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Georgia: Findings and Recommendations

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Submitted by the secretariat

I. Introduction

1. One of the top reformers in the Economic Commission for Europe (ECE) region, Georgia is located on the eastern shore of the Black Sea and shares borders with Turkey and Armenia in the South; Azerbaijan in the South and the West; and, the Russian Federation in the North. The Government has consistently followed a liberal trade regime, which is geared towards achieving the twin objective of creating efficiency gains for the business community and integrating the economy into regional and global value chains.

2. Hence, an emphasis on anchoring trade reforms in the multilateral trading system,¹ an array of free trade agreements, a lean institutional set-up and a paperless environment, making it possible for Georgia to successfully implement around 93 per cent of the World Trade Organization (WTO) Agreement on Trade Facilitation before the agreement's entry into force.²

3. Another salient feature of Georgia's trade regime is its emphasis on generating investments in sectors with a direct contribution to job creation and increased specialization in high value-added products. Recent measures have involved the introduction of value-added tax exemptions on imports of fixed assets, as a way for reducing the costs associated with acquiring new machinery and modern production facilities.³

¹ Georgia became a member of the World Trade Organization on 14 June 2000.

² Georgia ratified the Agreement on Trade Facilitation on 4 January 2016. The agreement entered into force on 22 February 2017.

³ Ministry of Finance of Georgia (2017) Georgia-reforms to development, available at: http://mof.ge/images/File/BROSHURA/2017/Georgia-Reforms_to_Development.pdf.

4. These measures are complemented by targeted initiatives to support start-ups and help existing enterprises develop their productive capacity. Most notable in this respect are the State programmes “Produce in Georgia” and “Start-Up Georgia”. The first helps enterprises access funds for venturing into new investments⁴ while the second, which is financed by the Georgia’s Innovative and Technology Agency and the Partnership Fund, supports high tech and innovative start-ups with funds equivalent to up to 50 per cent of the equity. Supplementary to these initiatives, the micro and small business grant programme provides capacity building services and financial support.⁵

5. In 2018, the Government was in the process of consolidating its regional cooperation with its neighbouring European countries pursuant to the provisions of its Association Agreement with the European Union. The Government considers the Association Agreement, which entered into full force on 1 July 2016,⁶ as an important milestone in the country’s development trajectory. To begin with, the European Union is Georgia’s main trading partner and the enterprises, which have been benefiting from the European Union Generalised Scheme of Preference Plus (GSP+) since 2005, are slated for reaping further benefits with the elimination of residual tariffs under the Association Agreement’s Deep and Comprehensive Free Trade Area. Moreover, by virtue of approximating national laws to the European Union *Acquis Communautaire*, the Government will be able to scale up its legislative and institutional reforms across all policy areas.⁷

6. Aware of the complexities of these reforms and the steep learning curve they carry for the enterprises, the Government has decided to pursue a phased approach to legislative approximation. Reforms are spread across several years, with sectors requiring intensive support accorded the longest period (until 2027) for completing the approximation process.

7. It is against this background that the ECE study, entitled “Regulatory and Procedural Barriers to Trade in Georgia: Needs Assessment”, was conducted in October 2017 – January 2018, pursuant to the Government’s request. The aim is to ensure a coherent treatment of the regulatory and procedural trade measures, as a pre-requisite for ensuring the successful implementation of the Government’s commitments under the Deep and Comprehensive Free Trade Area.

8. Using ECE evaluation methodology, the study examined trade facilitation conditions in the country and the existing quality infrastructure on their own right and in terms of their implication for regional integration and export diversification. The study also provides recommendations for complementing the Government’s reform and development efforts.

II. ECE recommendations for removing regulatory and procedural barriers to trade in Georgia

9. The below table lists the outstanding needs and recommendations emerging from the study. The recommendations take into account the outcome of the Stakeholder Meeting that was held on 23 April 2018 at the Ministry of Economy and Sustainable Development in Tbilisi, Georgia.

⁴ The programme provides financial assistance in the form of subsidized interest rates (co-financing of the interest: up to 10 per cent) and partial collateral support of 50 per cent of the loan amount during the initial period (up to 48 months).

⁵ This involves up to GEL 15, 000 for enterprises and GEL 5,000 for entrepreneurs (beneficiaries contribute 20 percent of the loan)

⁶ The Association Agreement was provisionally implemented in September 2014.

⁷ See Georgia’s Action Plan for the Implementation of the Deep and Comprehensive Free Trade Area (2014-2017); available at: http://www.economy.ge/uploads/dcfita/DCFTA_Action_Plan_ENG.pdf.

