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Market Assessment and Policy Analysis of the Eco-innovation Landscape in Georgia

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List of acronyms and abbreviations

AA	Association Agreement
BAT	Best available techniques
CBD	Convention on Biological Diversity
CLP	Classification, labelling and packaging
DCFTA	Deep and Comprehensive Free Trade Area
EaP	Eastern Partnership
EIA	Environmental impact assessment
ELD	Environmental damage
ELV	Emission limit values
EU	European Union
EUROBATS	Agreement on the Conservation of Populations of European Bats
GDP	Gross domestic product
GEL	Georgian lari
GHG	Greenhouse gas
GITA	Georgia's Innovation and Technology Agency
GMO	Genetically modified organisms
ILO	International Labour Organization
IPPC	Integrated pollution prevention and control
MARPOL	International Convention for the Prevention of Pollution from Ships
MEA	Multilateral Environmental Agreements
NACE	Nomenclature of Economic Activities
NBA	National Baseline Assessment
NBSAP	National Biodiversity Strategy and Action Plan
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
RBC	Responsible Business Conduct
SAICM	Strategic Approach to International Chemicals Management
SDG	Sustainable Development Goals
SEA	Strategic environmental assessment
SME	Small- and medium-sized enterprises
UNCCD	United Nations Convention to Combat Desertification
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNGP	United Nations Guiding Principles on Business and Human Rights
VOC	Volatile organic compound

Executive summary

Small- and medium-sized enterprises (SMEs) play a crucial role in the economies of the European Union (EU)'s Eastern Partnership (EaP) countries. Their collective environmental footprint often exceeds that of large enterprises. To mitigate their socio-environmental impact and improve their competitiveness and resilience to risk, the United Nations Environment Programme (UNEP) and the EU have been supporting SMEs worldwide in the development and implementation of "eco-innovation". Eco-innovation is a business model that incorporates consideration of sustainability and product life cycle into business operations, in this case the operations of SMEs and value chain partners. It involves a coordinated set of modifications to or novel solutions for products (goods or services), processes, the market approach and the overall organizational structure of an enterprise. As part of the EU-funded EU4Environment programme, UNEP, the EU, the Environmental Information and Education Centre (under the Ministry of Environmental Protection and Agriculture of Georgia) and Global Compact Network Georgia carried out a market assessment and policy instrument analysis of the eco-innovation landscape in Georgia to identify the priority sectors for further engagement with SMEs in Georgia. Based on the findings of the present report, UNEP, the EU, and Global Compact Network Georgia will further engage Georgian SMEs and assist them to develop new business strategies or models that are aligned with the eco-innovation approach.

Key findings of the market assessment

A variety of sectors crucial to the Georgian economy were analysed in terms of their greenhouse gas (GHG) emissions, use of water resources, contribution to the country's gross domestic product (GDP), number of SMEs, levels of competition, growth potential and export rates, as well as any government support mechanisms in place.

Based on the analysis of different public documents and reports, as well as statistics from national governmental institutions, the following two sectors were identified as most suitable for introducing eco-innovation measures in SMEs in Georgia.

Agriculture: The agriculture sector has a significant impact on almost all the aspects analysed. It has considerable potential for eco-innovative projects and approaches on GHG emissions and use of water resources. The sector also enjoys considerable support from government grant programmes, which can further support SMEs' eco-innovative transformation processes. Moreover, export figures show that agricultural products such as wine and nuts represent a significant portion of Georgia's overall exports and are required to comply with EU sustainability standards.

Hospitality: The hospitality sector (referred to as "accommodation and food services" in government documents) mainly consists of the tourism industry and is considered the "best prospect" by the Government of Georgia. Tourism accounted for 7.5 per cent of GDP growth in 2018–2019 and Georgia received a record number of 9.3 million international visitors (tourists, transit visitors and other visitors) in 2019, a 7 per cent increase over 2018.¹ In addition to making significant contributions to GDP and employment, the hospitality sector is also characterized by high growth and competition. Considering that most of the sector's entities are SMEs, the hospitality (accommodation and food) sector was identified as a priority industry for further promotion of eco-innovation business strategies in Georgia.

Findings of the policy analysis

The analysis of the national policy framework in Georgia focuses on the sectors identified by the market assessment (agriculture and hospitality), and also discusses major recent developments in labour law.

Legal mechanisms that promote corporate sustainability in Georgia mainly derive from the EU-Georgia Association Agreement (AA). National strategies and action plans to encourage responsible business conduct (RBC) were adopted by the Government of Georgia, more specifically by the Human Rights Council of the Administration of the Government of Georgia, the Ministry of Economy and Sustainable Development and the National Bank of Georgia. However, the implementation of such policies remains a challenge.

Georgia boasts a rather diverse legal framework and instruments on environmental protection, which are aligned with various international conventions. In recent years, the number of regulatory developments that directly affect the hospitality and agriculture sectors (including, for example, waste management, extended producer responsibility and energy efficiency) has risen considerably. Although these regulations are in place, implementing them remains a challenge, due to a lack of knowledge and resources among target groups, as well as poor infrastructure.

Laws related to environmental governance, natural resource management, air pollution, waste management and biodiversity protection were examined in the report. The innovation framework is also a key component of the eco-innovation approach and has been reviewed accordingly. One of the main support mechanisms to assist technology-based business start-ups is the small grants programme, courtesy of Georgia's Innovation and Technology Agency (GITA), which finances innovative projects.

There are several national programmes, grants and low interest loans that support the tourism/hospitality and agriculture sectors and many innovative start-ups in this field. These programmes are run by the Ministry of Economy and Sustainable Development and the Ministry of Environmental Protection and Agriculture of Georgia, frequently in cooperation with financial institutions. There is a clear opportunity for these programmes to further support and incentivize SMEs to incorporate sustainable approaches in their products and services.

Part I: Market analysis

Introduction

Georgia is a mountainous country with an area of 69,700 km², located in the south-east of Europe, to the south of the Greater Caucasus mountain range. In fact, 54 per cent of its territory is located at least 1,000 metres above sea-level. It has a varied landscape, comprising mountains, plateaus, lowland, glaciers, swamps, arid territories, lakes and rivers. As regards land use, 15.8 per cent is cropland², 70.6 per cent is covered by forests, shrubs, and grasslands, and 13.6 per cent is used for agricultural activities.³

Georgia is rich in natural resources, particularly water and forests. Its territory contains deposits of mineral resources, including manganese, iron, copper, gold, marble, and coal ores, as well as smaller pools of oil and gas. Georgia's vegetation cover is very rich and diverse. It is home to about 100 species of mammals, more than 330 species of birds, about 48 reptiles, 11 amphibians and 160 species of fish.

As of 1 January 2019, Georgia's population is 3.72 million. Fifty-nine per cent of the population lives in urban areas, and over 30 per cent in the capital, Tbilisi. Forty-eight per cent of the population is male and 52 per cent is female.

Georgia is an economy in transition. Following the collapse of the Soviet Union in the 1990s, the country went through numerous structural changes. Industrial and agricultural activity decreased, and Georgia's economy pivoted towards services, tourism, banking and construction. Significant reforms began after 2003, when several macroeconomic parameters had improved. This was largely the result of anti-corruption and privatization measures as well as tax reforms that created a more favourable environment for investment, and in turn, greater economic growth.

In 2014, Georgia and the EU signed an Association Agreement (AA), a constituent part of which is the Deep and Comprehensive Free Trade Area (DCFTA). This continues to drive the harmonization of Georgia's laws with EU legislation. Georgia also has one of the most liberal foreign trade policies, which includes simplified foreign trade and customs procedures, relatively low import tariffs and minimum non-tariff regulation.

Eco-innovation is one of the key enabling instruments identified by the EU for the transition to a more resource-efficient economy. It can help small- and medium-sized enterprises (SMEs) to reduce inputs, recover materials, minimize waste and extend their product or service life cycle.

It is a strategic business approach aiming to embed sustainability into the enterprises' DNA by promoting the adoption of sustainable practices among all stakeholders along its value chain, operating at the company strategy level. This approach promotes systemic innovation based on the holistic life cycle approach, including products (goods or services), processes, the market approach and the organizational structure, enhancing the enterprises' performance with its resulting positive sustainability impacts and increased competitiveness.

