

# Green Economy in Georgia

Regulatory Overview



Strictly private and confidential

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# Definitions

<b>Action Plan</b>	The National Waste Management Action Plan of Georgia
<b>Association Agreement</b>	Association Agreement between the European Union and the European Atomic Energy Community and their Member state and Georgia signed on 27 June 2014.
<b>Construction Code</b>	Code of Georgia on Spatial Planning, Architectural and Construction Activities
<b>EPR</b>	Extended Producer Responsibility
<b>GCAP</b>	Green City Action Plan
<b>GoG</b>	Government of Georgia
<b>Ministry of Economy</b>	Ministry of Economy and Sustainable Development
<b>Ministry of Environment</b>	Ministry of Environment and Natural Resources Protection of Georgia
<b>Ministry of Infrastructure</b>	Ministry of Regional Development and Infrastructure of Georgia
<b>PP</b>	Power Plant
<b>Procurement Agency</b>	State Procurement Agency of Georgia
<b>Procurement Webpage</b>	State Procurement Webpage of Georgia: <a href="http://procurement.gov.ge">procurement.gov.ge</a>
<b>VAT</b>	Value Added Tax
<b>Waste Management Company</b>	Solid Waste Management Company of Georgia
<b>Waste Strategy</b>	National Waste Management Strategy of Georgia
<b>WMC</b>	Waste Management Code of Georgia

# Green Economy Regulatory Framework

## Introduction

In 2013 Georgia signed the Association Agreement with European Union according to which Georgia undertook obligation to facilitate the process of economic reform (Article 277) and contribute to the long-term objective of sustainable development and greening the economy (Article 301)<sup>1</sup>.

Georgia's regulations and economic policies in relation to green environment were mostly triggered by the Association Agreement and are therefore at a starting point and under development. Main policy-makers in Georgia in terms of green economy are:

- **Parliament of Georgia**<sup>2</sup> – is the main legislative body in the country, which introduces the main policies via enacting legislation of Georgia.
- **Ministry<sup>3</sup> of Economy<sup>4</sup>** - Covering among others: construction, transport, trade, state property, communications, innovations, entrepreneurship, investment policy, energy efficiency, small and medium business strategy.
- **Ministry of Environment<sup>5</sup>** - National energy efficiency action plan; residential energy efficiency;

Ministry of Agriculture; Ministry of Regional Development and Infrastructure; Ministry of Education and Science as well as Local Governments also serve as actors in green economy development.

The present guide provides an overview of existing as well as draft regulations related to waste management, sustainable (eco-friendly) transport as well as renewable energy. We further provide information related to public procurement system and information on publicly available projects that are to be implemented in Georgian green economy and infrastructure.

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## Waste Management

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### General Overview of the Waste Management legislation in Georgia

Georgia is a party to two major international conventions in the field of waste management:

- The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (entered into force in 1999)
- Stockholm Convention on Persistent Organic Pollutants (entered into force in 2007);

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<sup>1</sup> [http://www.parliament.ge/ge/ajax/downloadFile/34754/AA\\_ENG](http://www.parliament.ge/ge/ajax/downloadFile/34754/AA_ENG)

<sup>2</sup> Webpage: [parliament.ge/en/](http://parliament.ge/en/)

<sup>3</sup> Since 2017 Ministry of Economy and Sustainable Development took over the functions of Ministry of Energy, thus, became the main actor in terms of energy.

<sup>4</sup> Webpage: <http://www.economy.ge/?lang=en>

<sup>5</sup> Webpage: <http://www.mrdi.gov.ge/en>

In addition, in 2013, Georgia has also signed the Minamata Convention on Mercury but is yet to be ratified.

The waste management matters are regulated under the WMC that was adopted in December 2014 and entered into force in January 2015.

WMC established the legal framework that will facilitate waste prevention, its increased re-use as well as environmentally safe treatment of waste (which includes recycling and separation of secondary raw materials, energy recovery from waste and safe disposal of waste).

The Ministry of Environment exercises the regulatory authority in relation to waste management matters, including the following: develop and implement a unified state policy for waste management, keep record of waste and maintain a database of waste, develop a national waste management strategy and a strategy for municipal biodegradable waste management, issue the environmental decisions for waste management-related activities etc.

The key roles of other ministries in relation of waste management include:

- the Ministry of Finance regulates transboundary movements of waste,
- the Ministry of Labor, Health and Social Affairs supervises healthcare waste management,
- the Ministry of Economy issue admission certificates for means of transport to transport hazardous waste,
- the Ministry of Infrastructure of Georgia ensures the construction, management and closing of non-hazardous waste landfills and transfer stations etc.

Under the WMC, of the main processes for proper waste management are as follows:

I step: collection of the waste;

II step: transportation of waste to a waste storage facility and/or to a waste treatment facility;

III step: waste treatment (including, recovery, placement on the landfills etc.).