<i>Outstanding needs</i>	<i>Recommendations</i>
Transparency	
<i>Further develop the advance rulings system</i>	<ul style="list-style-type: none"> The Revenue Service could consider maintaining an online compendium of advance ruling decisions, which traders could consult. Educate traders on the information requirements that need to be included in the requests for advance rulings. This could be done through guidance documents and awareness-raising workshops.
<i>Publish information on trade-related procedures in English, to attract foreign companies</i>	<ul style="list-style-type: none"> While the Revenue Service provides an overview of applied rules and procedures (including fees and forms) in English, the information is not comprehensive and does not cover those associated with obtaining veterinary, sanitary and phytosanitary certificates. The same applies to the remaining State agencies, with their websites providing basic information in English.
<i>Explore new ways for engaging small and medium enterprises (SMEs) in decision-making processes</i>	<ul style="list-style-type: none"> Market support institutions should play a lead role in engaging the SMEs in public-private sector consultations. This could be done by holding sector-focused workshops, based on issue-focused information notes and guidelines, particularly on the basic tenants and concepts underpinning the European Union <i>Acquis Communautaire</i>, associated procedures and implications for business development.
Documentary requirements and the use of electronic documents	
<i>Adopt a comprehensive approach for developing the Authorised Economic Operator (AEO) schemes based on the European Union model</i>	<ul style="list-style-type: none"> Establish the legal basis for launching AEO schemes, including primary and secondary legislation. In this context, ensuring complete and full harmonization of the Tax Code with the European Union “Union Customs Code” gains much importance. Elaborate the general criteria of the European Union model (Customs Simplifications; Security and Safety; and Customs Simplifications/Security and Safety) for assessing applicants.⁸ Design a system for monitoring AEOs. Create a core team of auditors capable of managing the AEO schemes. In this regard officials emphasized advanced training programmes and on the job training through study tours to neighbouring European Union countries. Arrange for mutual recognition of Georgia’s AEO scheme. Develop support services to assist enterprises, especially SMEs, in ensuring complete and full compliance with the AEO criteria. Most notable in this respect are: (i) training programmes (and guidelines) for enabling enterprises to conduct self-assessment and self-policing and (ii) financial assistance to encourage them to invest in security.
<i>Consolidate the Single Window</i>	<ul style="list-style-type: none"> Georgia’s paperless trading system corresponds to the Single Window definition of the World Customs Organization. As the Government forges ahead in establishing the e-Government portal, it could consider following the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT)

⁸ The criteria is established under the European Commission Directorate-General Taxation and Customs Union Guidelines (TAXUD/B2/047/2011 –Rev.6).

*Outstanding needs**Recommendations*

Recommendation 34 to achieve further improvements in data harmonization and standardization.⁹

At the border control***Improve synchronization of controls at main border crossing points***

- Consider developing the brokerage industry as a way for reducing the Customs Department's work burden. This would require establishing a proper system for testing, training, licensing, accrediting, and monitoring customs brokers. Successful experiences suggest that this system could be established in cooperation with market support institutions. These could deliver the training following formal modules that are approved by customs and accredited by the relevant ministry (usually the Ministry of Education), with customs issuing broker licenses to applicants following their successful completion of the training programme.
- Develop the capacity of hygiene, sanitary and phytosanitary testing facilities by investing in additional accredited laboratories. This would accelerate on-site hygiene and sanitary and phytosanitary controls at major border crossings.
- Establish additional measures for synchronizing immigration and visa formalities with goods and vehicle inspections.
- Promote wider adoption of the Trade Facilitation System as a way for supporting electronic exchange of information and documents between traders, logistics service providers, and border control authorities. The Trade Facilitation System could be further consolidated with integrated information and communications technology (ICT) infrastructure, which support modern logistics services like track and trace, synchronized intermodal logistics and automation of business processes like booking, scheduling, stock management, and billing. A first step in this direction would be to conduct a comprehensive assessment of the ICT systems of the agencies involved, including hardware and software, to identify capacity gaps and establish an agreed upon action plan for achieving the desired level of ICT integration.
- Consider establishing a notification facility to support information sharing between the Border Police and port operators.
- Organize training visits to countries known for business-friendly border management, for example, Singapore, the Netherlands, and Germany.¹⁰ Georgia's border management is rather advanced, but still Georgian authorities could learn from international best practices.