This report aims to assess the eco-innovation potential of various sectors in Georgia. For this purpose, the sectors that are included in national statistics, reports and data have been evaluated. The evaluation has been carried out based on the criteria outlined in UNEP's "Eco-i Manual"⁴.

2. Croplands are a sub-category of agricultural activity, but according to Georgia's National Climate Report, they are classified separately.

3. Fourth National Communication of Georgia Under the United Nations Framework Convention on Climate Change, Tbilisi, 2020.

4. See <http://unep.ecoinnovation.org/>

Methodology

The “Market Analysis” section of this report was prepared in accordance with the methodology outlined in “Phase 1 – Preparation” of UNEP’s “Eco-i Manual”.⁵ More specifically, this includes (a) sector-level and (b) market-level analysis.

The goal of the present document is to identify sectors of the Georgian economy which have the highest eco-innovation potential.

These sectors will be identified using the following criteria, derived from UNEP’s “Eco-i Manual”:⁶

- To what extent does the sector contribute to GHG emissions and climate change?
- To what extent does the sector contribute to global/national consumption of non-renewable resources and potable water (taking into account the full lifecycle of the product or service delivered by the sector)?
- How important is the sector for the national economy? How strong is the growth of this market?
- How strong is the competition in this market?
- To what extent is government policy encouraging and supporting improved socio-environmental sustainability of the sector?
- Is this sector/market affected by new or forthcoming legislation?



Based on the above-mentioned criteria, **Part I** of this report uses a simple scoring system to determine which sectors of the Georgian economy merit interventions to promote eco-innovation. **Part II** of the report reviews existing policy frameworks related to these sectors to offer recommendations for further policy measures to promote eco-innovation and overall sustainability in these sectors.

5. See United Nations Environment Programme Economy Division & Technical University of Denmark (2017). Eco-i Manual. Eco-innovation implementation process, 30–33. <http://unep.ecoinnovation.org/>.

6. Ibid., 30–31.

The report focuses on small- and medium-sized enterprises (SMEs) and their readiness to implement eco-innovation approaches. SMEs play a significant role in the Georgian economy. They contributed 44.5 per cent of the total turnover of the business sector in 2019. In many key sectors, including but not limited to agriculture, manufacturing, construction, and accommodation and food services, their share of the total turnover exceeds that of large enterprises. Furthermore, SMEs' share of the total output for 2019 was 58.4 per cent, while that of large enterprises was 41.6 per cent. SMEs' share of value-added that same year was 59.3 per cent, while large enterprises contributed 40.7 per cent. Intermediate consumption also increased in 2019, with SMEs having a consumption rate of 57.5 per cent, and large enterprises 42.5 per cent. SMEs are also a significant source of employment – 65 per cent of the active working population in Georgia are employed by SMEs, compared with the 35 per cent employed by large enterprises⁷.

Reports and publications of the National Statistics Office of Georgia (GeoStat) and of other relevant governmental agencies were analysed. The industries and sectors were selected based on the official list of economic activities in Georgia, as defined by the Statistical Classification of Economic Activities in the European Community (NACE).

Under this classification system, there are some sectoral terms which require further clarification.

- 1. Agriculture, forestry and fishing:** This sector includes crop and animal production, hunting and related service activities, forestry and logging, fishing and aquaculture.
- 2. Accommodation and food service activities:** This sector includes accommodation services such as hotels and hostels, and food and drink services such as restaurants, fast food outlets, cafés, and catering services.
- 3. Manufacturing:** This sector includes the manufacture of food products, tobacco products, textiles, clothing (apparel), leather and leather products, paper and paper products, and wood and wood products except for furniture, as well as manufacturing of chemicals and chemical products.
- 4. Wholesale and retail trade:** This sector includes the sale, maintenance and repair of motor vehicles and motorcycles, and the sale of motor vehicle parts and accessories. It also includes the wholesale and retail trade of products other than motor vehicles, motorcycles and their accessories.
- 5. Transporting and storage:** This sector includes land transport and transport via pipelines, water transport, air transport, warehousing and support activities for transportation, and postal and courier activities.
- 6. Arts, entertainment and recreation:** This sector has high turnover and includes gambling activities.

This report also examines the gender aspects of the selected SME economic activities.

Most data for the year 2020 had not been published at the time of drafting of the present report and therefore could not be analysed or included in the study.

7. See <https://www.geostat.ge/en/single-archive/3348#>

Sectoral overview

A. Greenhouse gas emissions

Georgia entered the United Nations Framework Convention on Climate Change (UNFCCC) in 1994 and the country's Parliament ratified the Kyoto Protocol in 1999. The Ministry of Environmental Protection and Agriculture of Georgia prepared a GHG National Inventory Report for the period 1990–2015. Georgia also continues to submit biennial reports under the UNFCCC. Based on these reports, there are four sectors of the Georgian economy that are major contributors to its overall GHG emissions. These sectors are:

ENERGY	AGRICULTURE	INDUSTRY	WASTE
			

Understandably, the largest contributor is the energy sector⁸ producing 10,876 Gg CO₂ equivalent (eq) in 2017. The agriculture, industry⁹ and waste sectors are the next most significant contributors, producing 3,488, 1,990 and 1,562 Gg CO₂ eq, respectively. Other sectors are not included in the UNFCCC inventory report.

Table I.1 below depicts Georgia's GHG emissions by sector from 2011 to 2017.¹⁰ Within this period, energy production contributed more to the country's overall GHG emissions than the rest of the sectors combined.

TABLE I.1. Georgia's greenhouse gas emissions by sector (2011–2017)

Sector	2011	2012	2013	2014	2015	2016	2017
Energy	9,758	10,443	9,034	9,665	10,872	11,355	10,726
Industry	1,794	1,872	1,892	2,035	2,058	1,822	1,990
Agriculture	2,649	2,859	3,186	3,201	3,271	3,798	3,488
Waste	1,362	1,375	1,375	1,377	1,388	1,559	1,562

1. The energy sector includes energy production and transmission, energy consumption by the agriculture and industry sectors, also, emissions from buildings.

2. The industry sector mainly includes the production of minerals, chemical processes and metal processes.

3. Ministry of Environmental Protection and Agriculture (2019). Georgia's Greenhouse Gas Inventory 1990-2015. National Inventory Report under the United Nations Framework Convention on Climate Change. Ministry of Environmental Protection and Agriculture. See also: i) Ministry of Environmental Protection and Agriculture (2021). National Greenhouse Gas Inventory Report of Georgia 1990-2017. Ministry of Environmental Protection and Agriculture; ii) Ministry of Environmental Protection and Agriculture (2019). Georgia's Second Biennial Update Report under the United Nations Framework Convention on Climate Change. Ministry of Environmental Protection and Agriculture; iii) Ministry of Environmental Protection and Agriculture (2021). Fourth National Communication of Georgia under the United Nations Framework Convention on Climate Change. Ministry of Environmental Protection and Agriculture.

Given its high contribution to the economy's GHG emissions, energy production is an obvious candidate for eco-innovation. Georgia's industry, agriculture and waste sectors can be scored as moderate contributors, according to the following ranking system:

Major contributors (more than 10,000 Gg CO₂ eq) – 2 points

- Energy sector

Moderate contributors (1,000–10,000 Gg CO₂ eq million tonnes) – 1 point

- Industry sector
- Agriculture sector
- Waste sector

Contribution is negligible – 0 points

- All other sectors

B. Use of water resources

The Ministry of Environmental Protection and Agriculture of Georgia prepares regular reports on the use of water resources in Georgia. Table I.2 illustrates water consumption by sector¹¹.

TABLE I.2. Water consumption in Georgia, by sector (2016)¹²

Sector	Abstracted water (million cubic metres)
Agriculture	1,285.02
Fisheries	12.96
Food production	1.43
Oil production	0.3
Chemical production	3.91
Production of construction materials	6.78
Metal production	2.12
Other industrial sectors	6.78
Power generation (hydro power plants)	34,739.9
Drinking water supply	939.55
Other sectors	6.22

11. The names of the sectors differ from those used in the EU's NACE, but for the purpose of this report, these sectors can be analysed and assessed based on the national classification system.