A person carrying out waste collection, transportation and/or treatment shall (1) have an environmental decision obtained and/or (2) be registered as such at the special registry of the Ministry of Environment. In case of transportation the hazardous waste, the transporter shall obtain from the Ministry of Economy an admission certificate for transporting the hazardous waste.

The following waste management activities are subject to registration:

- a) collection and/or transportation of waste;
- b) construction and operation of facilities for the temporary storage of more than 50 (fifty) tonnes of non-hazardous waste;
- c) pre-treatment of non-hazardous waste;
- d) construction and operation of facilities for the temporary storage of not less than 2 (two) tonnes and not more than 10 (ten) tonnes of hazardous waste;
- e) construction and operation of waste transfer stations.

Some of the waste management activities may be subject to environmental decision if the relevant requirement defined under the Environmental Assessment Code are met.

The abovementioned activities can be carried out by the private company or state-owned or municipal enterprise.

Under the Waste Management Code, an individual or legal person who annually produces (1) more than 200 (two hundred) tonnes of non-hazardous waste or (2) more than 1 000 (one thousand) tonnes of inert waste, or (3) any amount of hazardous waste, shall:

- prepare a waste management plan and submit it to the Ministry for approval. Such plan shall be renewed once in every 3 (three) year;
- appoint an Environmental Manager who will prepare the waste management plan and supervise its enforcement.

In addition to this, an individual or legal entity producing more than 2 (two) tonnes of hazardous waste during a year shall create and introduce a system of separation and collection of hazardous waste.

Tax Code of Georgia exempts from VAT without the right to credit rendering janitorial, cleaning and waste management services to a local self-government in a populated area. In addition, supply of ferrous and/or non-ferrous scrap & waste metals is exempt from VAT with the right to credit if the recipient party is identifiable.

### **The Waste Strategy**

Waste Strategy is developed by the Ministry in accordance with the requirement of the Waste Management Code and the Directives defined under the Association Agreement between the Georgia and EU. The Strategy outlines general objectives for all types of waste (except radioactive waste and expired persistent organic pollutants (POPs)).

The Strategy covers a 15 (fifteen)-year period (2016-2030)

The measures to achieve the goals and objectives set out in the Strategy are defined in the Action Plan, which is developed by the Ministry once every 5 (five)-year. The Ministry shall submit to the Government of Georgia reports on implementation of the plan every 3 (three)-year. The first Action Plan covers the period for 2016-2020. However, the report is yet to be published.

Each municipality shall also adopt a 5 (five)-year plan for the management of municipal waste generated within the territory of such municipality ( "Municipal Action Plan"). The Municipal Action Plan shall follow the Strategy and Action Plan. Generally, the management of the municipal waste is the responsibility of the relevant municipality, however, producers of municipal waste, except for the population, are entitled not to use the municipal waste collection service and transfer municipal waste produced by them for collection and treatment to persons who are authorized to collect and treat waste.

Under the Strategy as well as the Action Plan, the existing challenges and relevant goals are grouped into following main areas:

#### **a) Waste management planning;**

As mentioned above, municipalities as well as certain private companies are obliged to develop their own action plans for waste management and/or appoint the Environmental Manager.

Starting from 1 February 2019, all municipalities are obliged to introduce a separate collection system of waste. The separate collection of waste is applicable to the following types of waste: paper and cardboard, glass, plastic, metal. This system has already been implemented in several cities in test mode form.

The legislation also states the special requirements for hazardous waste management. However, it should be noted that this field is not developed in Georgia and there is no special planning system for hazardous waste management. For example, under the Waste Management Code, it is strictly prohibited to discard hazardous waste outside waste collection containers or to burn the hazardous waste outside a waste incineration plant holding the environmental decision for hazardous waste. Notwithstanding with such prohibitions, (1) there are no special collection containers for hazardous waste placed on the streets and (2) there are no separate landfills for hazardous waste in Georgia at all.

Under the Waste Management Code, if there are no appropriate techniques and/or technologies within the territory of Georgia to treat hazardous waste, such waste shall be exported for treatment purposes. Until the export is carried out, the hazardous waste shall be safely stored at temporary storage facilities.

According to the Strategy, the national system for hazardous waste management will be developed by 2025.

To conclude, the Waste Management Code introduces an organized waste management planning system. However, Georgia's capacity and experience in waste management planning is still very weak and, in the future, apart from the financial resources, the qualified human resources will also be required for all stage of waste management.

## **b) Waste collection and transportation;**

Waste collection and transportation is carried out by the authorized transporter, who (1) has an environmental decision obtained or (2) has been registered in accordance with the Waste Management Code.

The Waste Management Code states that, collection and transportation of the waste can be carried out by the private company as well as state-owned and municipal companies. At this stage, collection and transportation of municipal waste is the responsibility of the municipality. Waste collection services are mostly provided by public operators the 100% shares of which are owned by the state/municipality. According to the Strategy, in the future, it is essential to develop public-private partnership policy in this field and encourage private sector to be involve in waste collection and transportation activities.

