n/a

Source: Georgian State Department for Statistics.

*Prices calculated at average exchange rate of USD 1: GEL 2.15 (2003), USD 1:GEL 1.92 (2004), USD 1:GEL 1.81 (2005)

Georgia has 12 million metric tons of proven oil reserves, but only a marginal amount has been exploited. In 2004 production of crude oil was 98 metric tons and oil products 38 metric tons. Domestic natural gas reserves are estimated at 10 billion cubic meters; however, little natural gas is being produced – only 10.9 million cubic meter of gas was produced in 2004. Most of country's demand for oil and gas products is satisfied from imports.

In April 1999 the Baku-Supsa pipeline was opened to transport oil from the Caspian Basin to markets in the west via Georgia's Black Sea terminal at Supsa. The pipeline has an annual capacity of 46,500,000 barrels of oil. The Baku-Tbilisi-Ceyhan oil pipeline opened in 2006, transporting oil from Azerbaijan to Ceyhan, a Turkish port on the Mediterranean Sea. Azerbaijan, Georgia and Turkey signed agreements to build a pipeline to Ezerum in Turkey, for transit of natural gas from the Shah Deniz gas field near Baku through Georgia. 2.8 billion cubic meters of gas will flow to Turkey from Azerbaijan via this pipeline when it is operational in 2007. BP-Amoco has main responsibility for the operation of the Baku-Supsa, BTC and Shah Deniz pipelines. Domestic distribution is in the hands of the [Georgian Gas International Corporation](http://www.goic.ge), <http://www.goic.ge>

Best Products/Services

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The government would like to attract more international companies for exploration and development of on and offshore oil and gas reserves. The Georgian State Agency for Regulation of Oil and Gas Resources is responsible for announcing tenders for oil and gas exploration and production licenses. Three companies, [Georgian Gas International Corporation](http://www.ggic.ge), <http://www.ggic.ge>, [Georgian International Oil Corporation](http://www.gioc.ge), <http://www.gioc.ge> and [Georgian National Oil Company \(Saknavtobi\)](#),

<http://www.georgian-oil.com/eng/home.html>, are being merged into one, the Georgian Oil and Gas Company (GOGC). By law, the Saknavtobi (or its successor GOGC) participates in all exploration and extraction through production sharing agreements.

With three major pipelines crossing Georgia, pipeline maintenance services and equipment should be in demand. Other oil and gas infrastructure should require goods and services as well.

Opportunities

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A handful of foreign oil exploration companies have reported modest, but encouraging, results, particularly in eastern Georgia. Exploration of several off-shore blocks in the Black Sea has been undertaken.

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Ministry of Energy, http://www.minenergy.gov.ge/?lang_id=ENG

Georgian Gas International Corporation, <http://www.ggic.ge>

Georgian International Oil Corporation, <http://www.gioc.ge>

Georgian National Oil Company (Saknavtobi), <http://www.georgian-oil.com/eng/home.html>

BP Caspian, <http://www.bp.com/lubricanthome.do?categoryId=6070>

Electrical Power Systems

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In USD millions	2003	2004	2005
Total Market Size	4.6	83.2	201.1
Total Local Production	2.9*	3.9*	8.1*
Total Exports	3.4	3.8	3.9
Total Imports	50.1	83.1	196.9
Imports from the U.S.	0.2**	1.4**	0.3**

Source: Georgian State Department for Statistics and post estimates.

*Prices calculated at average exchange rate of USD 1: GEL 2.15 (2003), USD 1:GEL 1.92 (2004), USD 1:GEL 1.81 (2005)

** Estimates based on U.S. Census Bureau data

Best Prospects/Services

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Best opportunities for U.S. companies exist in electricity power generation, transmission, and distribution projects. There are also export opportunities for U.S. manufactured equipment and services during rehabilitation, upgrading and management of existing plants. Opportunities for U.S. suppliers will be also in projects financed by multilateral financial organizations and bilateral assistance: the World Bank, the European Bank or

Reconstruction and Development (EBRD), the Japan Bank for International Cooperation (JBIC), and Kreditanstalt fuer Wiederaufbau (KfW).

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Georgia currently does not produce power generation equipment, with the exception of some small capacity hydroelectric turbines and electricity meters. Most installed equipment was produced in the USSR, primarily in Russia. Difficulties in financing upgrades of existing equipment impede sales of Western equipment in the market. The privatization of this sector is expected to increase efficiency and should create demand for equipment and opportunities for U.S. investors and exporters. The government plans to privatize all hydroelectric generation assets except for the Enguri Hydropower plant, expand the high voltage electricity transmission system, refurbish and construct new thermal and hydroelectric power generation facilities.

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[Georgian Ministry of Energy, http://www.minenergy.gov.ge](http://www.minenergy.gov.ge)

[Georgian State Electrosystem, http://www.gse.com.ge/eindex.htm](http://www.gse.com.ge/eindex.htm)

[Georgian Wholesale Electricity Market, http://www.gwem.org.ge](http://www.gwem.org.ge)

[Georgian National Electricity Regulatory Commission, http://www.gnerc.org](http://www.gnerc.org)

[World Bank, http://www.worldbank.org](http://www.worldbank.org)

[European Bank for Reconstruction and Development, http://www.ebrd.com](http://www.ebrd.com)

[Japan Bank for International Cooperation, http://www.jbic.go.jp/english/index.php](http://www.jbic.go.jp/english/index.php)

[Kreditanstalt fuer Wiederaufbau, http://www.kfw.de/EN_Home/index.jsp](http://www.kfw.de/EN_Home/index.jsp)

Transportation Services

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Georgia is rapidly rediscovering its "Silk Road" heritage as both Caspian basin oil and western goods flow through its territory. Georgian infrastructure, developed during Soviet times, was not designed to handle large volumes of East-West transport. Years of inadequate maintenance have allowed serious deterioration of these assets. Nevertheless the Georgian Government has identified Georgia's geographic location as a competitive advantage to exploit. The government has proposed a "Eurasia Corridor" that will require substantial investment in refurbishment and expansion of transportation infrastructure including roads, rail, seaport, and civil aviation services. The Millennium Challenge Corporation, World Bank, EBRD, EU and other donors are examining ways to improve the transport, water supply and wastewater treatment infrastructure.

The European Union helped start the Transport Corridor for Europe, Caucasus, and Asia (TRACECA). To date, nine countries are participating in TRACECA: Georgia, Azerbaijan, Turkmenistan, Uzbekistan, Kyrgyzstan, Kazakhstan, Ukraine, Bulgaria, and Romania. These countries have signed bilateral agreements on a preferential trade regime and cargo treatment.

Georgia's external trade by transportation modes in 2005:

Mode of transportation	Exports		Imports	
	USD million	Metric tons	USD million	Metric tons
Sea Transport	420	1159200	931	1294410
Railroad	158	813086	444	1296558
Road transportation	138	238893	628	510164
Air transport	123	685	253	4334
Postal services	0.6	64	14	36586

Source: Georgian Department for Statistics

Airports. The five principal airports of Georgia are located in Tbilisi (3,000 meter runway), Kutaisi (2,500 m), Batumi (2,420 m), Senaki (2,400 m), and Poti (1,500 m). Several smaller airports are currently inactive. Tbilisi airport is the principal international airport, and is served by a Georgian flag carrier Georgian Airways (formerly Airzena), British Airways, Lufthansa, Turkish Airlines and Austrian Airlines, among others. A major rehabilitation and expansion of the Tbilisi and Batumi Airports is underway.

Ports. The two major Black Sea ports are located in Poti and Batumi, with a depth of 11 and 12 meters, respectively. Georgia has rail ferry links with Ukraine, Romania, Russia and Bulgaria. Privatization and rehabilitation of Poti and Batumi ports is seen as an integral part of the development of the "Eurasian Corridor" across Georgia. The U.S. Government provided technical assistance to Georgia to restructure and privatize Poti port. The deepwater port of Sukhumi in Abkhazia currently is not under the control of the Georgian government.

Roads and Railroads. Rail cargo volumes are constrained in western Georgia because of technical issues such as limited track capacity, and lack of access to Russian markets because of the conflict in Abkhazia. Georgian Railways depends heavily on transport of petroleum products to the Black Sea ports from Azerbaijan.

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Georgia is receptive to private foreign investment to upgrade its transport infrastructure. The State Department of Roads of Georgia and Transport Reform and Rehabilitation Center implemented a World Bank financed roads rehabilitation and construction project on all major trunk roads in Georgia. A second WB program is underway to rehabilitate of the secondary roads in Georgian regions. Major opportunities are available for American firms involved in infrastructure development and in transportation services. The Millennium Challenge Corporation is building a roads project to Armenia in Samtskhe Javakheti.

Opportunities

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Proposed construction and upgrading of the Akhalkalaki-Kars rail link with Turkey, new airports in Tbilisi and Batumi, Georgia's major East-West highway, a road to Armenia being rehabilitated with the help of the Millennium Challenge Corporation, and other projects are expected to significantly improve transport infrastructure, decrease the time required for transportation, and support the development of trade and tourism. Construction inputs and services will be needed for all these projects.