12. Water Resources Management Division, Ministry of Environment and Natural Resources Protection (2017). Report on Use of Water Resources. Main parameters for 2016. Ministry of Environment and Natural Resources Protection. Georgian version of the document is available at <http://www.eiec.gov.ge/%E1%83%97%E1%83%94%E1%83%9B%E1%83%94%E1%83%91%E1%83%98/Water/Monacemebi/Statistika/%E1%83%AC%E1%83%A7%E1%83%90%E1%83%9A%E1%83%98-%E1%83%A1%E1%83%A2%E1%83%90%E1%83%A2%E1%83%98%E1%83%A1%E1%83%A2%E1%83%98%E1%83%99%E1%83%90-2016.aspx>

The data show that the energy sector is the largest consumer of water. The main consumers of water are the hydro power plants, which are considered a renewable energy source. Therefore, the energy sector should not be considered the main contributor to water depletion in Georgia.

The next most prolific consumer of water resources is agriculture, followed by fisheries. This trend is expected to grow as the Government of Georgia has declared the promotion of agricultural output a priority for years to come, which is reflected in the Agriculture and Rural Development Strategy of Georgia (2021–2027).

To what extent does the sector contribute to global/national consumption of non-renewable resources and potable water (taking into account the full lifecycle of the product or service delivered by the sector)?

Major contributor (more than 10 million abstracted cubic metres per year) – 2 points

- Agriculture
- Fisheries

Minor contributor (5–10 million abstracted cubic metres per year) – 1 point

- Industry
- Construction

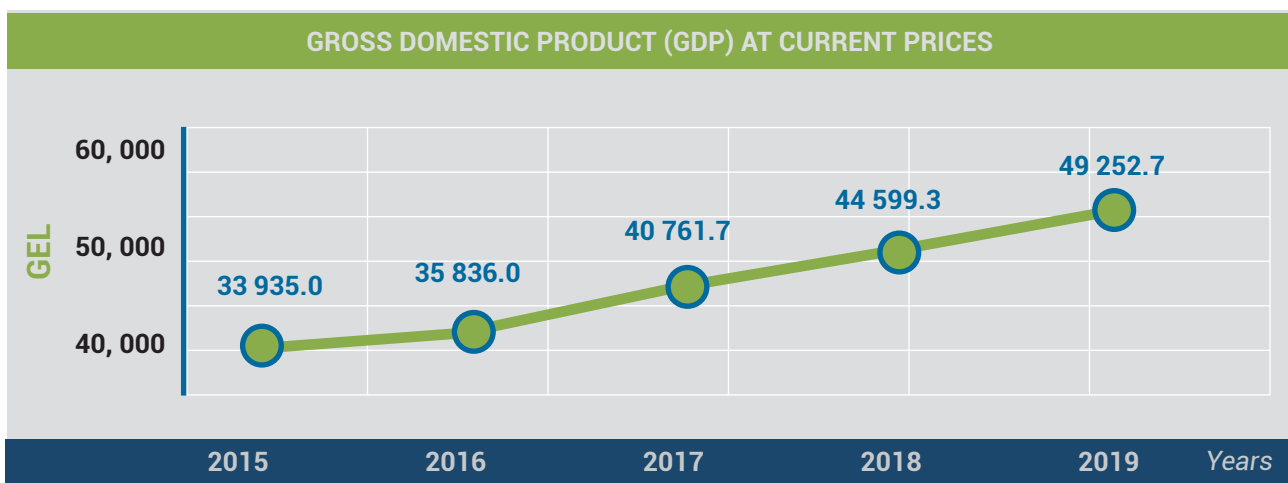
Contribution is negligible (less than 5 million of abstracted cubic metres per year) – 0 points

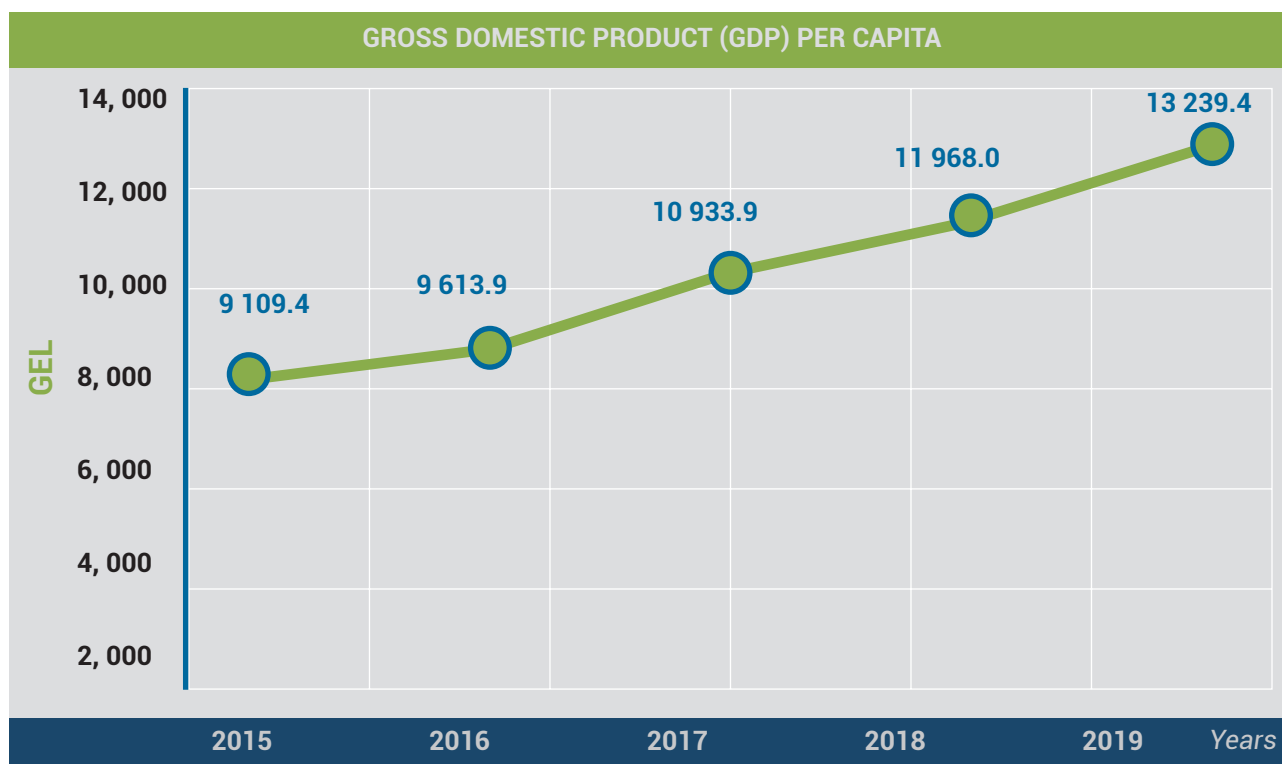
- All other sectors

C. Contribution to gross domestic product

Georgia's gross domestic product (GDP) was 49,252.7 million Georgian lari (GEL) in 2019, compared with GEL 33,935.0 million in 2015. GDP per capita was GEL 13,239.4 in 2019, compared with GEL 9,109.4 in 2015. Figure I.1 shows the development of GDP in Georgia in the years 2015–2019.

Figure I.1. Gross domestic product (GDP) growth in Georgia (2015–2019)





The sectors that contribute the most (more than 10 per cent) to Georgia's GDP are:

- Wholesale and retail trade; repair of motor vehicles and motorcycles – 14.3 per cent
- Real estate activities – 11.5 per cent
- Manufacturing – 10.1 per cent.

The sectors that contribute 5–10 per cent of Georgia's GDP are:

- Construction – 8.5 per cent
- Agriculture, forestry and fishing – 7.4 per cent
- Public administration and defence; compulsory social security – 6.9 per cent
- Transporting and storage – 6.6 per cent
- Accommodation and food service activities – 5.2 per cent
- Financial and insurance activities – 5.1 per cent.