Regional cooperation and transit trade***Consolidate regional cooperation with additional initiatives and joint actions to facilitate cross-border control processes and transit trade***

- Using existing cooperation mechanisms, explore common initiatives to: (i) further harmonize and digitalize the exchange of information and documentary requirements with border control authorities in Azerbaijan and Turkey and (ii) arrive at a common framework for strengthening collaborative border management with Armenia and the Russian Federation. The focus should be on establishing common regulatory objectives and detailed guidelines for informing interagency cooperation.

⁹ UN/CEFACT recommendations are available at: https://www.unece.org/cefact/recommendations/rec_index.html.

¹⁰ Top three performers of the "customs" indicator in the 2016 World Bank Logistics Performance Index (LPI). Source: lpi.worldbank.org/international/global/2016.

*Outstanding needs**Recommendations***Transport infrastructure and logistical services*****Improve road safety***

- Consider joining the ECE Agreement on Establishing of Global Technical Regulations for Wheeled Vehicles, Equipment and Parts which can be fitted and / or be used on Wheeled Vehicles. The agreement provides the basis for the harmonization vehicle technical safety and emissions standards, including for heavy vehicles.

Consolidate the legal framework for governing multi-modal transport operations, and for establishing the liability of freight forwarders and the different actors involved

- The ECE transport agreements and protocols provide useful elements for establishing such a framework. Another useful source is the United Nations Convention on International Multimodal Transport of Goods (MTC 1980).¹¹ Although the Convention has been ratified by a limited number of States, it remains significant as it details model rules which could be incorporated voluntarily into the operator's services and standard conditions.

Further develop rail transport

- Further improve the freight line capacity (e.g. more passing sidings)
- Modernize rail laws and harmonizing it with the requirements of the Association Agreement with the European Union and European Atomic Energy Community and their member countries.

Technical regulations***Strengthen regulatory impact assessment (RIA) processes***

- Provide advanced training courses on RIA to staff in the Ministry of Economic Development and Sustainable Development.
- Assist the Ministry of Labour, Health and Social Affairs and the Ministry of Environmental Protection and Agriculture in establishing RIA capacities.
- In parallel, and since the preparation of technical regulations is a complex undertaking that requires multidisciplinary skills that cannot be made available within competent authorities, consider establishing collaborative mechanisms with private research centres and universities abroad to undertake RIAs associated key European Union Directives that are slated for approximation. These mechanisms could feature informal working relations, or formal agreements in the form of, for example, memorandums of understanding, to obtain such benefits as: fielding experts to Georgia to assist the line Ministries in undertaking RIAs; promoting joint research on specific areas for assisting enterprises in complying with new regulations, and; apprenticeship programmes.
- Establish similar collaborative arrangements with national universities and key research institutions for promoting their engagement in collaborative research and RIAs. This will put the universities and research institutions in a better place to contribute to translating the European Union Directives and technical regulations into the Georgian language.

¹¹ The convention is available at: http://unctad.org/en/PublicationsLibrary/tdmtconf17_en.pdf.