Resources

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Ministry of Economic Development, <http://www.privatization.ge>

Address: 12 Chanturia St.,

Tbilisi, 0108, Georgia

Tel: +995 32 922255

Fax: +995 32 933575

Millennium Challenge Georgia,

http://www.mcg.ge/english/Millennium_Challenge_Georgia.htm

Tourism Infrastructure Services

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Georgia has substantial potential for tourism development. Great natural beauty, varied topography, pleasant climate and rich culture and history helped Georgia attract over 3.5 million tourists a year in Soviet times. This number fell precipitously after the collapse of the Soviet Union. Tourism infrastructure has deteriorated, leaving most resorts in a state of near-collapse. A lack of experience with modern tourism and market economy principles creates another set of challenges to developing the sector. In 2004 the number of visitors increased by 17.5 percent to 368,300 visitors over 2003. To facilitate tourism, the Government of Georgia has eased its visa regimes, started rehabilitation of roads, privatization of infrastructure and hotels, improving safety and has established limited tax incentives for tour operators. Progress toward a peaceful resolution of separatist conflicts will also encourage growth in this sector.

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Georgian tour operators report growth in demand both summer and winter, particularly in the niche of adventure and cultural tourism. The number of visitors to Georgia increased by 49% in 2005 and growth in tourism is expected to be even stronger in 2006. Despite this interest in travel to Georgia, suitable accommodations outside of the capital are lacking, because resort facilities have not been maintained or do not exist. The seaside resorts of Batumi and Kobuleti are undergoing rapid development, however. Major privatizations of resort properties in 2005 (and ongoing) particularly on the Black Sea coast in Adjara have attracted foreign investors, particularly from Kazakhstan, represented by the company Silk Road Group.

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Development of tourism infrastructure will require significant investment in rehabilitation and development of the tourism-related assets, such as hotels, restaurants, sport facilities, and ski resorts. Rehabilitation of several recently privatized hotels is underway in Tbilisi and Adjara. Opportunities may be found in the ski resorts of Gudauri and Bakuriani.

The World Bank's roads rehabilitation and construction project aims to help tourism by decreasing travel time increasing auto safety. The World Bank is implementing a long-term program aimed at nature conservation, cultural heritage preservation and sustainable tourism development. USAID is working with concessionaires in and around national parks to develop hospitality industry skills and orientation outside the capital.

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[Georgian State Department of Tourism, http://www.tourism.gov.ge](http://www.tourism.gov.ge)

[Georgian National Investment and Export Promotion Agency, http://www.investingorgia.ge](http://www.investingorgia.ge)

[Silk Road Group, http://www.silkroadgroup.net/main.html](http://www.silkroadgroup.net/main.html)

Telecommunications Equipment

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In USD millions	2003	2004	2005
Total Market Size	35.1	45.4	66.6
Total Local Production	0.1	0.2	0.2
Total Exports	1.0	1.1	0.4
Total Imports	36.0	46.3	66.8
Imports from the U.S.	1.3	2.7	6.1

Source: Georgian State Department for Statistics and post estimates. *Prices are calculated at average exchange rate of USD 1 – GEL 2.15 (2003), USD 1 – GEL 1.92 (2004), USD 1 – GEL 1.81 (2005.) ** Estimates based on U.S. Census Bureau data

The independent, self-financed Georgian National Communications Commission (GNCC) regulates telecommunication and postal services in Georgia. The commission sets up service fees for license holders, auctions and regulates the radio frequency spectrum, regulates interconnection of the telecommunication networks, and provides certification, standardization and metrology services.

Georgia's telecommunications sector requires modernization to comply with the growing market demands. Major international investors in this sector have been the U.S., Korea, Turkey, and Israel. There are also two international cellular phone companies: Magti (U.S.) and Geocell (Turkey.) Both use the GSM system. As of January 2005, the number of cellular phone users was 800,000 (every fifth Georgian had a cellular phone.) That is a 42 percent increase compared to January 1, 2004. Cellular penetration is highest in Tbilisi.

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Telecommunications has become one of the most attractive sectors for foreign investors as a result of growing market demand and revenues generated by local operators. Expansion of telecommunications infrastructure at the national, regional and international levels is seen as an integral part of Georgia's economic development and its successful integration into the global economy.

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Cellular telecommunication services have been the most profitable sub-sector. Georgia does not produce telecommunications equipment. The two main cellular telephone operators in Georgia are Magti and Geocell.

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Georgian National Communications Commission, <http://www.gncc.ge>

Magti, <http://www.magticom.ge>

Geocell, <http://www.geocell.ge/v2/eng/index.php>

Computer Services

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Georgia is a modestly computerized country with a good supply of professional, inexpensive labor and a number of companies involved in information technology. The IT sector is experiencing impressive growth in Georgia. The number of companies involved in the IT sector has doubled and the number of Internet users has tripled in 2004 compared to 2003. Presently, there are about 120,000 Internet users in Georgia, almost 95 percent of whom are in the capital. Internet use in rural areas is concentrated among international NGOs and private companies. Almost half of all organizations and businesses have access to the Internet, although access outside of Tbilisi is generally very poor. Local governments and households in villages and remote areas are not using the Internet because of low income, poor infrastructure and electricity shortages. It is unlikely, that the number of Internet users in these areas will grow rapidly in the near term.

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The majority of IT companies are involved in retail trade, including software producing companies. Computers assembled in Georgia remain a popular sales item. There are service centers for Hewlett-Packard, Compaq, APC, and Xerox. Several companies provide network installation. The following network providers offer Internet services: Sanet, Georgia Online, Telenet, Wanex, Caucasusnet, and Geonet. American-owned United Global Technologies provides solutions in the field of information and communication technology.

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The IT sector is experiencing impressive growth: number of IT companies increased from 20 in 2003 to 45 in 2004; number of computer users from 70,000 to 200,000; and the internet users from 35,000 to 120,000. The demand for quality IT services and products has increased significantly over the last several years. It stimulated trade and investment in this sector. The total market size of the information and communication technology sector is estimated at USD 300-350 million. Major end-users of IT products are Georgian government agencies, banks and other large and medium corporations.

Resources

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[Georgian National Communications Commission, http://www.gncc.ge](http://www.gncc.ge)

[Ministry of Economic Development, http://www.privatization.ge](http://www.privatization.ge)

Architecture/Construction/Engineering Services

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New construction and renovation in Tbilisi and construction of the Baku-Supsa, Baku-Tbilisi-Ceyhan, and Shah Deniz pipelines have led a revival of the construction industry in recent years. Other energy-related construction and rehabilitation projects are under active consideration. In addition, necessary upgrades of transportation and tourism infrastructure will continue to create demand for construction services and building materials for the near future. Total output of the sector in 2005 increased by 62 percent even as construction of the pipelines was winding down..

Several four and five-star hotels will be built in Tbilisi in the next 2-3 years. More than 20 hotels to house tourists will be constructed in Batumi and Kobuleti along the Black Sea coast. The demand for real estate and the pace of construction of both residential and office space is growing. Commercial banks, with new mortgage lending and joint projects with construction companies are playing an important role in real estate market development.

The market shares of construction companies are distributed as follows: Centre Point - 18.5%, Axis - 12.9%, Kid Architect - 7%, Modul - 6%, 7 Sky - 5.50%, Bagebi-2002 - 4.76%, Sasko - 3.93%, Olimp - 3.65%, Kalas - 3.63%, Arsi - 2.39%.

The recent rapid increase in real estate prices is expected to stabilize in 2-4 years. Demand growth is possible, for office and commercial development. Competition in the construction of apartments is likely to intensify.

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There is significant activity in building and upgrading housing, hotels, restaurants, offices and infrastructure projects. The demand for construction materials has increased correspondingly.

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The modest growth of the middle class and easier access to credit has increased the demand for quality housing, corporate/business infrastructure and real estate generally. Prices have increased by 200 percent for residential and 300 percent for commercial real estate since 2003. Demand is still expected to grow in the next few years. Because of the possibility of earthquake damage, firms with expertise in building to standards that improve resistance to earthquakes are in demand. The Tbilisi city government is considering redevelopment of Tbilisi's picturesque Old Town.

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Georgian National Investment and Export Promotion Agency, <http://investinggeorgia.org>

Ministry of Economic Development, <http://www.privatization.ge>

Mining Industry

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Georgia has a wide spectrum of mineral resources and there is potential for development in the mining industry.

USD millions	2003	2004	2005
Total Market Size	6.21	2.26	9.04
Total Local Production	0.1*	0.1*	0.5*
Total Exports	0.72	2.7	5.82
Total Imports	6.83	4.86	14.36
Imports from the U.S.	0.9	0.2	-

Source: Georgian State Department for Statistics, U.S. Census Bureau and post's estimates. *Prices are calculated at average exchange rate of USD 1 – GEL 2.15 (2003), USD 1 – GEL 1.92 (2004), USD 1 – GEL 1.81 (2005)

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U.S. equipment and technology have an excellent reputation in Georgia. Presently, existing mining technology and equipment are either obsolete or inoperable, with a few notable exceptions, including manganese processing. Mining equipment for prospective joint ventures with international companies, which have a preference for high quality, reliable, western machinery, offers the best prospects.