The sectors that contribute less than 5 per cent of Georgia's GDP are presented in the annex of this report

Sectors with the highest employment rate

Three sectors employ over 10 per cent of Georgia's active working population:

- Construction – 27.7 per cent
- Wholesale and retail trade; repair of motor vehicles and motorcycles – 27.7 per cent
- Manufacturing – 12.1 per cent.

Three more sectors employ between 5 and 10 per cent of Georgia's active working population:

- Human health and social work activities – 9.9 per cent
- Transporting and storage – 8.1 per cent
- Accommodation and food service activities – 6.4 per cent.

According to information provided by the Ministry of Environmental Protection and Agriculture, total employment in the agriculture sector was 38.9 per cent in 2018. Furthermore, World Bank and International Labour Organization data show that employment in agriculture was 38.1 per cent in 2019¹³. The agriculture sector consists of activities in agriculture, hunting, forestry and fishing.

How important is the sector for the national economy?

High importance, contributes over 10 per cent of GDP or employs over 10 per cent of workforce – 2 points

- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Real estate activities
- Manufacturing
- Construction
- Agriculture, forestry and fishing

Medium importance, contributes over 5 per cent of GDP or employs over 5 per cent of workforce – 1 point

- Transporting and storage
- Accommodation and food service activities
- Financial and insurance activities
- Human health and social work activities
- Public administration and defence; compulsory social security

Low importance, contributes less than 5 per cent of GDP and employs less than 5 per cent of workforce – 0 points

- All other sectors

D. Competition

As of the end of 2019, there were 723,067 officially registered enterprises in Georgia. The activities of only 321,794 business entities are identified as “known”.

The highest level of competition within the registered enterprises is in the wholesale and retail trade; repair of motor vehicles and motorcycles sector. Forty-nine per cent of known activities are filed under this sector.

The sectors in which the level of competition is high (more than 5 per cent of registered enterprises) are:

- Manufacturing – 10.8 per cent
- Transporting and storage – 6.7 per cent
- Construction – 6.5 per cent
- Accommodation and food service activities – 5.7 per cent.

13. See:

<https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?end=2019&locations=GE&start=2010&view=chart>

For the sake of this report, it is important to highlight the level of participation of SMEs in the competitive sectors. This will be measured considering the number of employed people according to business sector size¹⁴.

TABLE I.3. Sector employment rate by size of enterprise

Sector	Large	Medium	Small
Wholesale and retail trade; repair of motor vehicles and motorcycles	29.6%	15.4%	55.0%
Manufacturing	37.3%	25.5%	37.2%
Transporting and storage	49.3%	9.7%	41.0%
Construction	20.5%	31.5%	47.9%
Accommodation and food service activities	19.1%	20.7%	60.2%

Table I.3 shows that the wholesale and retail trade; repair of motor vehicles and motorcycles sector, which has the highest competition rate, also ranks high among small- and medium-size employment and turnover.

As for the manufacturing sector, almost all manufacturing processes in Georgia are included in this category, e.g, production of textile, furniture, pharmacy, paper production, food products, clothes, etc.

The transporting and storage sector has high competition and employment rates, but as described below, this sector includes State-owned entities, such as the postal and railway sectors.

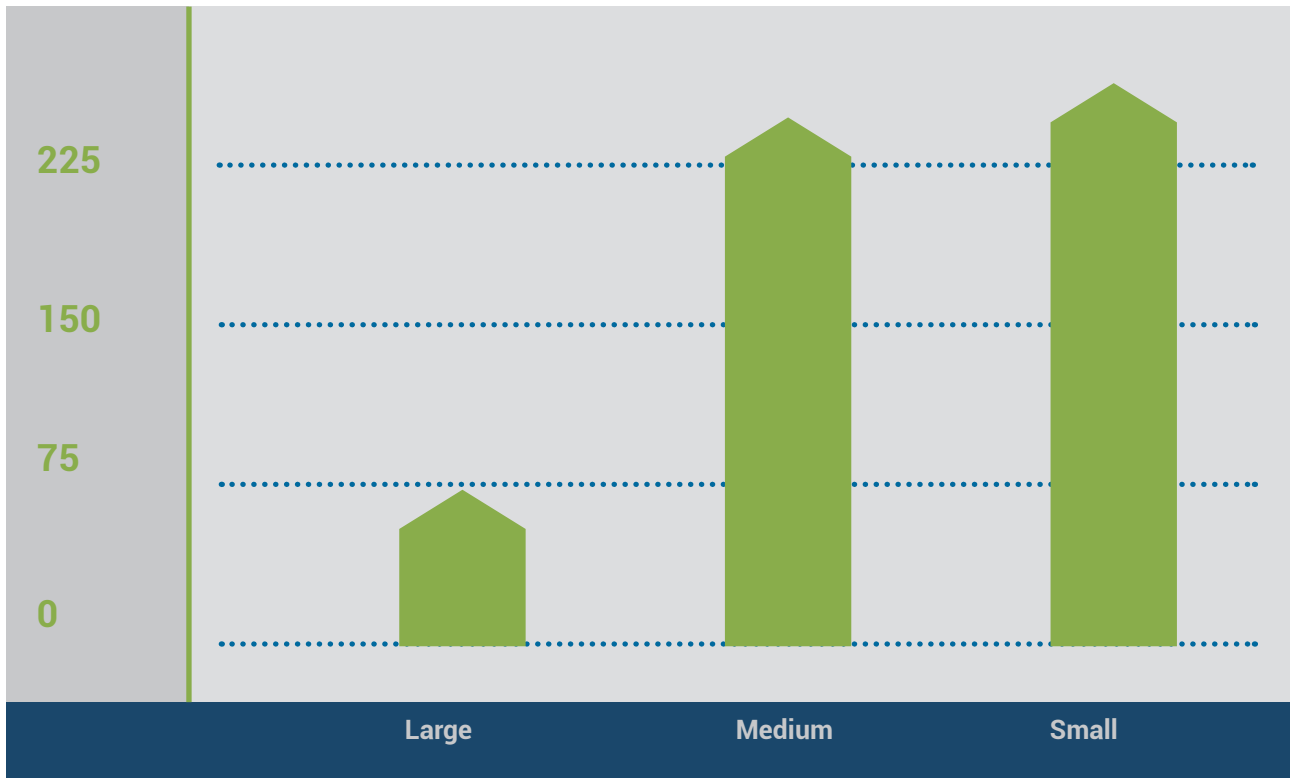
TABLE I.4. Sector turnover in 2019 by size of enterprise (in million GEL)

Sector	Large	Medium	Small
Wholesale and retail trade; repair of motor vehicles and motorcycles	18,379.8	9,501.4	15,074.2
Transporting and storage	2,596.7	1,676.1	1,758.9
Construction	2,132.4	3,083.9	3,046.8
Accommodation and food service activities	599.3	575.2	914.5

Another key aspect of the agriculture sector is that a significant proportion of the workforce is self-employed. Their contribution is not reflected in Table I.4. As regards turnover based on enterprise size, Table I.4 shows that the agriculture sector is mainly composed of SMEs.

14. The National Statistics Office of Georgia defines “large”, “medium” and “small” entities as follows: large – more than 249 employees or annual turnover exceeds GEL 60 million; medium – 51–249 employees or turnover between GEL 12 and 60 million; small – maximum 50 employees or turnover of up to GEL 12 million.

Figure I.2. Turnover of enterprises in the agricultural sector, by size (in million GEL)



HOW STRONG IS THE COMPETITION IN THIS MARKET?

Strong (more than 10 per cent of "known" activities and/or equal contribution of SMEs) – 2 points

- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Manufacturing
- Accommodation and food service activities

Moderate (5–10 per cent of "known" activities or unequal contribution of SMEs) – 1 point

- Agriculture, forestry and fishing
- Transporting and storage
- Construction

Minor (less than 5 per cent of "known" activities and unequal contribution of SMEs) - 0 points

- All other sectors



E. Growth

Turnover and product output data show the growth of different sectors. Table I.5 shows turnover per sector for the period 2015–2019. The percentage share of small- and medium-sized enterprises (SMEs) is also indicated.