## **c) Landfills;**

Under the Waste Management Code, landfills are divided into the following categories:

- a) landfill for hazardous waste;
- b) landfill for non-hazardous waste (including municipal waste);
- c) landfill for inert waste.

In total, about 60 official landfills are registered in Georgia and most of them are administrated by LTD “Solid Waste Management Company of Georgia” (except for Tbilisi and Batumi, where the management of the municipal waste is the responsibility of the relevant municipalities). LTD “Solid Waste Management Company of Georgia” is taking active measures to improve old landfills and arrange new landfills. The company has rehabilitated 30 municipal landfills and closed 21 from 2013 to 2017. During the last 3 years, the company has announced the tenders for the following goods/services: baths, reservoirs and containers, central heating radiators and boilers, special clothes, general and special machinery services, complete or partial construction works and civil construction works, oil, coal, engineering services, excavator and plastering machines and their (related) parts, excavator and scrap machines and their (related) parts, general and special machinery services, repair and maintenance of vehicles and related equipment, services in the field of ecology, transport equipment etc.

According to the company, the municipal landfills are still the backbone of the waste disposal system in Georgia. However, they aim to replace all former municipal landfills from the past over a period of about 10 years with a system of regional landfills and a network of connected transfer stations by 2025. Under the Strategy, new regional landfills will be constructed and consequently, most municipal landfills will be closed while some of them will be transformed into transfer stations.

It should also be noted, that there is no hazardous and inert (including construction) waste landfills in Georgia and only a small number of existing landfills have special cells for specific waste.

According to the Strategy, in order to reduce landfill waste, (1) biodegradable waste reduction strategies need to be developed and implemented and (2) the relevant technologies for waste recycling and energy recovery shall be implemented.

## **d) Prevention, Reuse, Recycling and Recovery;**

Waste prevention, reuse, recycling and recovery practices are poorly developed in Georgia. Due to the lack of financial incentive mechanisms, reuse of waste is limited and relates only to waste such as e.g. glass bottles. In terms of recycling facilities, most of them are only able to carry out limited number of recycling operations defined under the Waste Management Code. Most recycling facilities are designed for the materials such as paper, glass, plastic. In terms of waste energy recovery, there is no such plant in Georgia at all.

Prevention, reuse, recycling and recovery remains the key challenge to be achieved during the following years. According to the Strategy, for this purpose, establishing public-private partnerships is very important.

As mentioned above, starting from 1 February 2019, all municipalities are obliged to introduce a separate collection system of waste for the following waste: paper and cardboard, glass, plastic, metal. The mentioned legislative change will help to develop the recovery of such waste the reuse and/or recycling of which do not requires much effort. According to the Strategy, with respect to those waste, the recovery of which is difficult, it is essential to deeply develop the incineration and co-incineration methodology and for this purpose, it is important to establish energy recovery plants by 2025.

### **Upcoming legislation regarding waste management**

According to the publicly available sources, the Ministry has prepared draft of decrees defining obligations and technical requirements per specific waste (“Draft Decrees”), i.e. the Draft Decrees have been drawn up for:

- a) packaging;
- b) waste oil;
- c) tires;
- d) end-of-live vehicles;
- e) batteries and accumulators;
- f) electric and electronic equipment.

The Draft Decrees are yet to be published for public discussion, before the Government of Georgia adopts them. The following requirements are laid down in them:

- a) Targets** – The quantitative/percentage targets are set for 2021-2030 years, on general recovery and recycling, energy recovery, regeneration or separate collection.

The following targets are to be introduced with respect to:

- a) Packaging – general recycling targets for specific materials (paper, plastic, glass, metal, wood), also targets for deposit system recycling per specific material (plastic, glass, metal);
- b) Waste oil - targets for waste recovery and regeneration;
- c) Tires – targets for recovery, energy recovery and recycling;  
End-of-live vehicles – targets for waste recovery and recycling;
- d) Batteries and accumulators - targets for separate collection and waste recycling;
- e) Electric and electronic equipment – targets for separate collection, waste recovery and recycling.

- b) EPR obligations** – Under the Draft Decrees main obligations are imposed on producers.

The primary obligation of the Producers is to achieve targets set by the Draft Decrees. In certain cases, the Draft Decrees set additional obligations for Producers. For instance, with respect to out-of-live vehicles and electric and electronic equipment. The Draft Decrees lay down technical requirements of waste processing, as for packaging, define maximum amount of hazardous substances in packaging, regarding batteries and accumulators, rules for labeling and etc.

- c) EPR registry** – By 1 September 2020, all producers of the product that becomes specific waste, shall have been registered in the EPR registry, created and administrated by the Ministry. The Draft Decrees contain list of information that the Producers shall provide for registration, *inter alia*, the total amount of specific waste placed in previous year.

- d) EPR organization** – The producers shall create an organization that will be responsible for performing EPR obligations. Such organizations might be created individually by a single Producer or collectively. The Producer can be a member of one EPR organization. With respect to collective

EPR organizations, the Producers shall pay membership fee, that will be tied to the amount of Producer's waste and will cover organizations' expenses. Besides, a collective EPR organization shall establish a collection system, where the market share of the member Producers is at least 10% and not more than 50%.