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Any foreign company or person can obtain the right to mine unexplored deposits. Georgia has significant deposits of high-grade manganese, which have been extracted from the Chiatura region for over a hundred years, and are processed and exported for use in a variety of products. There are deposits of coal in Tkibuli, Ambrolauri, and Ochamchira regions, and non-ferrous metal ores such as copper, lead, and zinc in Kvaisa and Kazreiti. There are also some deposits of arsenic, cobalt, tin, aluminum and other non-ferrous and rare metals such as gold and silver. There are deposits of a number of high quality raw materials used in the chemical industry such as: barite, diatomite, agate, bentonite, clays, andezite, talcum, and calcite.

Resources

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[Ministry of Environment and Natural Resources](#), <http://www.moe.gov.ge>

Security/Safety Equipment (SEC)

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USD millions	2004	2005	2006 (six months)
Total Market Size	4.4	4.5	3.2*

Total Local Production	0	0	0
Total Exports	n/a	n/a	n/a
Total Imports	4.4	4.5	3.2
Imports from the U.S.	1.1	0.3	0.1

Source: Post estimates based on the data of the Georgian State Department for Statistics.

Security and safety equipment in Georgia represents a rapidly growing and promising sector for U.S. manufacturers and suppliers. Import of home, car and commercial security systems has grown by about 40 percent during 2006. The market is expected to increase by 100 percent annually in the following 2-3 years. However, with appropriate marketing of products, reasonable prices, and reliable service, the market has the potential to grow even more rapidly.

Georgia has no local production of the security and safety technologies. Major importers of the equipment are local companies, which offer installation and security services to customers. Larger corporations, hotels, and banks maintain their own security staff and purchase equipment and after-sale services directly from international suppliers.

The number of potential customers has grown with recent expansion of domestic corporations and the entry of international investors, including in western hotels, banks, and real estate developers. Small and medium retail and hospitality businesses are major clients of the local companies offering security and safety equipment and services. The demand for home security equipment and services is increasing because residential construction, both in the capital and in the regions (especially resort areas) is booming.

Import of certain security equipment requires licensing from the Ministry of Justice and approval/permit of the Ministry of Defense. Some technologies, including video monitoring equipment, require licensing from the Ministry of Interior, while telecommunication devices require licenses from the Georgian National Communications Agency.

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Security devices and alarms, including car and house alarm systems, locks, cameras, safety boxes and safes, radio equipment, access control systems, metal and smoke detectors and equipment for detection of explosives are all in demand. In the medium term demand is expected to grow for security software and various automated systems.

Opportunities

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In addition to supplying security and safety equipment to residential and commercial customers through the local companies, there are opportunities of selling anti-terrorist equipment and technologies to the large scale public and infrastructure development projects: airports in Batumi and Tbilisi, buildings of the central government, proposed rail and port development projects, etc.

Ministry of Justice, <http://www.justice.gov.ge/index1.html>

Ministry of Interior, <http://www.security.gov.ge>

Georgian National Communication Commission, <http://www.gncc.ge>

Tax Department, <http://www.taxdep.ge/default.aspx>

Customs Department, <http://www.customs.gov.ge>

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Chapter 5: Trade Regulations and Standards

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- [Labeling and Marking Requirements](#)
- [Prohibited and Restricted Imports](#)
- [Customs Regulations and Contact Information](#)
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Import Tariffs

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- Rates of duty on imported goods fall into three bands, 0%, 5% and 12%. Nearly 90 percent of goods benefit from a zero rate of duty. Agricultural goods and construction materials produced in Georgia are the main goods that are taxed at the higher rates. A fee of 5 euros is charged per customs declaration for goods valued below 3000 GEL: and 60 euros for goods valued above GEL 3000.
- The Government of Georgia has announced its intention to reduce tariff rates through 2007 and to completely eliminate duties on all products imported to Georgia by 2008.
- An 18% Value Added Tax (VAT) applies to imported goods, and an excise tax between 5 and 100 percent applies to certain goods such as alcoholic drinks, ethyl alcohol, ethyl petrol for cars, vehicle tires, and caviar. Imported cigarettes have a fixed tax in lieu of VAT and excise.

Trade Barriers

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- Georgia has no quantitative restrictions (quotas) on trade. Only medical products, firearms, explosives, radioactive substances, industrial waste and a few types of agricultural chemical products are subject to import/export licensing. In 2005, the number of permits for import and export was reduced from 14 to 8. Excise taxes and VAT apply equally on imported and domestic products.

Import Requirements and Documentation

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- Imports require at minimum a declaration, an invoice and a certificate of origin bearing a confirmation by the exporting country authority. Further accompanying documentation should prove the product meets applicable quality, safety, and technical norms.

U.S. Export Controls

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- The exporter in the United States must file a "Shippers Export Declaration" for items exceeding \$2,500, but waivers are available for certain merchandise. There are restrictions on sales of military and defense equipment, including "dual use" items. For more information, please see <http://www.export.gov/regulation/index.asp>.

Temporary Entry

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- Temporary importation procedures allow for the use of foreign goods imported on customs territory of Georgia for return in an unaltered state, with total or partial exemption from import charges (except for customs duties) and without being subjected to trade policy measures for a certain period, except for changes due to wear and tear, and losses due to normal conditions of transportation or storage.
- The period during which goods may remain under the temporary importation procedure shall not exceed 2 years. The Ministry of Finance of Georgia may, however, provide for different time limits for certain types of goods.

Labeling and Marking Requirements

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- All cosmetics, pharmaceutical, chemical, processed food and utility products must have Georgian language labeling. Alcoholic drinks and tobacco products require excise stamps.

Prohibited and Restricted Imports

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- Georgia prohibits the import of goods that pose a threat to the health and safety of Georgia or its citizens, including for example, narcotics, pornography or nuclear materials. Weapons and ammunition have complex licensing requirements, and interested parties should contact the Ministries of Justice and Internal Affairs prior to any importation.

Customs Regulations and Contact Information

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- The [Customs Law of Georgia](#), http://www.customs.gov.ge/_private/CUSTOMSCODEOFGEORGIA_ENG.pdf is available in English on the website of the [Georgian Customs Department](#).

Mr. Zurab Antelidze, Head
Georgian Customs Department
24, Akhvlediani Street
Tbilisi 0109, Georgia
Tel: (995-32) 768404
Fax: (995-32) 768948
<http://www.customs.gov.ge>

Trade Agreements

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- As a member of the WTO, Georgia has Most Favored Nation trading relationships with all WTO member countries. Georgia benefits from Generalized System of Preferences reductions in tariffs on a wide range of products with the United States, Switzerland, Norway, Canada, and Japan. The EU and Turkey grant Georgia GSP+ treatment, with duty free treatment for more than 7000 products. Georgia has a free trade regime with countries of the former Soviet Union's Commonwealth of Independent States.

Web Resources

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Georgia Customs Department, <http://www.customs.gov.ge>

U.S. Government Export Controls, <http://www.export.gov/regulation/index.asp>

Standards

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- Standards in Georgia are in a state of flux in 2006. The government is transitioning to a system of "voluntary" standards and certification, whereby the importer can choose to conform his products to Georgian standards or the standards of any EU or OECD member country. If foreign standards are chosen, they must be registered by the importer in the National Agency for Standardization, Technical Regulations and Metrology. Standards for food products are administered by the Ministry of Agriculture.

Standards Organizations

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- The main standards organization in Georgia is the National Agency for Standardization, Technical Regulations and Metrology.

NIST Notify U.S. Service

- Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an

opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Conformity Assessment

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- Conformity assessment is one of the functions of the National Agency for Standardization, Technical Regulations and Metrology.

Product Certification

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- There are about 100 test laboratories accredited in the following fields in Georgia:

Electrical Products

Products from the chemical, perfume and pharmaceutical industries

Food

Drinking water and mineral water, alcoholic and non-alcoholic beverages

Composition of soil and mineral resources

Oil and mineral oil products

Glass products

Paints and dyes

Building materials

Radio engineering products..

Accreditation

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- Certification offices are accredited by the National Accreditation Office of the National Agency for Standardization, Technical Regulations and Metrology. .

Publication of Technical Regulations

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- Publication of technical regulations is the responsibility of the National Agency for Standardization, Technical Regulations and Metrology.

Contacts

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National Agency for Standardization, Technical Regulations and Metrology:

<http://www.gnims.caucasus.net>

67 Chargali St., 0141 Tbilisi, Georgia

Tel. +995 32 613500

Ministry of Agriculture of Georgia, <http://www.maf.ge/eng/>

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Introduction

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The dramatic change of government swept in by the 2003 peaceful “Rose Revolution” marked the start of serious political and economic reform in Georgia. Before 2003, Georgia’s economic development suffered from a reputation for instability, violence, corruption, and unreliable supplies of energy. The picture has significantly changed for the better. Since 2004, the Georgian government has undertaken institutional reforms including the restructuring and downsizing of government ministries, privatizing large state-owned entities, increasing the pay of public servants and prosecuting corruption, reducing the number and rates of taxes and improving tax and fiscal administration, streamlining licensing requirements, deregulating, simplifying customs and border formalities, and undertaking many other efforts to make it easier to do business in Georgia.