TABLE I.5. Turnover of enterprises between 2015 and 2019, by sector (in million GEL)

Sector	2015	2016	2017	2018	2019	SME share (%) of turnover in 2019
Agriculture, forestry and fishing	330.8	368.0	425.9	446.9	498.4	82.4
Mining and quarrying	571.5	611.8	671.4	749.3	841.6	36.7
Manufacturing	6,610.2	7,232.5	8,532.1	9,212.3	10,422.5	50.9
Construction	5,447.1	6,863.2	7,051.2	7,171.3	8,263.2	74.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	26,690.5	29,284.7	32,816.3	37,409.5	42,955.4	57.2
Transporting and storage	4,339.9	4,172.5	4,699.5	5,054.0	6,031.7	57.0
Accommodation and food service activities	1,069.9	1,307.0	1,562.3	1,811.7	2,089.1	71.3
Education	264.0	301.2	351.3	384.5	425.6	68.9
Human health and social work activities	828.3	895.2	975.1	1,052.8	1,147.3	51.4
Arts, entertainment and recreation	3,990.7	5,489.0	6,176.6	13,934.1	25,993.0	2.5

Besides turnover, it is also important to analyse figures on product output. Table I.6 provides sector-based data for the period 2015–2019.

TABLE I.6. Output of enterprises between 2015 and 2019, by sector (in million GEL)

Sector	2015	2016	2017	2018	2019
Agriculture, forestry and fishing	371.3	410.5	457.9	510.0	616.9
Mining and quarrying	652.7	633.4	690.6	767.0	881.4
Manufacturing	6,536.7	7,049.2	8,402.3	9,130.6	10,287.3
Construction	5,712.5	7,381.9	7,611.0	7,789.5	8,910.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	4,981.5	5,633.2	6,345.4	6,884.0	7,945.3
Transporting and storage	3,126.5	3,097.9	3,661.6	4,050.9	4,621.3
Accommodation and food service activities	1,057.2	1,325.3	1,564.5	1,816.1	2,101.1
Education	276.2	321.7	366.9	407.1	450.9
Human health and social work activities	1,307.0	1,475.1	1,614.7	1,750.1	1,943.3
Arts, entertainment and recreation	866.2	1,166.5	1,168.3	1,407.1	1,779.7

According to the data in Table I.5, the agriculture, forestry, and fishing sector has the highest SME turnover. Furthermore, average growth in turnover is 10.9 per cent and in output, 13.6 per cent.

As regards the mining and quarrying sector, the major share of turnover is contributed by large enterprises, while SMEs have a turnover of less than 40 per cent. Average growth in turnover is 10.2 per cent and in output, less than 10 per cent (8 per cent). As shown in the export figures cited in chapter F, the vast amount of mining production contributes significantly to turnover.

There is also significant growth in the arts, entertainment and recreation sector, but only 2.5 per cent of turnover in this sector is contributed by SMEs. As previously mentioned, this sector includes gambling, which has a traditionally high turnover in Georgia.

A large share of the transporting and storage sector turnover is contributed by State-owned enterprises, which also contribute to 16.5 per cent of the total turnover.

In 2019, the accommodation and food service activities sector has an average growth in turnover of 18.2 per cent and 18.8 per cent in output compared with 2018, which shows that turnover and output are balanced. In addition, 71.3 per cent of total turnover comes from SMEs in 2019.

Based on the growth in turnover and product output, and considering the contribution of SMEs, the sectors should be evaluated using the following criteria:

HOW STRONG IS THE GROWTH OF THIS MARKET?

Strong (more than 10 per cent per year and more than 70 per cent contribution of SMEs) – 2 points

- Agriculture, forestry and fishing
- Accommodation and food service activities
- Construction

Moderate (5–10 per cent per year and/or less than 70 per cent contribution of SMEs) – 1 point

- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Education
- Human health and social work activities

Weak (less than 5 per cent per year and/or less than 40 per cent contribution of SMEs) – 0 points

- All other sectors

F. Export

Georgian product export categorization indicates which products have the biggest portion in the export of goods and services from Georgia. According to the table below, the major export products from Georgia are:

TABLE I.7. Major export commodity rankings in 2019 (by million US\$)¹⁵

Commodity	Million US\$	Tonnes
Cars (unit)	732.8	107,268 (unit)
Copper ores and concentrates	649.4	373,692.0
Ferroalloys	303.4	274,848.3
Wine	222.8	70,086.0
Medicines	172.5	2,612.2
Water – natural or artificial mineral and aerated waters	133.5	221,176.1
Spirituous beverages	127.4	32,067.3
Fertilizers	94.8	502,426.0
Gold – unwrought, semi-manufactured, or in powder form	72.8	2.6
Hazelnuts and other nuts	66.7	13,355.8
Other commodities	1,222.2	

15. National Statistics Office of Georgia (2020). *External Trade of Georgia 2019. Statistical Publication*. National Statistics Office of Georgia.



Cars are re-exported from Georgia, as the country does not produce motor vehicles itself. In 2019, 107,268 units were exported and 156,225 were imported in Georgia. Copper ores and concentrates fall under the mining sector, while ferroalloys are part of the industry sector.

After these large sectors, wine is the largest export product in Georgia based on turnover. Other agriculture products also have considerable exports, such as water, beverages, hazelnuts and other nuts. In total, the agriculture sector (including, wine, water, beverages, hazelnuts and other nuts) exported US\$ 550.4 million worth of produce in 2019. A total of US\$790.7 million worth of food and beverages was exported that same year.

Food and beverages have displayed considerable growth in exports in recent years:

- 2016 – US\$ 643.5 million
- 2017 – US\$ 698.1 million
- 2018 – US\$ 767.4 million
- 2019 – US\$ 790.7 million

The Ministry of Environmental Protection and Agriculture recently developed the Agriculture and Rural Development Strategy of Georgia (2021–2027), according to which the target amount of agriculture exports for 2027 is US\$ 1.3 billion. This is an indication that the Government of Georgia has a strategy to increase exports significantly in the agriculture sector.

G. Government support

The Government of Georgia has various programmes and projects in place to support the business sector, including financing mechanisms.

Several of such programmes are managed by Enterprise Georgia, which is an agency under the Ministry of Economy and Sustainable Development.¹⁶

Enterprise Georgia has three main divisions:

- business development
- invest in Georgia
- export support

Under business development, there are several support mechanisms, namely:

- industry
- hotel industry
- micro and small business support
- balneological resorts industry
- tourism services industry
- film in Georgia

Enterprise Georgia also manages a credit-guarantee mechanism, which aims to support the following areas:

- production and processing
- hotel industry
- electricity generation
- educational activities
- training centres
- export of services
- high-tech medical laboratories

Investment support is available for businesses in the following areas:

- energy
- manufacturing
- hospitality and real estate
- logistics
- business service outsourcing

Under manufacturing, there are opportunities for businesses in the following areas:

- automotive and aerospace parts and components
- electronics
- pharmaceuticals
- apparel, footwear and bags

16. See: www.enterprisegeorgia.gov.ge

As previously mentioned, the Government of Georgia has declared the agriculture sector one of its main economic priorities in the coming years. There are various programmes and mechanisms in place to finance projects in this sector. The Rural Development Agency,¹⁷ which is a non-commercial legal entity under the Ministry of Environmental Protection and Agriculture, manages several programmes designed to support various agriculture markets, such as tea, berries and nurseries.

In addition to programmes and projects, the Government of Georgia regularly supports the wine sector with direct subsidies. It runs active marketing campaigns to raise the profile of Georgian wine around the world.¹⁸

The Government of Georgia has been supporting various sectors during the COVID-19 crisis,¹⁹ mainly:

- agriculture
- tourism
- construction

In terms of the programmes and projects through which the government offers direct financing or other support, the three sectors best provided for are:

- agriculture
- accommodation and food services
- manufacturing



17. See: www.rda.gov.ge.

18. See: State Budget of Georgia for 2019, 2020 and 2021: www.matsne.gov.ge.

19. See: <https://www.stopcov.ge/ka/Gegma>

To what extent is government policy encouraging and supporting moves towards improved sustainability performance?