An EPR organization, whether it is formed individually or collectively, shall have the form of nonprofit legal entity and shall be authorized by the Ministry. Authorization is valid for 6 years but might be prolonged if submitted the relevant motion to the Ministry. After obtaining authorization, an EPR organization shall prepare an annual waste management plan and submit it to the Ministry for approval. Such plan shall indicate detailed waste management actions, budget, costs, campaigns for spreading awareness among society etc.

- e) Financial guarantee** – In order to ensure that the Producers have enough financial capacity to manage their waste, they shall provide financial guarantee to the Ministry. A collective EPR organization provides the financial guarantee for its members. Financial guarantee might be in the form of: a) unconditional bank guarantee; b) financial risk insurance policy; c) State deposit; d) blocked bank account. If an EPR organization fails to perform its obligations, the Ministry is entitled to use financial guarantee.
- f) Municipal's obligations** – Municipals shall collaborate with EPR organizations to develop a separable waste collection system, inter alia, municipals shall create and operate waste collection points on their territories.
- g) Customer's obligations** – Under the Draft Decrees customers will have certain restriction on spreading specific waste in environment. Customers shall follow separable waste system (if it exists), or transfer specific waste to authorized entities, inter alia, EPR organizations, registered waste collectors, waste processors and etc.
- h) Distributors' obligations** – Draft Decrees set certain obligations for distributors, i.e for persons who provide access to the product on the market. Except for electric and electronic equipment, distributors of all other products that become specific waste, shall place the product on the market only if the Producer is registered in EPR registry and is a member of an EPR organization.

With respect to packaging and electric and electronic equipment, some distributors are obligated to allocate space for receiving and temporary disposal of returned waste.

- i) Deposit system** – Producers of non-alcoholic drinks, fizzy soft drinks, beer, energy drinks, mineral water shall join the deposit scheme. Deposit system applies to packaging of these drinks if package is made of: a) plastic; b) metal; c) glass. Producers of abovementioned products shall provide an EPR deposit organization with a deposit amount that is already included in the sales price of each product. Deposit amount is 0.2 GEL per unit. If a customer returns packaging to authorized persons, s/he will be reimbursed with the deposit amount.

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## Renewable energy

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Georgia is an attractive place for producing renewable energy. Apart from having more than 20 000 rivers across the country,<sup>6</sup> liberalized and deregulated market helps investors to independently Build-Own-Operate PPs. According to the information provided by the Ministry of Economy, 75 potential Hydrp PPs are to be built in Georgia.

Under the Georgian legislation, renewable energy means all non-fossil and sustainable energy sources which, among others, are generated by bio and hydro powers, geothermal, solar, wind and sea (including tidal, wave and thermal) energies.

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<sup>6</sup> Website of Invest in Georgia <<http://investingeorgia.org/en/>>

## Main Phases of Entity-Government relations

Entities willing to operate PPs/ Solar Installations in Georgia, among others, may cover these steps:

- **Find relevant place for the construction of PP;**
- **Negotiate with GoG/Ministry of Economy and conclude the Memorandum of Understanding (MoU)** - Generally, entities under MoU shall conduct feasibility study on the relevant territory. MoU covers entities' obligations and liabilities towards the Government and provides timetable in which obligations shall be fulfilled.
- **Conduct Feasibility Study** - Feasibility study is the study/report prepared by the investor confirming that the facility is technically, economically, financially and legally feasible..
- **Notification to the GoG** - after conducting the feasibility study, entities notify GoG on their intent to construct the PP. Such notification, among others, includes Company's resolution on confirmation, feasibility study, parameters of the potential PP, Conduct Environmental Impact Assessment if applicable;
- **Decision of the Ministry and GoG** - After the notification, Ministry of Economy and GoG in the timeframe designated under the MoU reviews and discusses the documents. GoG makes decision regarding the PP construction.
- **Conclude Guaranteed Power Purchase Agreement**- depending on the circumstances and conditions of MoU, **Electricity Market Operator (ESCO)** may conclude the Guaranteed Power Purchase Agreement with the entity.
- **Construction and operation of the PPs** - PPs shall be built and operated in compliance with the MoU and relevant legislation.

## Licenses for the operation in Energy Sector

Georgian National Energy and Water Supply Regulatory Commission (Comission) is authorized to grant following licenses:

- **Energy Generation License**- entitles individuals or legal entities to generate electricity and connect to the facilities of transmission or distribution networks for the purpose of supplying the electricity.
- **Energy Transmission License** - entitles legal entities to carry out transmission services through a transmission network.
- **Energy Dispatch License** - entitles legal entities to manage the electricity system of Georgia through central and regional dispatch services.
- **Energy Distribution License** - entitles individuals or legal entities to buy, operate, distribute and sell electricity.