The World Bank has recognized Georgia as the world’s fastest reforming economy in its 2007 “Doing Business” report, ranking it as the world’s 37th easiest place to do business, in league with countries such as France, Slovakia and Spain. The World Bank’s “Anti-Corruption in Transition 3” report places Georgia among the countries showing the most dramatic improvement in the struggle against corruption, due to implementation of a strong program of economic and institutional reform. The amount of money companies report they spend on bribes has fallen substantially. NATO granted Georgia “Intensive Dialog” in 2006, an important step on the path to membership in that organization. The Georgian government is firmly committed to a peaceful resolution of its differences with the separatist regions of Abkhazia and South Ossetia. Reforms have increased tax revenues, facilitating public investment and social sector expenditure to address

poverty. Electricity distribution has become much more reliable, approaching consistent 24-hour a day service, although service can still be a problem in rural areas.

Prudent fiscal and monetary policies have supported a relatively stable macro-economic environment and permitted the government to pay attention to further reform. The economy grew by 9.3 percent in 2005, and the IMF expects it to grow by about 8 percent in 2006 and 6.5 percent in 2007, despite economic sanctions imposed in 2006 by Russia, normally Georgia's most important export market. GDP per capita at purchasing power parity was \$3400 in 2005. Inflation for 2005 was about 6.2%, and increased in 2006 to around 10%. The IMF believes the government can achieve its inflation target of 6% in 2007.

The Georgian Lari strengthened from 1.8 to about 1.7 per U.S. dollar over the course of 2006, influenced by global weakness of the dollar, inflows of foreign investment and increased focus on inflation by the Central Bank. Based on the economy's overall performance and the Georgian government's strong commitment to structural changes, Georgia received its first sovereign credit rating in late 2005 from Standard and Poors -- a B+ long term, and B short term rating.

Despite the foregoing improvements in the economy, more than 50 percent of the population lives below the poverty line, and many people still rely on subsistence agriculture. Physical infrastructure, such as the road network, is badly outdated and deteriorated after more than a decade of neglect and corrupt management. Subject as it is to unreliability of natural gas supplies for heating and electricity generation, Georgia needs to carefully plan its use of energy, diversify sources, and improve the efficiency of systems. Greater familiarity with Western business practices and legal norms is required.

The main source of sustained future growth that reduces poverty and increases employment will have to be private investment, both domestic and foreign. The most useful investment will have an emphasis on exports to new and more diverse markets. The government's challenge is to implement existing legislation, continue the fight against corruption, defuse tensions in the separatist regions and undertake new reforms, especially to improve the judicial system, in order to increase investor confidence.

Georgia receives large amounts of assistance from the United States, the European Union and international institutions. U.S. assistance has focused on the goals of improving governance and the administration of government economic and financial institutions, improving critical physical infrastructure, and efforts to enhance private sector competitiveness and promote the growth of a free market economy. In 2006, Georgia's clear-cut commitment to reform earned it one of the first compacts with the U.S. Millennium Challenge Corporation, which will supply \$295 million in infrastructure investments and investments in small and medium enterprises engaged in tourism and agriculture.

President Saakashvili and his government have strengthened Georgia's bilateral relations with many countries, reaching out to Ukraine, Turkey, Italy, Poland, Latvia, Lithuania, Estonia, Japan, Kazakhstan, the UK, Germany, the Netherlands, and of course, the United States. Georgia has a partnership agreement with the European Union, and an action plan for reform to allow a closer relationship. Georgia is one of only fifteen countries in the world that benefit from GSP+ access to the EU market,

allowing duty-free access for more than 7000 products. It is making an effort to harmonize its regulatory environment with international standards, particularly those established by the EU. Georgia enjoys duty-free trade with other former Soviet Union countries. It benefits from preferential trading relationship with the United States, Turkey, Canada, Switzerland and Japan. Negotiations are under way for a free trade agreement with Turkey, and a free trade agreement with the European Union is a future possibility.

Georgia is located at the crossroad between Europe and Asia. It is the shortest route from Central Asia to Europe, and could be a North-South Bridge between Turkey and the Russian Federation. Georgia has two deep-water ports on its Black Sea coast. Labor costs in Georgia are comparable to the Far East, while transit time for shipment of goods to Europe is far less. The new government has launched an extensive road rehabilitation project aimed at upgrading the road quality and constructing new facilities to improve communication infrastructure. The governments of Turkey, Azerbaijan and Georgia have agreed to construct a rail link from Kars, Turkey through Georgia to Baku, Azerbaijan. Freight from Europe will be able to be transported through Turkey to Baku via Tbilisi and then to Central Asia from Baku by ferry. In addition, Georgia is improving its network of rail ferry connection with Black Sea countries, including Russia, Ukraine, Romania and Turkey, which will further increase transportation and trade turnover with these countries.

Georgia's relations with its northern neighbor Russia have been problematic since 2004, principally because of Georgia's pro-Western orientation. In 2005 and 2006, Russia banned imports of Georgian agricultural products, mineral water and wine, for which Russia was Georgia's largest market. In September 2006, Russia cut all direct transport links with Georgia. Gazprom, the Russian gas monopoly, doubled the price of natural gas supplied to Georgia. Despite these actions, the Georgian economy has continued to grow. Georgian businesses are actively seeking new markets for Georgian products and new sources of imports, especially in Ukraine, the Baltics and Central Europe. New supplies of natural gas from Azerbaijan and increased hydroelectric generating capacity are making Georgia less dependent on Russian energy sources. Once normal trading relations with Russia are resumed, the return of its traditional market in addition to the newly developed ones will create significant opportunities for companies based in Georgia.

Openness to Foreign Investment

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Georgia is extremely open to foreign investment and is eager to welcome new investors. The country has begun to develop a regulatory framework intended to foster competition. Legislation governing foreign investment establishes favorable conditions, but not preferential treatment, for foreign investors. The Law on Promotion and Guarantees of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investments for a period of ten years.

The U.S.-Georgia Bilateral Investment Treaty, in force since 1994, guarantees U.S. investors national treatment or most favored nation treatment, whichever is better, in the establishment, operation and sale of their investments. 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; government-supported loans, guarantees, and insurance; and landing of submarine cables.

Legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, and the Customs Code. Other legislation includes the Law on Entrepreneurs, the Law on Promotion and Guarantees 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 negotiated 34 double-taxation agreements, of which 19 have entered into force. The active agreements are with Uzbekistan, Azerbaijan, Ukraine, Romania, Bulgaria, Turkmenistan, Armenia, Kazakhstan, Iran, the Netherlands, Greece, Italy, Belgium, Lithuania, Latvia, United Kingdom, China, Austria, and Poland. An agreement with Estonia was signed at the end of 2006 and is awaiting ratification by the respective parliaments. Treaties with Germany and Czech Republic have recently been ratified by Georgian parliament and will soon enter into force. An agreement with Russia was signed in 1999 and ratified by the Georgian parliament in 2000. It has not been ratified by the Russian Duma, but the Russian side regards it as an active agreement.

The legal framework governing ownership and privatization of property is established 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 the 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 by 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.

Georgia does not 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 of the major privatizations of state-owned property. Transparency of such privatizations has at times been an issue, however. No law specifically authorizes private firms to adopt articles of incorporation which limit or prohibit foreign investment.

In 2005, registration of businesses was simplified. Paperwork and fees were reduced and processing time shortened to about 8–10 days from the submission of documents. All companies are required to register with the Ministry of Finance, providing founder's and firm principals' names, dates and places of birth, occupations and places of residence; incorporation documents; area of activity; and charter capital. This information is made public and any person may request and review such information. Business registration and tax registration are separate procedures handled by the same department within the Ministry of Finance.

The Government of Georgia has privatized most of the largest formerly state-owned enterprises in the country. A list of entities still 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, 12 Chanturia street, 0108 Tbilisi, Georgia, Tel: +995 32 93-10-28/98-54-63, Fax: +995 32 98-27-55, e-mail: info@investingorgia.org,

www.investingorgia.org. Further information is available at a website maintained by the American Chamber of Commerce in Georgia, www.investmentguide.ge.

In 2005, 84% of existing licensing requirements were eliminated and a “one stop shop” for licenses was created. By law, licenses must be issued within 30 days of application. If no reasonable rejection is stated by the licensing authority within a predetermined time limit, the license or permit is deemed to be issued. Construction permits can be obtained within 90 days, according to research published by the European Union. Licenses are only required for activities that affect public health, national security and the financial sector. Licensing currently is required in the following areas: weapons and explosives production, narcotic, 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, trading in securities, 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.

Conversion and Transfer Policies

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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. Moreover, Georgia has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement, with effect from December 20, 1996. IMF members accepting the obligations of Article VIII undertake 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 gives confidence 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.