Major support from policy, including financial measures – 2 points

- Agriculture
- Accommodation and food services

Moderate support from policy, but no financial measures – 1 point

- Manufacturing
- Construction

No support from policy and no financial measures – 0 points

H. Forthcoming legislation

While Part II of the present report, “Policy analysis”, provides an in-depth examination of the legal and policy framework for eco-innovation, this chapter will briefly discuss the sectors which are most affected by forthcoming legislation in Georgia.

The current Parliament of Georgia was elected in October 2020. That same year, prior to the elections, the parliament adopted several important new laws. At that time, many of the legislative activities focused on managing COVID-19.²⁰

The Agrarian Issues Committee prepared a bill on agrarian tourism, which is later planned to be included in the new tourism law.

In 2021, the Parliament of Georgia is planning to work on various reforms in areas such as farming, culture and environmental liability. The government also plans to submit various draft laws, mainly on the mining and water resources sectors.²¹

Is this market affected by new or forthcoming legislation?

Major changes required to meet new or forthcoming legislative requirements – 2 points

- Agriculture

Moderate changes required to meet new or forthcoming legislative requirements – 1 point

- Tourism (accommodation)

20. See the Parliamentary Report for 2020 and the 2021 Action Plan (in Georgian): <https://info.parliament.ge/file/1/OpenFile/3928>.

21. See the Action Plan for Legislative Process for 2020 (in Georgian): http://gov.ge/files/75085_75085_681804_191.pdf.

I. Gender²²

The breakdown of the Georgian population according to gender is as follows:



For every 100 girls born, there are around 108 boys born. However, since women on average live longer than men, the total number of women exceeds the number of men.

In vocational education, there are almost as many female students as male students. Female students are more involved in the arts, health care, education, and business administration courses, while male students are more involved in engineering and information technology courses.

Women tend to enrol in higher education courses in the arts and humanitarian sciences, education, health care and social work fields of study, while those who enrol in engineering, construction and manufacturing courses are predominantly men. At the basic education level, most teachers are women.

There are stark inequalities in the Georgian labour market. During the past ten years, the gender pay gap has remained significant and stable – women only earn around 63–65 per cent of men's monthly salaries.

Table I.8 shows salaries in each sector, disaggregated by gender.

TABLE I.8. Monthly remuneration in each sector, by gender (in GEL), 2019

Sector	Female (in GEL)	Male (in GEL)
Agriculture, forestry and fishing	605.7	737.9
Mining and quarrying	1,033.0	1,429.3
Manufacturing	733.5	1,210.0
Construction	1,110.6	1,692.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	735.1	1,173.7
Transporting and storage	966.1	1,513.8
Accommodation and food service activities	709.5	1,079.7
Information and communication	1,295.6	1,867.9
Financial and insurance activities	1,533.7	2,849.7
Professional, scientific and technical activities	1,393.9	2,296.4

In medium-sized enterprises, women earn 63 per cent of men's salaries and in small-sized enterprises, this decreases even further, to 57 per cent.

Another important observation is that there is a gender gap in asset ownership. In all three categories of real estate (residential, agricultural and other real estate) men own more than women. Men also have more access to computers and the Internet than women.

22. This section is based on Statistic Publication by Georgian Statistics Office (GEOSTAT) – Female and Male in Georgia, Tbilisi, 2020.

There is also a gender gap in business entity ownership, with 56 per cent of them founded by men and 29 per cent by women (the genders of the remaining 15 per cent are unknown). Table I.9 displays this imbalance by sector.

TABLE I.9. Founders of entities in different sectors (%), 2019

Sector	Female	Male
Agriculture, forestry and fishing	19	81
Mining and quarrying	13	87
Manufacturing	27	73
Construction	13	87
Wholesale and retail trade; repair of motor vehicles and motorcycles	41	59
Transporting and storage	11	89
Accommodation and food service activities	41	59
Information and communication	25	75
Financial and insurance activities	37	63
Professional, scientific and technical activities	34	66

The Food and Agriculture Organization of the United Nations report “Gender, agriculture and rural development in Georgia” notes that “non-paid female workers were 69 percent of total non-paid workers, and 59 percent of the total number [of] self-employed women were non-paid workers.”²³ The support received by SMEs from Enterprise Georgia also varies according to gender.

TABLE I.10. Financing provided by Enterprise Georgia, 2015-2018

	2015	2016	2017	2018
Number of women	282	1,654	1,411	438
Financing provided to women (in GEL)	1,331,000.0	7,540,000.5	6,259,000.4	3,434,000.9
Number of men	577	2,401	2,087	534
Financing provided to men (in GEL)	2,782,000.5	11,295,000.4	9,447,000.6	4,836,000.6

23. Food and Agriculture Organization of the United Nations (2018). Gender, agriculture and rural development in Georgia – Country Gender Assessment Series. Food and Agriculture Organization of the United Nations, 21. <http://www.fao.org/3/ca0577en/CA0577EN.pdf>.



Observations and conclusions

Sectors were assessed on a variety of criteria, namely:

- GHG emissions
- use of water resources
- GDP
- number of SMEs
- competition
- growth
- exports
- government support mechanisms

The forthcoming legislation and gender aspects of the sectors were then analysed.

To accurately assess each sector's eco-innovative potential, it is essential to evaluate them based on the size of the entities within them.

Agriculture: The agriculture sector makes a significant contribution to almost all the criteria (12 points out of 14). In this context, it is important to note that most of the entities in the agriculture sector are SMEs. The government provides some support to the sector, and export data show that agriculture sector products such as wine, hazelnuts, and other nuts represent a significant portion of the country's overall exports. Many of these exports are required to comply with EU sustainability standards. Furthermore, there is great potential for eco-innovation in the sector's GHG emissions and use of water resources. All things considered, it can be concluded that the agriculture sector should be considered one of the priority sectors for eco-innovation projects in Georgia.

Accommodation and food services: The tourism industry is one of the most significant contributors in Georgia (9 points out of 14). It accounts for 8.1 per cent of the country's GDP. In 2019, there were more than 9 million visitors to the country – an increase of 7.8 per cent on 2018. Around 500,000 of the visitors were from the EU, most of them from Germany and Poland (each making up more than 30 per cent of visitors from the EU). Tourists spend most of their money on food and drink (28 per cent). In 2019, around 20 new hotels opened with more than 5,100 beds and a further 30 or so hotels are planned to open, with up to 4,000 beds, although these latest figures will likely change due to the COVID-19 pandemic's impact on the tourism sector.²⁴ In addition to its significant contribution to GDP, 6.4 per cent of the active working population are employed in this sector. It is also characterized by high growth and competition rates. Considering that most of the entities in this sector are SMEs, the accommodation and food services sector should be considered one of the priority sectors for eco-innovation projects in Georgia.

Based on the employed methodology, available data and conclusions drawn above, it is recommended to approach SMEs operating in the agriculture and accommodation and food services (i.e. hospitality) sectors to further pilot and promote eco-innovation strategies and practices in Georgia.

24. "Georgian Tourism in Figures, Structure and Industry Data, 2019", See report by the Tourism Administration of Georgia: <https://gnta.ge/wp-content/uploads/2020/10/2019-2.pdf>

Part II: Policy analysis

Introduction

The second part of this report is an analysis of the existing policies and mechanisms in Georgia that fall within the scope of the eco-innovation framework. The analysis derives from Part I of the document, “Market analysis”, and focuses on the two identified priority sectors – food and accommodation services and agriculture.