## Construction Permit for PPs

Under Georgian legislation, buildings are divided into 5 classes. Construction permit is mandatory for II-V class buildings. As for the construction of 1<sup>st</sup> class building, only notification to the local self-government is required.

Construction/ installation of PPs are divided in the following classes:

Construction	Class
Solar and bio gas installation	I

Hydro PPs less 50 kW	I
Hydro PPs up to 10,000 kW	III
Hydro PPs between 10-50 MW	IV
Wind PPs	III
Geothermal PPs	III

### Environmental Impact Assessment

Environmental Impact Assessment (EIA) is a procedure for examination of potential impacts on the environment. EIA shall be obtained:

- For the construction and operation of thermal PPs and / or other combustion installations with 10 MW or more capacity;
- For the construction and operation of the Hydro PPs with 5 MW or more capacity;

EIA includes scoping, EIA report preparation, public participation, consultations with authorized administrative bodies, preparation of expert opinions based on the evaluation of the obtained results.

Screening is required for the following power generation installations/activities:

- Combustion plant for the production of electricity of 2 MW or more;
- Plant for the production of steam and hot water when the plant area exceeds 0.5 ha and output exceeds 50 MW;
- 5 km or more pipeline to carry gas, steam and hot water;
- Over-voltage and / or underground power transmission of 35 kV or more, substation of 110 kV or more;
- Installation and operation of above ground and / or underground storage of fossil fuels, liquids and / or natural gas of a volume of 100 m<sup>3</sup>;
- Briquetting of coal and / or lignite;
- Processing and / or storage of radioactive waste;
- Construction and operation of hydro PP from 2 MW to 5 MW;
- Unit for power generation by wind and / or sea.

As per the screening report, mentioned activities may require EIA.

### Deregulation

Under the Georgian legislation, PPs are deregulated or partially deregulated. Deregulation means granting to a generation licensee the right to operate without setting a tariff or granting to a small PP the right to operate without a license and without setting the tariff. Under Georgian legislation, PPs with a design capacity not exceeding 13 MW are considered as small PPs.

The partial deregulation means granting to a generation licensee the right to operate based on within the established tariff or granting to a small power plant the right to operate based on the established tariff without the license.

Under the law, following PPs are deregulated:

- PPs built after 1 August 2008 without power source guarantee;
- PPs with an energy capacity not exceeding 40 MW without power source guarantee;

Apart from these cases, PPs may be deregulated or partially deregulated based on the decision of the Ministry.

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### Green Construction

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According to the World Bank's 2020 Doing Business Ranking, Georgia is on 21<sup>st</sup> place in terms of "dealing with construction permits".

Major amendments to the construction legislation were introduced in May 2019. The amendments were introduced to the Code of Georgia on Spatial Planning, Architectural and Construction Activities.

The Construction Code includes an urban planning document defining land use zones (sub-zones) and/or specifics of individual planning units, architectural-planning and spatial-volume features of buildings, placement of buildings, their parameters; specifies management and organization of landscape, engineering and transport infrastructure.

In addition, the Construction Code requires from the self-governing units to divide urban territories into different functional zones and sub-zones. For each type of zone different requirements and dimensions of buildings, structures will be assigned. Therefore, the planned construction shall correspond to the zone/sub-zone requirements of the land plot. In case of Tbilisi, such zones are: landscape-recreational, forestry zone, agricultural, recreational, special, residential, transportation, public-business, industrial and sanitary.

To each of the zones and respective sub-zones specific greening coefficients (K-3 Coefficients) are assigned.

**Greening coefficient (K3)** – defines at least how much area shall be covered in green

Example: K3 for residential zone 2 in Tbilisi is 0.25. The space that shall be covered in green for the land plot of 1 000 m<sup>2</sup> will be 250 m<sup>2</sup>.

### Green City Concept in Tbilisi

Self-governing unit of Tbilisi – City Assembly – enacted Tbilisi Land Use Plan, which includes “green city” concept.

While practicing the conceptual approach of the Green City and incorporating it into the master plan of land use, the following key provisions were determined as essential:

- "River and city" (prioritizing recreational development on the banks of the river Mtkvari and emphasizing the cultural link between the city and the river Mtkvari);
- Opening and releasing small rivers and their beds;
- Development of unified green spaces and garden parks;
- Separation of areas not built and built by urban constraints;
- Prioritize recreational and green functions for reuse of Brownfields;
- Prioritize recreational and green functions for the planning development of the central multifunctional area of Tbilisi;
- Polycentric development.

The development of Tbilisi by its self-governing unit will be based on the above-stated concept and key provisions.

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## Sustainable Transport

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Georgia introduced mandatory technical inspection of vehicles from 1 January 2018, with the aim to have all vehicles inspected by the end of 2019.