Under the U.S.-Georgia Bilateral Investment Treaty, the Georgian government guarantees that all transfers relating to a covered investment by U.S. investors 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 exchange or significant delays in remitting funds overseas through 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 to transfer money abroad. 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 30,000 GEL.

Expropriation and Compensation

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The Georgian Constitution protects ownership rights, including ownership, acquisition, disposal or inheritance of property. Foreign citizens living in Georgia possess rights and obligations equal to those of the citizens of Georgia. The Constitution allows restriction or revocation of property rights only in cases of extreme public necessity, and then only as directly allowed by law.

The Law on Procedures for Forfeiture of Property for Public Needs establishes the rules for expropriation domain in Georgia. The law allows expropriation for certain enumerated public needs. It provides a mechanism for valuation and payment of compensation, and for court review of the valuation at the option of any party. The Georgian law on investment allows expropriation of foreign investments only with appropriate compensation. Recently proposed amendments to the expropriation law would 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 review of an expropriation in a Georgian court.

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 the general principles of fair treatment.

Dispute Settlement

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The Georgian investment law allows disputes between a foreign investor and a governmental body to be resolved in Georgian courts or at the International Center for the Settlement of Investment Disputes (ICSID), unless a different method of dispute settlement is agreed upon between the parties. If the dispute is not considered at ICSID, the foreign investor has the right to submit the dispute to any international arbitration body which has been set up by the United Nations Commission for International Trade Law (UNCITRAL) to resolve the dispute in accordance with the rules established under the arbitration and international agreement. Under the U.S.–Georgia Bilateral Investment Treaty), investors have additional rights.

Georgia is party to the International Convention on the Recognition and Enforcement of Foreign Arbitration Awards. As a result, the Government agrees to accept binding international arbitration of investment disputes between foreign investors and the state. The Ministry of Justice was designated in December 2005 to oversee the government's interests in arbitrations between the state and private investors.

It is recommended that contracts between private parties include a provision for international arbitration of disputes because of deficiencies in the Georgian court system.

Performance Requirements and Incentives

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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, for example, commitments to maintain employment levels or to make additional investments in the enterprise within a specified period of time. While many privatizations have proceeded smoothly and regularly, the current government has 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.

The Government of Georgia does not offer incentives to foreign investors, but relies on the many improvements it has made in the overall business climate to attract them to invest in the country.

Right to Private Ownership and Establishment

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Foreign and domestic private entities may freely establish, acquire, and dispose of interests in companies and business enterprises, and engage in all forms of remunerative activity. Some specific laws regulate business activity in the banking, agribusiness, energy, transport and tourism sectors. To the extent that public enterprises compete with private enterprises, they do so on a basis of equality.

Foreign individuals and companies may buy non-agricultural land in Georgia. Only Georgian citizens or companies may buy agricultural land in their own name, but even agricultural land can be purchased by forming a Georgian corporation that may be up to 100% foreign-owned.

Protection of Property Rights

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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. Foreign investors' interests have sometimes been harmed by biased court proceedings, and by legislation and decrees that clearly favor a Georgian entity or partner involved in the enterprise. Judicial reform has been identified as a top priority for the Georgian government since late 2005, but it will take some time for court and legal reforms to bear fruit. It is recommended that contracts between private parties include a provision for international arbitration of disputes.

Disputes over investors' rights made headlines in 2004-2006. These cases have tended to undermine confidence in the impartiality of the Georgian judicial system and rule of law, and by extension, Georgia's investment climate. Both foreign and Georgian investors have expressed reservations about the competence, independence and impartiality of court decisions. In a few cases lower court decisions have changed control of property or of entire enterprises on questionable legal grounds or on the basis of forged documents. In some cases these decisions have been reversed by higher courts or government action, in others not.

Protection of Intellectual Property Rights

Georgia acceded to the WTO and the TRIPS agreement in 2000. 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 WIPO International Convention for the Protection of New Varieties of Plants. Georgia is a party to the Bern Convention, member of the two WIPO digital treaties – Copyright Treaty and Performance and Phonograms Treaty, the Hague Agreement, and Budapest Treaty Concerning the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedures.

Six laws regulate intellectual property rights. These include: 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 and science or sound recordings for xx years.

While Georgia has brought its legislation into line with international standards, enforcement remains problematic. Pirated video and audio recordings, electronic games and computer software are freely sold in Georgia. Use of unlicensed software in government offices and businesses is common. Internet service providers host websites loaded with unlicensed content. Responsibility for WTO compliance was recently been transferred to the Ministry of Economic Development, which still needs to develop its capacity in this regard. The Customs Department is developing a new Intellectual Property Objects Register to assist in identification of counterfeit goods at the border. Nevertheless, IPR awareness in the Department is low and hampered by frequent personnel changes. Further clarification of responsibilities between the Ministry of Internal Affairs and the Ministry of Finance is needed, as the MOIA has authority over some types of property rights protection, and the Ministry of Finance over others. Judges and lawyers lack training in IPR issues. Georgia's Patent and Trademark Agency needs greater familiarity with emerging technologies.

Transparency of Regulatory System

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The Georgian government has made a commitment to greater transparency and simplicity of regulation. Laws and regulations are published in Georgian in the official gazette, the Legislative Messenger. As recognized by the World Bank and International Financial Corporation's 2007 Doing Business Georgia improved in six of the 10 areas studied, making it the top reformer overall. The tax on corporate profits is 20%, the tax on personal income is a flat 12%. The Value Added Tax is 18%. The number of taxes has been reduced from twenty-two to seven, rates were lowered in three instances, and only raised in the case of excise taxes on cigarettes, alcohol, and fuel. Only three rates of import duties exist, zero, 5% and 12%, and nearly all goods, except for some agricultural products, are taxed at the zero rate.

The Georgian National Investment and Export Promotion Agency has established Business Information Centers in Tbilisi and other Georgian cities. These centers are intended to provide domestic and foreign businesses with a standard package of information relevant to doing business in Georgia, and specific information according to

the needs of individual businesses. The Business Information Centers are also conducting an ongoing public-private dialog to facilitate communication between regulators and the business community.

International accounting standards became binding for joint stock companies in Georgia from January 1, 2000. For other institutions, such as banking institutions, 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 (excluding sole entrepreneurs, small businesses and non-commercial legal entities) 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 following 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 many businesses have operated in the shadow economy, or maintained two sets of books. Qualified accounting personnel are in short supply.

Efficient Capital Markets and Portfolio Investment

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The Georgian banking system is growing quickly. Currently, the banking system consists of regional small- and medium-sized banks, a handful of large banking institutions based in Tbilisi with branch networks, and three foreign banks (American, Turkish, and Azerbaijani). In 2005, commercial bank assets grew by 58% and the profit of commercial banks grew by 152%. Total assets of the country's 19 banks were \$1.4 billion at the end of 2005, 22% of GDP. As of the end of 2006, the banking system in Georgia is generally considered to be sound.

Credit from commercial banks is available to foreign investors as well as domestic clients. Banks offer credit cards and a variety of loans including mortgage loans. In addition, the International Finance Corporation, European Bank for Reconstruction and Development, the U.S. Overseas Private Investment Corporation, the Millennium Challenge Corporation and other international development agencies have a variety of lending programs that make credit available to large and small businesses in Georgia.

The limited number of foreign banks operating in Georgia reflects in part the small size of Georgia's financial market. However, foreign investment in the sector is significant, accounting for 36.4% of total bank capital in 2005 and 61.7 % in 2006. In 2005 Russian, Kazakh, U.S., and German capital was invested in Georgian banks. In September 2006, the French bank Société Générale acquired 60% of one of the leading Georgian banks, Bank Republic.

Domestic credit to the private sector rose by more than 70 percent in real terms during 2005 and by another 30 percent in the first six months of 2006. The law on commercial bank activities has been amended to improve the transparency of ownership and corporate governance of banks. In March 2006 the restriction under which one shareholder or a group of joint shareholders could hold no more than 25 percent of voting shares in a bank was abolished. A new law regulating the activity of microfinance organizations came into force in August 2006.

The National Securities Commission of Georgia was established in 199 to regulate the securities market. All joint stock companies with more than 50 shareholders -- currently about 1800 companies in Georgia -- are required to submit annual, semi-annual and current reports prepared in accordance with internationally accepted accounting standards.

The small Georgian Stock Exchange was established with assistance from USAID in 1999. The stock market organizes public trading of securities and disseminates information on trading results and prices. The GSE has a Memorandum of Cooperation with the Thessaloniki Stock Exchange Center for harmonization of trading platforms. Shares of 250 companies are traded on the GSE. In 2005, the GSE executed 1,358 trades, with a total value of GEL 62 million (\$34.4 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.

Political Violence

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Georgia suffered considerable instability in the immediate post-Soviet period. After independence in 1991, civil war and separatist conflicts flared up in the areas of Abkhazia and South Ossetia. The status of each region remains unresolved and the central government does not have effective control over these areas. However, neither Abkhazia nor South Ossetia has gained international recognition. The United States supports the territorial integrity of Georgia within its internationally-recognized borders. Small scale acts of violence between Georgian and Ossetians within South Ossetia, and Georgians and Abkhaz within the ethnic-Georgian Gali District inside Abkhazia, sometimes raise tensions.