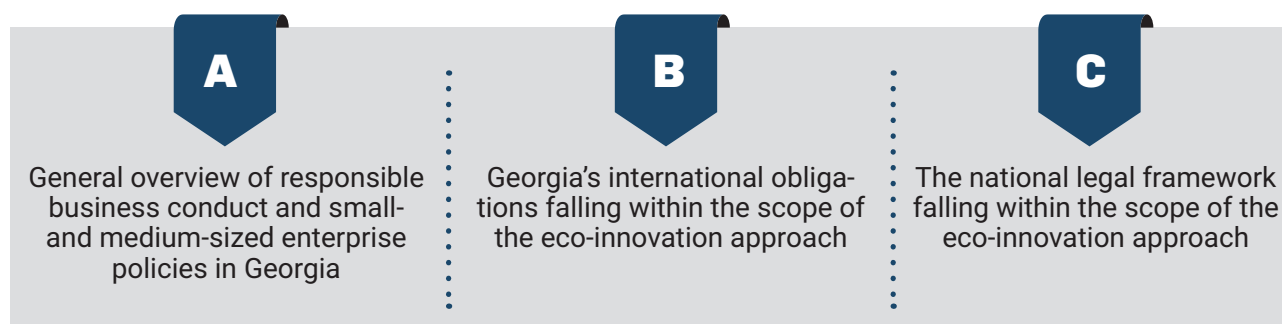
The legal framework examined in the document does not exclusively concern the two mentioned sectors and therefore may also be relevant to other economic activities.

The policy analysis examines:

- existing legislation in Georgia
- planned policy reforms in Georgia
- amendments to the law in Georgia
- the international legal framework
- Georgia’s international obligations

Challenges as well as opportunities for the promotion of the eco-innovation framework among SMEs are identified and studied in this part of the report.

The policy analysis is divided into the following three sections:



The analysis was compiled using desk research, thorough examination of legal documents and information received from governmental agencies. This is not an exhaustive analysis of the national legal framework, but rather an overview of the legal framework relevant to the agriculture and accommodation and food service sectors.

Eco-innovation is a new business approach that promotes sustainability throughout the entire life cycle of a product, while also boosting a company’s performance and competitiveness. It can help small- and medium-sized enterprises (SMEs) access new and expanding markets, increase productivity, attract new investment into the business, increase profitability across the value chain, and help SMEs stay ahead of regulations and standards, notably those related to the environment.²⁵

This report heavily focuses on the environmental aspects of eco-innovation, but does slightly touch upon major recent developments in the Georgian labour law system.

25. United Nations Environment Programme (n.d.). Eco-innovation. United Nations Environment Programme. <https://www.unep.org/explore-topics/resource-efficiency/what-we-do/responsible-industry/eco-innovation>

A. General overview of responsible business conduct and small-and medium-sized enterprise policies in Georgia

A. Small-and medium-sized enterprises in Georgia

In Georgia, much like other countries around the world, the development of SMEs is one of the main forces driving local economic development.

The growth of SMEs is seen as a key means of achieving inclusive growth and employment. Due to their innovative and flexible structures, they can contribute to the development and improvement of new technologies. The estimated 26 million SMEs operating in the EU provide employment for 109 million people and account for two-thirds of Europe's gross national product.²⁶ In Georgia, the share of employees in the SME sector is 65 per cent, and its share in total value-added is 59 per cent (as at 2019).²⁷



TABLE II.1. Definition of small- and medium-sized enterprise

Enterprise type	Annual employment	Fiscal annual turnover
Small	Up to 50 employees	Up to GEL 12 million
Medium	From 50 up to 250 employees	From GEL 12 million up to GEL 60 million

"SME Policy Index: Eastern Partnership Countries 2020"²⁸ is a particularly relevant study published by the Organisation for Economic Co-operation and Development (OECD) evaluating the compliance of SME support policy with the Small Business Act for Europe in different countries. The study evaluates EaP countries according to 12 components, which are then divided into 34 subcomponents. Once it has assessed small- and medium-sized entrepreneurship in the countries, it assigns them a rating, from 1 to 5 points.

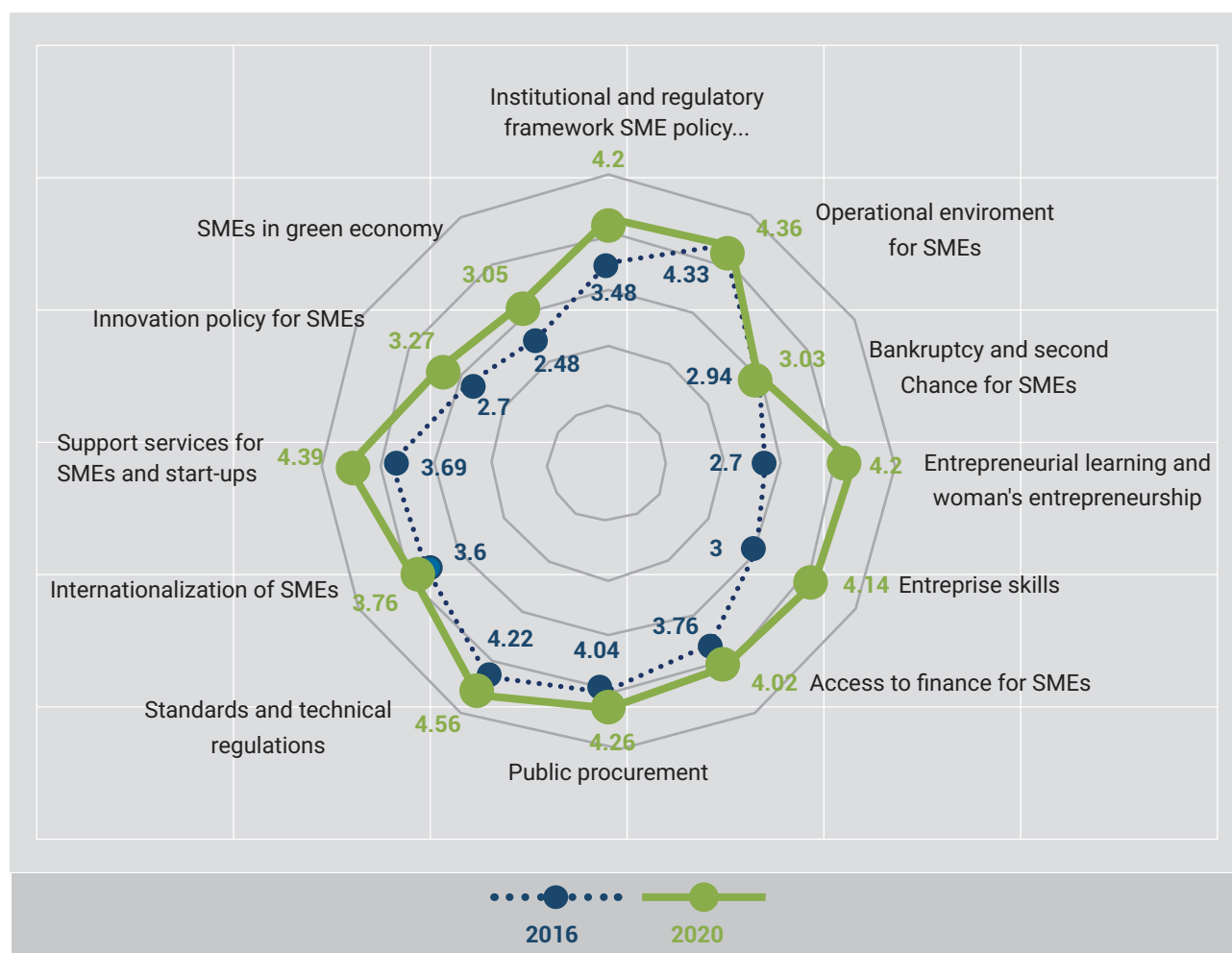
According to the 2020 report, Georgia's rating and score (compared with the previous 2016 rating) improved in all 12 components, and in 9 out of 12 components, the country achieved the highest scores among the EaP countries.

26. Papadopoulos, G., Rikama, S., Alajääskö, P., Salah-Eddine, Z., Airaksinen, A. & Luomaranta, H. (2019). Statistics on Small and Medium-sized Enterprises [Data set]. Eurostat. https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises

27. See data from the National Statistics Office of Georgia (2019): www.geostat.gov.ge

28. See <http://www.oecd.org/publications/sme-policy-index-eastern-partner-countries-2020-8b45614b-en.htm>

Figure II.1. OECD Small- and Medium-sized Enterprise Policy Index



According to the report, Georgia has made substantial progress in the areas of entrepreneurial learning and improving the operational environment for SMEs. The governmental agencies of Georgia state that the country has significant green growth potential in many areas. However, in terms of SME development, the potential of ecotourism stands out, as it can encourage the introduction of eco-production in agriculture, increase the productivity of agricultural lands and at the same time reduce the negative impact on the environment.