One of the main parts of the technical inspection is control of emissions for the protection of environment. According to the Decree 510 issued by issued by GoG regulating technical inspections, a petrol-operated vehicle will not pass inspection if:

- Exhaust gas exceeds the levels established by the manufacturer;
- Levels of CO exceed 3.5% for the vehicles produced after 1985, or 4.5% for the vehicles produced before 1986;
- CO level exceeds 0.5% in idle engine or 0.3% in idle engine with at least 2000 RPM;
- Lambda ( $\lambda$ ) coefficient exceeds the range  $1 \pm 0.03$  or does not meet the requirements of the manufacturer;
- On-board diagnostics (OBD) shows significant malfunction;

Emissions for vehicles shall not exceed the level specified by the manufacturer, or, if this information is not available or if the requirements do not permit standard values, the maximum value of the absorption coefficient shall not exceed:

- For conventional diesel engines - 2.5 m-1,
- Turbocharged diesel engines - 3.0 m-1,

In addition, electric engine vehicles are exempt from import duty. Supply and/or importation of an electric bus (including an electric minibus) is exempt from VAT with the right to credit.

Excise tax rate for the left-hand drive hybrid vehicles, with the production period of no more than 6 years, is reduced by 60%.

Left-hand drive vehicles with electric engine and certain electric engine vehicles are exempt from excise tax without the right to credit.

Generally, Personal Income Tax (PIT) applies on in kind benefits provided to employees that inter-alia includes, the usage of employer's car by employee for personal purposes. In case of hybrid vehicles, the lowest PIT rate is levied, while the usage of electric vehicles exempted from PIT.

## Foreign Direct Investments Regulations

Investment under Georgian law is defined broadly and covers all movable, immovable or intangible property.

Georgia gives equal rights to local and foreign investors. Foreign investors are entitled to:

- Open bank accounts in any currency in Georgian banks;
- Obtain loans from banks in Georgia and abroad;
- Purchase property in Georgia (please, note exception for agricultural lands), shares, bonds and other securities;
- Convert profits (income) gained from investments and other monetary funds at the market rate and unlimitedly repatriate such income.
- Take property abroad;

In addition, investors are entitled to

- Request the issuance of any kind of license/permit (including a preliminary license/permit) through the state agency – Enterprise Georgia<sup>7</sup>;
- Request property acquisition and performance of all related procedures through the Enterprise Georgia;
- Request any information related to the issuance of a license/permit (including a preliminary license) to the investor, also information related to property acquisition and to investments.
- Enjoy legal safeguards provided by the legislation of Georgia.

### Investment relations between Georgia and Japan

Japan and Georgia have long-standing investment relations. According to the National Statistics Office<sup>8</sup> in 2019 Japan has made more than 30 mln. direct investment in Georgia. As of 2019 Bilateral Investment Treaty between Japan and Georgia is in the negotiation process.

<sup>7</sup> Please view the webpage: <https://www.investingorgia.org/en/>

<sup>8</sup> <https://www.geostat.ge/en/modules/categories/191/foreign-direct-investments>

On 15 March 2019, Georgia and Japanese Export and Investment Insurance Company- Nexi has concluded the agreement on Export and Investment Insurance. Agreement supports goods and service trade between Georgia and Japan, promotes investment, aids Japanese companies to maintain their international competitiveness by relevant programmes. Priority areas include entrepreneurship, tourism, technologies and energy sector.

# State Procurement System of Georgia

## Introduction

All state procurements (irrespective whether its goods or services) are done through Procurement Webpage operated by the

The Procurement Agency coordinates and monitors public procurement activities. Its functions are:

- Defining the policy of regulating the public procurement process;
- Development of public procurement legislation;
- Coordination and monitoring of public procurement activities;
- To respond appropriately to the facts of administrative violations revealed in the field of state procurement.

The following features are characteristic to the Georgian state procurement system:

- **Environmentally friendly procurement** – bidding documents for the tender participation are submitted electronically, and bidders are no longer required to submit printed originals and copies of bids. In addition, the winning bidder and the procuring entity even have a possibility to execute the agreement with electronic signature.
- **Remote participation** – Bidders can submit bids remotely from their offices, thereby substantially reducing the time and cost associated with transportation
- **Small fee for participation** – Procurement conducted in a conventional way requires paying a non-refundable fee for submission of bidding documents in amount of GEL 50 (circa USD 16-20), whereas in case of consolidated tender such fee is higher and amounts GEL 5000 (circa USD 1600-2000).
- **Transparency** – tender processes may be observed using the online platform in real time, download the copies of the tender documents, and obtain essential information regarding bids. No fees apply for the stated actions.
- **Reduced risk of collusion among bidders** – A bidder's identity remains confidential and is only disclosed after the bid opening.<sup>9</sup>

In order to be able to participate in tender the participant needs to register on the Procurement Webpage. However, information on the existing tenders is available even for non-registered users.

Criteria for the participants are determined by procuring entity for each individual procurement. Sole requirement in this regard is that such criteria to be proportionate and not discriminatory towards bidders.

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<sup>9</sup> <https://www.worldbank.org/en/news/feature/2015/02/18/georgia-an-e-procurement-success>

Bidding documents may be submitted in Georgia and any foreign language. In case the bidding document is in foreign language, the bidder will attach notarized translation into Georgian.