Corruption

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Corruption in Georgia, both official and otherwise, can distort business transactions in Georgia. However, under President Saakashvili, Georgia has taken action to reduce corruption. Anti-corruption efforts have resulted in the arrests of former officials, the radical downsizing of state bureaucracies, effective crackdowns on smuggling and have contributed to an increase of about 50 percent in state revenue collections. The notoriously corrupt traffic police were completely disbanded in mid-2004.

Articles 332-342 of the Criminal Code criminalize bribery. Georgian legislation provides for civil forfeiture of undocumented assets from public officials who are charged with corruption offenses. Bribery is a criminal act under Georgian law, and Parliament recently accepted a package of constitutional amendments that make abuse of public office a criminal offense with a maximum penalty of fifteen years imprisonment and confiscation of property. Penalties for accepting a bribe start at 6 years in prison and can be up to 15 years depending on aggravating circumstances accompanying the offense. Penalties for giving a bribe can include a fine or a prison sentence from up to 2 years or both. In aggravating circumstances when a bribe is given to commit an illegal act, the penalty can be from 4 to 7 years. The definition of a public official includes

foreign public officials and employees of International Organizations and Courts for purposes of such offenses as accepting a bribe, giving a bribe and trading in influence. Georgia's legislation does not allow a local company to deduct a bribe to a foreign official from taxes. White collar crimes such as bribery fall under the investigative jurisdiction of the Prosecutor's Office.

The Government's September 2005 Anti-Corruption Strategy calls for an effective state management system and legal and public feedback mechanisms to prevent corruption. Among the goals of the strategy are the identification and analysis of conditions conducive to corruption as well as elaboration of mechanisms for their eradication, strengthening of principles of accountability and public disclosure in the public sector, prosecution of lawbreakers and facilitation of competitive development of the business sector.

According to the World Bank's "Anti-Corruption in Transition 3" report, Georgia topped the list of transitional countries in terms of anticorruption efforts. The report reviewed the 2002-2005 period and concludes that Georgia saw the largest reduction in corruption among all transition countries. The World Bank points out that strong leadership in Georgia was the driving force behind the swift and thorough reforms that significantly reduced corruption after 2002. The leadership has taken bold actions to lessen the burden of the state on the economy, improve fiscal transparency, and strengthen oversight of institutions, all of which has contributed to the decline in corruption.

Georgia also significantly improved in Transparency International's annual Corruption Perceptions Index, moving up from 130th place in 2005 to 99th place in 2006, out of 163 countries.

Smuggling remains a serious obstacle to competitive business environment and occurs largely as a result of the porous borders of the nation's separatist regions. Georgia reasserted central control over the Black Sea region of Adjara in May 2004, reducing illicit economic activity there. Control of contraband smuggled through South Ossetia has improved, however the Georgian government has raised concerns with Russia and with the international community about continued high levels of smuggling, money laundering, and even counterfeiting of U.S. dollars in the areas outside its control.

Georgia is not a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Georgia has not signed UN Anti Corruption Convention yet. The latter is on the agenda of the Anti-Corruption Action Plan developed by the government.

Georgia's cooperates with GRECO (Group of States Against Corruption) and the OECD's Anti-Corruption Network for Transition Economies (ACN). GRECO concluded in 2006 that Georgia had successfully implemented reforms to implement the first round of its anti-corruption recommendations. In 2003 ACN proposed an anti-corruption action plan and 21 recommendations for Georgia. In 2006, the OECD positively assessed the progress of anti-corruption measures, and considered all but four of its recommendations implemented.

Georgia has negotiated bilateral agreements on investment promotion and mutual protection with 26 countries, including the U.S., Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, Egypt, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Netherlands, Romania, Turkey, Turkmenistan, Uzbekistan, the United Kingdom, Ukraine and Lithuania. Internal procedures have been completed and drafts are being negotiated with the governments of India, Bangladesh, Croatia, Denmark, Norway, Philippines, Cyprus, Indonesia, Malta, Czech Republic, and Iceland.

OPIC and Other Investment Insurance Programs

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Since 1993, OPIC has provided over \$90 million in direct loans, loan guaranties, political risk insurance and equity investment in companies through the OPIC-backed private equity funds to projects in Georgia. These have included the development of hotel and office space, production of pharmaceuticals, food processing and farming, cold storage, banking, mortgage lending, and financial leasing services. In FY 2006, there were four new OPIC loan commitments in Georgia, amounting to \$15.4 million, which is 6.5% of the total dollar volume of OPIC's new commitments. The U.S. Export-Import Bank opened all its lines of business for exports to Georgia in October 2006, including loan guaranties and insurance.

Labor

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Georgia offers an abundant supply of skilled and unskilled labor at attractive costs compared not only to Western European and American standards, but also to Eastern European. The labor force is among the best educated and most highly trained in the former Soviet Union. While some of the best qualified professionals and technicians emigrated from Georgia (mostly to Russia, the U.S., and Europe) after the Soviet Union's collapse, many have remained in the country and are attempting to find a new role in a market economy. Unemployment remains high and job creation has been a particular challenge.

The labor market in Georgia is relatively free and open. Wage negotiations take place between employees and employers, and trade unions are not powerful. Labor, health and safety laws are not considered an impediment to investment. A new labor code which entered into force in June 2006 considerably liberalized labor regulations. The code defines the minimum age for employment (16), work hours (41 per week), annual leave (24 calendar days) and leaves the rest to be regulated by agreement between the employer and employee.

Payment of at least one month's salary is required if the employer initiates a dismissal. Employees must give one month's notice of intention to quit. No notice requirement is imposed on the employer prior to dismissal. Employees are entitled to up to 126 days (4 months) of maternity leave, and together with unpaid leave, up to 16 months. Under the new Labor Code, a contract of employment may bar an employee from using the knowledge and qualifications obtained while performing his duties with another employer. This provision may remain in force even after the termination of labor relations.

Employers are required to pay social security contributions for employees at a rate of 20% of salary. The state social security system provides modest pension and maternity benefits. The average monthly salary of private sector employees in 2006 was GEL 234 (\$133) per month, however, foreign organization employees (9% of the labor force) were paid an

average GEL 560 (\$320) per month. The minimum wage for government employees is GEL 115 (\$67.65) per month. The minimum wage in the private sector has not changed in many years at GEL 20 (\$11.76) per month, but few if any workers earn so little.

Georgia has signed multiple ILO agreements, including the Forced Labor Convention of 1930; the Paid Holiday Convention of 1936; the Anti-Discrimination (employment and occupation) Convention of 1951; the Human Resources Development Convention of 1975; the Right to Organize and Collective Bargaining Convention of 1949; the Equal Remuneration Convention of 1951; the Abolition of Forced Labor Convention of 1957; the Employment Policy Convention of 1964; and the Minimum Age Convention of 1973.

Foreign-Trade Zones/Free Ports

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There are currently no foreign trade zones or free ports. Proposals to establish such zones are under discussion, for example, at the Black Sea port of Poti.

Foreign Direct Investment Statistics

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Foreign Direct Investment in Georgia peaked twice, in 1997-1998 and 2003-2004. Both peaks were related to the construction of pipelines, Baku–Supsa and Baku-Tbilisi-Ceyhan respectively. However, despite completion of the pipelines, foreign investment inflows in 2006 are expected to be larger than ever before. The total stock of foreign investment in Georgia in 2005 was \$2.3 billion, which was 36% of GDP. (UN Commission on Trade and Development estimate).

Official statistics on Foreign Direct Investment (FDI) inflows during recent years are as follows:

2000	-	USD 131,232,000
2001	-	USD 109,840,000
2002	-	USD 167,362,000
2003	-	USD 339,393,000
2004	-	USD 497,827,000
2005	-	USD 449,786,000
2006 (Q1)	-	USD 133,833,000

Breakdown of investments by major countries (USD 1,000's):

Countries	2001	2002	2003	2004	2005	2006 Q1
Total	109,840	167,362	339,393	497,827	449,786	133,833
USA	23,281	82,271	72,132	77,550	15,033	5,964
UK	8,509	17,530	37,670	83,944	132,952	8,823
Russia	5,073	7,810	42,686	73,712	38,754	2,041
Turkey	8,456	8,848	17,275	28,569	21,817	20,400
Cyprus	19,245	1,063	676	22,330	47,537	8,499
Azerbaijan	0	0	29,698	66,008	66,940	6,526
Italy	6,976	9,864	15,896	28,728	22,838	1,933
Norway	0	2,994	11,262	34,466	23,626	2,268
France	17,434	6,287	16,709	20,940	14,383	1,301

Kazakhstan						11,775
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[Source: Georgian National Investment and Export Promotion Agency at the Ministry of Economic Development. Note: Russian investments for 2004 are overstated, as it includes the investment deals that were later annulled.]