<i>Outstanding needs</i>	<i>Recommendations</i>
Standardization	
<i>Strengthen the Legal Entity of Public Law Georgian National Agency for Standards and Metrology Standards Department and the technical committees</i>	<ul style="list-style-type: none"> • Provide members of the technical committees with advanced training on topical issues of direct relevance to their sectors; the basic tenets of the different harmonized European standards applicable to their sectors; the interrelation between these standards; and their implication for the enterprise sector. • In parallel, establish collaborative arrangements with regional and international research centres to further consolidate the capacity of the Georgian National Agency for Standards and Metrology Standards Department and the technical committees, and involve national universities and research centres in these mechanisms (as explained above).
Conformity assessment	
<i>Further develop the national system of conformity assessment bodies</i>	<ul style="list-style-type: none"> • There is a need for additional accredited conformity assessment bodies in product certification (particularly for food products), medical laboratories and certification bodies for management systems. Officials emphasized the important role that the private sector could play in addressing this supply shortage. It would be useful to consider public-private partnerships and set the specific needs for competent testing and certification. These could be established through in-depth assessments of constraints faced by exporters belonging to agriculture and other strategic sectors in relation to proof of conformity. The assessment highlighted many challenges, including genetically modified organisms and aflatoxin testing.
<i>Consolidate market surveillance</i>	<ul style="list-style-type: none"> • Assist line Ministries responsible for the authorization and licensing of the manufacture and sale of food and beverages, cosmetics, pharmaceutical products, dietary supplements and medical devices to establish the required guidelines, systems and expertise knowledge for issuing Good Manufacturing Practice certificates.
Metrology	
<i>Upgrade the national standard-holding laboratories and raise public awareness on the importance of metrology</i>	<ul style="list-style-type: none"> • Equip the standard-holding laboratories with additional equipment. • Prepare promotional material for raising public awareness, particularly among the business community, small and medium sized enterprises, the national laboratory network, governmental and non-governmental organizations, and academia, on the importance of metrology for improving measurement infrastructure and capacities for the consolidation of export competitiveness and the achievement of structural transformation. This could be done in cooperation with market support institutions, as these have a direct and continuous interaction with the enterprises.
Enterprise development: promote the diversification of services provided by market support institutions	
<i>Provide market intelligence services</i>	<ul style="list-style-type: none"> • These services should be sector specific, highlighting the export potentials and efficient supply sources with recommendations that could help enterprises establish their business development strategies.
<i>Promote inter-enterprise collaboration, joint action and networking with regional and international companies as a prerequisite for achieving economies of scale and scope</i>	<ul style="list-style-type: none"> • Consider establishing networking programmes to promote inter-enterprise collaboration, as it is often the case that enterprises are hesitant to join efforts when the benefits will only be reaped in the future, or are simply unaware of the potential benefits of joint action. These programmes should be hosted in market support institutions, which could assume the role of the network broker. This role involves identifying potential networks; overcoming the scepticism among enterprises; coordinating inter-firm relations; providing specialist support for creating commitment to the network among participating enterprises; and linking them with regional and international companies. This includes helping the national enterprises

<i>Outstanding needs</i>	<i>Recommendations</i>
	<p>form two-way strategic relationships that are focused on joint production and knowledge sharing. Common measures for enabling technology mastery include internalized technology transfer (embodied in imported machines and equipment); licensing and arm's length purchase of know-how, patents, licenses and blueprints (i.e. royalty and license fees); and engaging foreign enterprises, particularly transnational corporations, in local capacity development through training and apprenticeship programmes. Such measures require arriving at a common understanding of the legal issues that arise from technology transfer. Here bilateral and regional agreements on common standards become necessary.</p> <ul style="list-style-type: none"> • Consider establishing clustering programmes in the food industry and other key sectors for generating industry wide gains. The focus should be on developing two sets of dynamics. The first relates to increasing inter-firm coordination through "flexible specialization", whereby the production process is decentralized through subcontracting arrangements to allow member enterprises to specialize on specific phases of the production chain.¹² The second set of dynamics relates to fostering inter-firm collaboration by facilitating enterprises' joint action. The focus should be on generating "collective efficiency" through purposeful joint actions.
<i>Improve the enterprises' access to finance</i>	<ul style="list-style-type: none"> • Consider establishing credit guarantee schemes that would allow micro-finance institutions and non-banking financial institutions to tap the banking system's deposit base for financing their credit lines. These schemes could be designed in a manner that assigns such institutions the role of intermediaries between potential borrowers and the banks. The institutions would screen borrowers, monitor their performance and assume responsibility vis-à-vis the banks in case of default. • Another mechanism for facilitating the enterprises' access to finance would be the establishment of loan insurance schemes. Such schemes safeguard the borrowers' loan against default risks through imposing an insurance premium that is co-shared between the borrowing enterprise and the government.
<i>Improve access to electricity and transport</i>	<ul style="list-style-type: none"> • Priority should be given to bringing electricity power to rural and remote areas. • Priority should be given to rehabilitating and repairing local roads to ensure geographic continuity.
<i>Address the skills mismatch</i>	<ul style="list-style-type: none"> • Training activities and programmes (including those provided by vocational centres) should be aligned around critical skill shortages identified by the enterprises, with a view to enhance the technological capabilities of enterprises.
<i>Improve the enterprises' bargaining power vis-à-vis freight forwarders and international shipping companies</i>	<ul style="list-style-type: none"> • Explore in consultation with relevant associations (e.g., Georgian Expeditors Association, Georgian Road Carriers Association and Georgian Logistics Association) options for: (i) obtaining favourable terms from international shipping companies and transport operators for Georgian exporters and importers (including manufacturers, retailers and wholesalers) and (ii) strengthening cooperation with the European Shippers' Council and the Global Shippers Alliance.

¹² This will put enterprises in a better position to take advantage of economies of scale at different stages of the production process; focus on product characteristics (instead of price); and, achieve economies of scope (through adaptive machinery and a diversified multi-skilled staff).