### Types of Tenders

Under the law the following types of procurement are possible: design contests, electronic tenders and consolidated tenders.

**Design Contests (CNT)** – are only used by procuring entities when design services are purchased. In this case the procuring entity uses incomputable evaluation criteria for determination of the best bidder. The “two envelopes principle” is applied in this case: firstly, the procuring entity reviews the technical documents (without the bid price) and afterwards the price (placed in the second envelope) is taken into consideration only after the assessment of the technical documentation is completed and quality of the submitted bid is determined.

**Electronic Tenders** – may be used for any kind of purchase. By electronic tenders the procuring entities use quantitative and objective criteria for assessment of the best bidder. Tender is conducted by the committee, consisting of minimum three persons, who determines the winner. Following forms of electronic tenders may be used:

- **Reverse auction (abbreviation SPA)** – implies submission of the new prices, revised downwards. In compliance with the Legislation of State Procurement, awarding contract is obligatory with the bidder which meets all the requirements of procuring entity and participates in tender with the lowest price;
- **Electronic tender without reverse auction (abbreviation NAT)** - is an open procedure without bidding rounds. Similar to SPA tender, bidder who meets all the requirements envisaged by the tender documentation and submits the lowest price will be determined as winner. The system automatically generates the ranks of the bidders and makes visible the identity and the proposal of the bidder which is the best among all participants. The identity of the next bidder becomes visible just in case of disqualification of the previous bidder.
- **Different acquisition procedures on construction works (abbreviation DEP)** - the main characteristics is that procuring entity evaluates all the submitted proposals in spite of bidders ranking;
- **Two-stage tender (abbreviation MEP)** is similar to the NAT tender, though the difference is that the ranks (order) of bidders depends not only on submitted prices, but also on other quantitative criteria defined by the procuring entity and their relative weights. Should be mentioned that in this case the automatic ranking system is used as well – the system automatically defines bidders ranks based on the self-declared values indicated in the electronic system during submission of the bids.

**Consolidated tenders:** Are used in case the goods/services of identical nature are purchased for different procuring entities. In this case the Government of Georgia makes the decision to conduct consolidated tender, whereas the State Procurement Agency conducts the tender itself.

### Annual Procurement Plan

Each of the state authorities submit to the State Procurement Agency the annual plan for next year purchases until 20 November each year.<sup>10</sup> The annual procurement plan is made available on the Procurement Webpage under ePLAN field.

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<sup>10</sup> At the date of the present guide preparation none of the stakeholder public bodies have submitted the annual procurement plan.

# Investment Opportunities in Georgia

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## Tbilisi – Green City

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GCAP<sup>11</sup> document has been developed by EBRD based on work by the OECD and the International Council for Local Environmental Initiatives (ICLEI). The GCAP presents defines the long-term Green City vision – within a timeframe of 10-15 years.

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## Transport

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According to the GCAP, around 90% of air pollution in the City comes from Transport. Tbilisi transport system is a combination of the following elements:

- Road vehicle fleet (buses, minibuses, light and heavy-duty vehicles, private cars);
- Transport infrastructure (roads, metro, cable railways, bicycle paths, walking areas);
- Transport management/organization (including parking policy);
- Passenger expectations and experience.

At this stage, most of the buses in Georgia are diesel fueled buses and Tbilisi Municipality started replacing these buses by new vehicles which use CNG. Tbilisi City Hall intends to reduce the number of minibuses as well and to replace them with new buses.

According to Tbilisi City Hall, their approach will focus on improving the efficiency, safety and comfort of the public transport system and in the longer term, would also like to introduce trams, to extend the Metro and cable railway, and to promote electric vehicles.

Electric vehicles are becoming more and more popular in Georgia. However, the lack of electric car chargers creates a big problem. Therefore, it is very important to install the chargers on the streets.

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## Construction

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To support the adoption of energy efficiency measures in Georgia's buildings a National Energy Efficiency Action Plan was developed, which introduces new standards for energy efficiency in buildings (for renovation and new construction), energy performance labelling and introduction of energy management practices including benchmarking.

According to the Tbilisi City Hall, they will encourage improvements in the energy efficiency of the residential sector, including both equipment (e.g. boilers, lighting, appliances) and thermal properties of the buildings and will promote the use of small-scale renewable energy systems (especially solar PV).

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## Energy

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According to the GCAP, there is significant potential for increasing renewable energy generation for both electricity and heat in Tbilisi. The city has the potential to absorb more solar (PV and thermal), biogas / biomass (biomass derived from forest management) and geothermal resources. Tbilisi has the potential to use renewable energy in the transport, buildings and industry sectors.

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11 <http://www.tbilisi.gov.ge/page/green-city?lang=en>

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## Water

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According to the GCAP, Tbilisi has high levels of leakage from the water distribution system, mainly because of its age and lack of maintenance in the past. The main purposes of Tbilisi City Hall are the followings:

- improvements to the municipal water supply system and treatment network;
- reduce surface water run-off and improve surface water quality;

Under the GCAP, by 2025, all central waste water treatment plants shall be modernized, and the existing sewerage system shall be extended.