Breakdown of investments by economic sector (USD 1,000's):

	2001	2002	2003	2004	2005	2006 (Q1)
Total	109,840	167,362	339,393	497,827	449,785	133,833
Agriculture	6 2 0	8 9 0	7 8 4	9 6 5	5 , 0 4 2	1 5 1
Industry	2 7 , 4 2 8	2 9 , 5 2 3	4 9 , 2 0 4	6 6 , 0 1 3	110,175	2 7 , 4 0 2
Service	8 1 , 7 9 1	136,949	289,404	430,848	334,568	106,279

The U.S. has been one of the largest foreign investors in Georgia since 1999. In 2000, the United States accounted for 30 percent of FDI in Georgia; in 2001 for 25.7 percent of FDI, in 2002 -- 49 percent, in 2003 and 2004 these indicators were 21 percent and 16 percent respectively. In 2005 it accounted for only 3 percent and 4.4 percent in the first quarter of 2006. (Source: Ministry of Economic Development.)

Web Resources

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Georgia National Investment Promotion Agency, <http://www.investingorgia.org>

Ministry of Economic Development, <http://www.privatization.ge>

American Chamber of Commerce in Georgia, <http://www.amcham.ge>

Investment Guide from American Chamber of Commerce, <http://www.investmentguide.ge>

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Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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Large Georgian banks service foreign trade transactions. Methods of payment generally include a letter of credit or advance payment. To carry out transactions through banks, buyers and sellers must have a written contract. Because of high interest rates and short-term lending offered by local banks, most enterprises prefer to purchase equipment through supplier-financed transactions.

How Does the Banking System Operate

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The central bank, the National Bank of Georgia (NBG), sets monetary policy, issues licenses, and supervises the activities of banking institutions and currency exchange offices. To regulate circulating money and encourage deposits in Lari, NBG requires commercial banks to keep a certain percentage of their foreign currency deposit liabilities in reserve. The NBG is working on a national deposit insurance program, similar to the Federal Deposit Insurance Corporation (FDIC).

The ten largest commercial banks have 95 percent of capital and operations. Three foreign banks have branch offices in Georgia: Ziraat Bank (Turkey), The Caucasus Development Bank (Azerbaijan), and Cascade Bank (U.S.-financed through Armenia). The French bank Societe Generale recently purchased 60% of the capital of Bank Republic.

The U.S. Government has assisted the NBG to accelerate financial sector development in Georgia. NBG and most commercial banks use SWIFT to process international payments and messages. There are no restrictions on the number of bank accounts individuals and enterprises may hold with Georgian banks. The cost of lending remains high but should continue to decline as Georgia's banking sector develops.

Foreign-Exchange Controls

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The Lari (GEL) is the only legal tender in Georgia; it has no informal or parallel exchange rates. Foreign businesses may convert Lari into hard currency at the market exchange rate and freely transfer the proceeds abroad without limitation. One may hold foreign exchange in bank notes or on deposit in designated bank accounts. There are no limitations on these accounts' operation.

The Lari is traded on the Tbilisi Interbank Currency Exchange (TICEX) as well as in the Foreign Exchange Bureau Market (FXB). TICEX functions as a wholesale market for foreign exchange between banks, while large volumes of small retail transactions are carried out in the FXB. Since 1998, the Lari floats freely.

Some Georgian banks accept and issue credit cards. Credit cards are accepted at many hotels, restaurants and stores in Tbilisi, but many other establishments do not accept them. ATMs are available in the central areas of Tbilisi and at the Airport. ATMs are also available in the cities of Kutaisi, Poti, and Batumi.

U.S. Banks and Local Correspondent Banks

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There are no U.S. banks with branches in Georgia, though most Georgian banks have correspondent accounts with U.S. banks.

Project Financing

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Georgian banks mostly extend short-term loans for trade or for working capital financing. Total assets in the banking system have risen and the maturity of loans is gradually lengthening. However, local credit sources for Georgian importers are limited because of high annual interest rates - from 7 to 21 percent - and the short-term nature of loans offered by local banks.

A major source of project financing in Georgia is through credit lines to selected Georgian banks from multilateral and bilateral financial institutions and funds: European Bank for Reconstruction and Development (EBRD), World Bank (WB), European Union's TACIS program, Kreditanstalt fuer Wiederaufbau (KfW), and the International Financial Corporation (IFC). In 2004-2005 a U.S. venture capital and banking institution took equity and extended credit lines to the Georgian banks, including for expansion of mortgage and leasing activities.

In September 2006 the U.S. Export-Import Bank opened its lines of business to Georgia and offered a full range of programs for both the public and private sectors in Georgia, Ex-Im bank is available to finance projects in Georgia and transactions from Georgian buyers of U.S. goods and services in the short-, medium- and long-term.

For project financing and risk insurance American investors and exporters may contact the Overseas Private Investment Corporation (OPIC), which provides direct financing and insurance coverage against political risk, currency inconvertibility, expropriation and political violence.

For more information on federal export assistance programs, contact the Trade Information Center (TIC) in the U.S. Department of Commerce. The TIC provides information on sources of international trade and export promotion, financing and counseling, international market research and trade leads, overseas and domestic trade events and activities and documentation and licensing requirements

The Economic/Commercial Section of the U.S. Embassy in Tbilisi can provide contact information and assistance to any U.S. firm about export financing, insurance, local and domestic business associations and partners, and business climate information.

U.S. Trade and Development Agency (TDA). USTDA funds various forms of technical assistance, investment analysis, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment. In carrying out its mission, USTDA gives emphasis to economic sectors that may benefit from U.S. exports of goods and services. USTA has funded feasibility studies for a power transmission line, a cold storage facility, and other projects in Georgia.

Overseas Private Investment Corporation (OPIC). The most recently opened OPIC backed fund with an office in Tbilisi is the Soros Investment Capital, Ltd. OPIC provided its first direct loan here for USD 26 million to develop two Marriott hotels—Tbilisi Marriott opened in 2002; Courtyard Marriott opened in 2004.

OPIC's Small Business Center (SBC) initiative provides financing and political risk insurance to small businesses with annual revenue less than USD 35 million. The U.S. small business must own at least 25 percent of the overseas project, but OPIC may be able to finance up to 65 percent of the total project costs. Most recent OPIC projects in Georgia are guarantees loan for mortgage Lending Facility, and Small Business uses loans to Build Cold Storage Facility in Poti and to expand Dairy Manufactory in Georgia.

Millennium Challenge Corporation (MCC). In September 2005, the U.S. signed a five-year, \$295.3 million Compact with Georgia. The Compact aims to reduce poverty and stimulate economic growth in the regions outside of Tbilisi. MCC projects include rehabilitating roads, pipelines and water systems. It also will provide credit and grants for small and medium businesses involved in tourism and agriculture.

The World Bank. Georgia became a member of the World Bank (WB) in 1992 and the International Development Association in 1993. Since then, the World Bank has approved approximately USD 830 million for 43 operations. The World Bank's Country Partnership Strategy (CPS) for 2006-09 is designed to assist Georgia in implementing the second phase of reforms required by the Bank's Poverty Reduction Support Operations. Most recently, the World Bank signed a credit agreement with the government of Georgia for the First East-West Highway Improvement Project for USD 19 million. Procurement opportunities for the World Bank-funded projects in 2007 include supplies of IT equipment to the Prosecutors reform project, a Ministry of Justice reform project, and a project at the Customs Department.

International Finance Corporation (IFC). As of November 2006, IFC has invested USD 180 million to finance projects in the financial, power, oil and gas, and manufacturing sectors. IFC most recently approved a loan of USD 27 million (out of the total project cost of USD 76.6 million) to support the construction of a new international terminal and acquisition of ground handling equipment at Tbilisi International Airport, as well as modernization of Batumi Airport. IFC also implements advisory programs in the area of leasing, corporate governance, and business policies affecting small and medium enterprises with funding from the Canadian International Development Agency (CIDA)

The European Bank for Reconstruction and Development (EBRD). From 1994 to 2005, the EBRD signed thirty-one projects in Georgia (EUR 339.2 million), 76% of which were in the private sector. In 2006 the EBRD signed a loan agreement with TAV Urban

Georgia, a legal entity established under Georgian law by the largest Turkish airport operator TAV, to co-finance with IFC the construction of new passenger terminals and associated facilities at Tbilisi and Batumi international airports. The EBRD currently focuses on developing transport infrastructure to support the development of the transport corridor linking Eastern Europe, the Caucasus and the Central Asia (TRACECA).

Web Resources

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Export-Import Bank of the United States: <http://www.exim.gov>

Ex-Im Country Limitation Schedule:
http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

Millennium Challenge Georgia:
http://www.mcg.ge/english/Millennium_Challenge_Georgia.htm.

World Bank: www.worldbank.org

European Bank for Reconstruction and Development:
<http://www.ebrd.com/country/country/georgia/index.htm>

International Finance Corporation:
http://www.ifc.org/ifcext/eca.nsf/Content/Georgia_Home

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Chapter 8: Business Travel

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Business Customs

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The development of personal rapport is an important part of business relationships in Georgia. Business meetings tend to be relatively relaxed affairs. Although tardiness does not necessarily reflect a lack of respect, foreign visitors should be punctual. Business lunches are less common than in the U.S. and Europe. Elaborate dinners - known as "Georgian tables" or "Supras" - are generally long affairs, at which numerous, informal and impromptu toasts are often required of both host and honored guests. Wine is an important part of Georgian culture, and is a part of any meal. Georgians take great pride in their reputation as gracious hosts.

Travel Advisory

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[U.S. State Department Georgia Travel Information Sheet,](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1122.html)
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1122.html

Visa Requirements

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A passport is required. U.S. citizens visiting for 90 days or less do not need a visa. Armenian and Azerbaijani visas are no longer valid for transit through Georgia. For further information on visas, please contact:

[Georgian Embassy to the U.S.](#) at
1101 15th Street, NW
Suite 602,
Washington DC, 20005
Tel: (202) 387-2390, fax: (202) 393-4537
<http://www.georgiaemb.org>

U.S. Embassy Tbilisi encourages visiting Americans to register at the Consular Section of the U.S. Embassy in order to obtain updated information on travel and security within Georgia. http://georgia.usembassy.gov/citserv_services.html

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas: <http://www.unitedstatesvisas.gov/> and <http://georgia.usembassy.gov/visas.html>

Telecommunications

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Georgia enjoys direct-dial long distance service for international calls. Because of poor line quality and limited capacity of landlines, cellular phones are ubiquitous and inexpensive. Temporary Internet access is available at large hotels and at internet cafes in Tbilisi and some other towns. Subscriber Internet service is available through several local providers and is also moderately priced by regional standards. However, the Internet is lacking outside of Tbilisi and two or three other major cities.

Transportation

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The condition of most roads in the country is poor but improving. Inter-city public transport is slow and unreliable. Within the capital there are many new and inexpensive buses, trolleybuses, taxis, and "marshrutka" minibuses. There is also a functioning subway system in Tbilisi that is under renovation. A cab ride from the airport to the center of Tbilisi should cost approximately USD 20.

Georgia's principal international airport is Tbilisi International Airport, which can handle 1,000-1,200 passengers per hour. Currently there are several local airlines including the state flag carrier Georgian Airways, which operates three Boeing aircraft. Georgian National Airlines, Lufthansa, British Airways, Austrian Airlines, Turkish Airlines, Arkia, Aeroflot, Azalavia, Ukrainian Airlines, Donbasaero, Sakaviaservice and Belavia fly to Amsterdam, London, Vienna, Frankfurt, Paris, Tel-Aviv, Rome, Prague, Athens, Moscow, Kiev, Baku, Sochi, Dnepropetrovsk, Kharkov, Donetsk, Minsk, Dubai, Trabzon, Simferopol, Odessa, and Munich. (Flights to Russia do not operate as of early 2007 due to restrictions imposed by the Government of Russia.) A new airport will soon open in Batumi, which will be offer connections into Turkey. Other regional airports are in relatively poor shape.

Georgia's railroad system is slow and unreliable. Presently, about 90 percent of freight traffic travels on the main Trans-Caucasus route between the Black Sea ports of Poti and Batumi through Tbilisi to Yerevan (Armenia) and Baku (Azerbaijan).

Language

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The official language is Georgian but almost all business executives speak Russian. English is the most widely used language after Russian, and is gaining in popularity. Interpreters are widely available and relatively inexpensive.

Medical Care in Georgia is limited. Elderly travelers and those with extensive health problems may be at risk due to inadequate medical facilities, especially outside the capital. Doctors and hospitals generally expect immediate cash payment for health services. Travelers should have medical insurance that is valid outside the United States. In some cases, supplemental medical insurance with specific overseas coverage, including a provision for medical air evacuation, has been useful.

Medi-Club Georgia and International Medical Support Services are two Western-standard clinics in Tbilisi.

The U.S. Embassy maintains a list of English-speaking physicians. Travelers may obtain further information on health matters from the Centers for Disease Control and Prevention's International Travelers' Hotline at (404) 332-4559, or at <http://www.cdc.gov> Georgia does not have universal immunization, but travelers immunized for illnesses such as diphtheria, measles, and mumps are not at particular risk. Because of recent outbreaks of rabies and a shortage of the vaccine used to treat those who became infected, travelers should consider receiving the pre-exposure series of the rabies vaccine before leaving the United States. Georgia is a high hepatitis risk area. All travelers should have, or at least begin, hepatitis A and B vaccination.

Local Time, Business Hours, and Holidays

Standard time zone for Georgia is: UTC/GMT + 3 hours during summer time and UTC/GMT + 4 during wintertime. Georgia does not observe daylight savings time. Although the business day runs from 9:00 a.m. to 6:00 p.m., the best contact time is 10:00 a.m. to 5:00 p.m. Business leaders and senior government officials tend to start work around 10:00 a.m., work into the night, and often break for a late working dinner. Georgia has 14 national holidays:

January 1-2 New Year's Day
January 7 Christmas (Orthodox Church)
January 19 Epiphany (Orthodox Church)
March 3 Mother's Day
March 8 International Women's Day
April 9 Memorial Day/Good Friday
April 21 Good Friday
April 24 Easter Monday (Recollection of Deceased)
May 9 Victory Day
May 12 St. Andrew's Day
May 26 Independence Day
August 28 Day of the Virgin (Orthodox Church)
October 14 Svetitskovloba (Day of the Saint)
November 23 St. George's Day

Temporary Entry of Materials and Personal Belongings

Travelers to Georgia must fill out a customs declaration upon arrival and present it to customs officials upon departure. Travelers must declare on the customs form all items of value, including currency; failure to do so may result in fines or other penalties. If

your customs form is lost or stolen, please report the loss to the police to obtain a certificate to show to customs officials upon departure.

Georgia's customs authorities may enforce strict regulations on the temporary importation into or export from Georgia of items such as alcohol, tobacco, jewelry, religious materials, art or artifacts, antiquities, and business equipment. Only personal medications with a doctor's prescription can be imported without the permission of the Georgian Department of Healthcare.

U.S. citizens may not import firearms into Georgia; however, hunting weapons may be brought into the country for a two-week period based on valid Georgian hunting licenses. While there is no limit to the amount of currency that can be imported, if more money is exported than was declared at the time of entry, the traveler is obligated to prove it was legally obtained. There are limits on the amount of exported Georgian currency.

The Department of Expertise and Evaluation under the Ministry of Culture and Science must license any valuables being taken out of Georgia such as artwork, antiques, jewelry, paintings, etc. This license describes the object, assesses its value, and provides permission to export it from Georgia. The U.S. Embassy in Tbilisi, Georgia, can provide more specific information on quantities of items that can be imported duty free, as well as duties for specific items. It is also advisable to contact the Embassy of Georgia in Washington, D.C. for specific information regarding customs requirements.

Web Resources

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Tbilisi Weather, <http://www.wunderground.com/global/stations/37549.html>

Georgian Language, <http://www.armazi.com>

Info-Tbilisi, <http://www.info-tbilisi.com>

Mediclub Georgia, <http://www.mcg.com.ge>

International Medical Support Services, <http://www.imss.ge/services.html>

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Chapter 9: Contacts, Market Research, and Trade Events

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- [Trade Events](#)

Contacts

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Government Entities

Ministry of Foreign Affairs, <http://www.mfa.gov.ge>

Ministry of Finance, <http://www.mof.ge>

Ministry of Economic Development, <http://www.privatization.ge>

Ministry of Agriculture and Food, <http://www.maf.gov.ge/eng/>

Ministry of Energy, http://www.minenergy.gov.ge/?lang_id=ENG

Ministry of Justice, <http://www.justice.gov.ge/index1.html>

Ministry of Environment and Natural Resources, <http://moe.caucasus.net/>

Ministry of Labor, Health and Social Security,

<http://www.healthministry.ge/eng/index.php>

Tax Department, <http://www.taxdep.ge>

Customs Department, <http://www.customs.gov.ge>

Georgian National Communication Commission, <http://www.gncc.ge>

National Bank of Georgia, http://www.nbg.gov.ge/NBG_New/home_nf1.htm

State Department of Statistics, <http://www.statistics.ge/index.php?plang=1>

Georgian National Investment and Export Promotion Agency,

<http://www.investingeorgia.org>

Trade Associations

Georgian Chamber Commerce and Industry, <http://www.gcci.ge>

American Chamber of Commerce in Georgia, <http://www.amcham.ge>

Federation of Georgian Businessmen, <http://www.fgb.ge>

America Georgia Business Council, <http://www.agbc.com>

United States Government

The Commercial Section – US Embassy Tbilisi,

<http://georgia.usembassy.gov/comsec.html>

BUSNIS, <http://www.bisnis.doc.gov/bisnis/bisnis.cfm>

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

BISNIS is the U.S. Government's primary market information center for U.S. companies exploring export and investment opportunities in Russia and Eurasia, including Georgia. BISNIS provides U.S. companies with the latest market reports and tips on developments, export and investment leads. <http://www.bisnis.doc.gov/bisnis/bisnis.cfm>

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

(Insert link to Products and Services section of local buyusa.gov website here.)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.