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## Solid Waste

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Waste collection and management in Tbilisi is under direct control of the Tbilservice Group – a stated-owned company.

The majority of the waste generated is disposed of at the Tbilisi landfill, the next priority is to use the waste for material or energy recovery. Tbilisi City Hall also intends to utilize the landfill gas for electricity generation, which is the next logical step in this sector project.

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## Real Estate

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According to GCAP, the shortage of green spaces and recreational areas within the territory of Tbilisi is one of the top priorities for improving the environment. The green cover is often lacking in the urban areas of Tbilisi.

GCAP states, that the following are the main priorities in real estate sector:

- Development of new public parks and gardens and improvement of existing urban green spaces;
- Development of computer Based System for land use in the Tbilisi;
- Improvement and protection of local flora and fauna in urban and suburban areas along the Mtkvari River - introduction of “Green Corridors”, natural embankments that can provide nesting zones with natural slopes for many species;
- New reforested areas on Tbilisi Hills and surrounding areas to provide windbreaks and alleviate soil erosion, landslides and torrential floods;

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## Tbilisi– other sectors

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According to the Tbilisi City Hall<sup>12</sup>, the key sectors to invest are the following:

- Tourism;
- Hospitality;
- Transport and Communicating;
- Financial Sector;
- Construction;
- Real Estate;
- Energy Sector;
- Entertainment;

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<sup>12</sup> [http://www.tbilisi.gov.ge/img/original/2019/6/19/Invest\\_in\\_Tbilisi\\_ENG\\_PDF\\_\(1\).pdf](http://www.tbilisi.gov.ge/img/original/2019/6/19/Invest_in_Tbilisi_ENG_PDF_(1).pdf)

- Food and Restaurants.

The main investment projects of Tbilisi City Municipality are the following:

- Underground parking lots near Gegeshidze park, Varketili station and Tbilisi central station.
- Radio City - the project envisages re-development of former radio factory with predominately leisure facilities combining F&B, retail, hotel, recreation, education and sport.
- Multifunctional working/ exhibition/ art/ creative space adjacent to Vazha-Phavela avenue;
- Development of touristic sightseeing and restaurant facility on Tbilisi TV Tower;
- Tbilisi resort theme park - a theme park is a type of amusement park that bases its structures and attractions around a central theme, often featuring multiple areas with different themes.
- In 2020 the new park "Dighomi Chalebi" shall be opened construction of which soon will be completed.

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## Communications, information and modern technologies

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According to the Ministry of Economy and Sustainable Development, the following projects are currently in the process of implementation in Georgia:

- Fiber-Optic Cable Infrastructure between Europe and Asia - strategic geographical location enables Georgia to become one of the important hubs in Europe and Asia. In this regard, the Ministry of Economy implements targeted negotiations with foreign telecommunications administrations, whose networks cover the areas of Europe and Asia, to be interested in entering Georgia and access to the global resources of the service delivery point as well as establishing the Data Centers.
- Harmonization of Digital Markets in the Eastern Partnership countries (HDM) - since 2014 the project "Harmonization of Digital Markets (HDM)" is ongoing the aim of which is to support the process of harmonization of digital markets between the EU and Eastern Partnership countries, development of digital economy and society through joint projects, harmonization and integration of legislative, administrative and technological systems of national ICT policy.

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## Mountain Development

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Georgia has a new mountain development strategy for 2019-2023 which aims to develop following:

- Utilities, telecommunication services, energy – one of the priorities in mountain development strategy is to supply electricity, natural gas, drinking water, sewage systems and waste management services in high terrain regions;
- Early warning system – it is planned to install an early warning system of disasters to safeguard from those caused by the climate change;
- Farming –Investment programs will be developed to cater to the needs of mountain enterprises and farming estates. In this sector, the involvement of small, medium to micro businesses;
- Roads - reparation of existing roads will be continued and at the same time new roads will be built in Georgia's highlands;
- Cultural heritage - restoration of cultural heritage in mountains;
- Healthcare.

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## Eco Loans

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Certain Georgian banks have implemented Eco Loans, which are designed to help businesses to improve energy efficiency, increase competitiveness and reduce negative impact on the environment.

Eco loans can be used for the following purposes:

- Production processes – replacing old machines or equipment or purchasing additional machines or equipment;
- Waste management – separation of waste, recycling (paper, plastic, glass) prevention of waste, etc.;
- Building envelope – applying thermal insulation to external walls/ceilings/floors and installing double-/triple-glazed windows or doors;
- Electrical equipment – purchasing high-efficiency electric motors, new lighting systems, etc.
- Renewable energy sources – installing solar water heating systems (flat collectors, vacuum tube collectors), ground heat pumps or biomass boilers (wood, pellet, etc.).
- Heating or cooling – installing new central heating/cooling systems, boilers, air conditioners, etc.

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