Georgia's ecotourism strategy for 2020–2030 is currently being developed by the Ministry of Economy and Sustainable Development.²⁹ The vision of the strategy is for Georgia to become the leading year-round ecotourism destination in the Caucasus region, taking into account its natural resources and high-quality services. The strategy combines five goals and relevant measures:

1. develop authentic, high-quality, year-round tourism products and services
2. actively involve local people in ecotourism development and in providing and benefiting from ecotourism services
3. increase the environmental awareness of visitors
4. preserve the country's diverse nature and rich resources
5. manage ecotourism at all levels.

29. The strategy is being jointly developed by the National Tourism Administration, the National Forest Agency and the Agency of Protected Areas, in cooperation with the German development agency, GIZ.

Promotion of responsible business conduct in Georgia

The EU-Georgia Association Agreement (AA) establishes the Government of Georgia's obligation to promote responsible business conduct (RBC) in Georgia. Five articles in the AA³⁰ specifically reference promotion of corporate responsibility as established in the "internationally recognized principles and guidelines", especially the OECD Guidelines for Multinational Enterprises.

"Internationally recognized principles and guidelines" refers to one of the most widely recognized and authoritative standards in the field of corporate responsibility – the United Nations Guiding Principles on Business and Human Rights (UNGPs)³¹. In its numerous resolutions, directives and regulations, the EU highlights the importance of incorporating the UNGPs into the national policies of Member States and partner countries.

The Business and Human Rights chapter was included in the 2016–2018 and 2018–2020 Georgian Human Rights Action Plans by the Government of Georgia, as a result of the recommendations by Global Compact Network Georgia and the Public Defender's Office in Georgia.

The National Baseline Assessment (NBA) on Business and Human Rights was carried out in 2017. The Human Rights Secretariat, under the Prime Minister's Office, was responsible for developing the Business and Human Rights chapter of the Human Rights Action Plan and for ensuring an NBA was undertaken on business and human rights. An informal coordination group including representatives from the Human Rights Secretariat, the non-governmental organization (NGO) Global Compact Network Georgia and the national human rights institution (the Public Defender's Office) was established to jointly undertake the NBA. The process was supported by the Danish Institute for Human Rights. Information on the steps taken by the Government of Georgia, as well as the base-line studies, are available in Georgian and English on Georgia's profile on the "National Action Plans on Business and Human Rights" web page.³²

The base-line study is based on Pillar 1 and Pillar 3 of the UNGP and assesses the legal framework, as well as the implementation and remedy mechanisms available in the field. Based on the study, a recommendation package was developed for the 2018–2020 Business and Human Rights chapter of the Human Rights Action Plan, and reflected in the objectives and activities of the action plan.

The obligation to promote RBC among SMEs was taken on by the Government of Georgia as part of its SME Development Strategy and Action Plan (2016–2020). The new draft SME Development Strategy 2021–2025 also includes objectives aimed at promoting RBC among SMEs in Georgia. Three out of its 7 objectives include specific activities to promote the green economy and eco-innovations among SMEs, raise awareness of the Women's Empowerment Principles among businesses and empower women entrepreneurs, and incorporate RBC principles in all SMEs in Georgia.³³

C. Responsible business conduct in agriculture, food and accommodation sectors

The mission of the Georgian National Tourism Agency identifies sustainable tourism development as one of its main priorities, along with raising awareness on Georgia and steadily increasing the number of tourists. The new eco-tourism strategy document for 2020-2030 has been developed, which will contribute to introducing new products on the tourist market.³⁴ The vision of the strategy is for Georgia to become a leading year-round tourism destination in the Caucasus region by 2030, considering its rich living culture and nature together with high quality services.

While eco-tourism in Georgia provides unique experiences for visitors, at the same time it benefits local population and contributes to the country's economy. It also supports the conservation of natural and cultural heritage and raises awareness of tourists and local residents.

The existing legislation relevant to the tourism sector is discussed below.

30. Articles 231, 239, 348, 349, 352. See https://eeas.europa.eu/sites/eeas/files/association_agreement.pdf

31. See https://www.ohchr.org/documents/publications/guidingprinciplesbusinessshr_en.pdf

32. See <https://globalnaps.org/country/georgia/>

33. See the SME Development Strategy 2021-2025. This information was received by the Ministry of Economy and Sustainable Development

34. See <https://www.responseandability.com/index.php/files/63/Project-results/63/2020--Oekotourismusstrategie-fuer-Georgien---Ecotourism-Strategie-for-Georgia-English.pdf>

One of the priorities of the Agriculture and Rural Development Strategy of Georgia (2021–2027)³⁵ is environmental protection and sustainable use of natural resources. The strategy document entails development of eco-tourism, which includes recreational activities, sport/adventure tourism, hiking, eco-tourism on protected areas, and agritourism. It serves the purpose of diversifying opportunities for rural communities, while maintaining principles of sustainable development.

B. Georgia's international obligations falling within the scope of the eco-innovation approach

Georgia has ratified 39 conventions, treaties, amendments and agreements as party to global and regional multilateral environmental agreements (MEAs). The Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (the Aarhus Convention) is one of the treaties affecting overall environmental governance at the national level and steering Georgia towards becoming a stronger environmental democracy.³⁶ A list of the MEAs ratified by Georgia is presented in Table A.5 of the annex.



A. EU-GEORGIA ASSOCIATION AGREEMENT

The EU-Georgia AA, which was ratified in 2014, establishes a long-term perspective for the implementation of national policy in various fields, including the environment and natural resources. The AA also establishes a solid legal basis for future law-making and implementation. It defines targets to be met within a specific time frame in the following areas: (i) environmental governance; (ii) air quality; (iii) water quality and resource management (including the marine environment); (iv) waste management; (v) biodiversity protection; (vi) industrial pollution and industrial hazards; (vii) chemical management; and (viii) climate action. Sustainable forestry and fishery-related aspects are addressed in the Deep and Comprehensive Free Trade Area (DCFTA), which is part of the AA. Several draft laws (such as the Law on import, export and transit of waste and the Law on water resources management) and by-laws have already been prepared based on the AA obligations, while others are either in the development stages or in the pipeline³⁷.

According to articles 301–306 (“Environment”) of the AA:

“the Parties shall develop and strengthen their cooperation on environmental issues, thereby contributing to the long-term objective of sustainable development and greening the economy [...] enhanced environment protection will bring benefits to citizens and businesses in Georgia and in the EU, including through improved public health, preserved natural resources, increased economic and environmental efficiency, as well as the use of modern, cleaner technologies contributing to more sustainable production patterns.”

The cooperation is aimed at:

“preserving, protecting, improving and rehabilitating the quality of the environment, protecting human health, sustainable utilisation of natural resources and promoting measures at international level to deal with regional or global environmental problems, including in the areas of:

(a) environmental governance and horizontal issues, including strategic planning, environmental impact assessment and strategic environmental assessment, education and training, monitoring and environmental information systems, inspection and enforcement, environmental liability, combating environmental crime, transboundary cooperation, public access to environmental information, decision-making processes and effective administrative and judicial review procedures;

35. See <https://mepa.gov.ge/Ge/PublicInformation/20395>

36. See the Third National Environmental Action Programme of Georgia 2017–2021: <https://mepa.gov.ge/En/Files/ViewFile/1605>

37. See the EU-Georgia Association Agreement: [https://eur-lex.europa.eu/legal-content/en/TXT/PF/?uri=CELEX:22014A0830\(02\)](https://eur-lex.europa.eu/legal-content/en/TXT/PF/?uri=CELEX:22014A0830(02))

- (b) air quality;
- (c) water quality and resource management, including flood risk management, water scarcity and droughts as well as marine environment;
- (d) waste management;
- (e) nature protection, including forestry and conservation of biological diversity;
- (f) industrial pollution and industrial hazards, and
- (g) chemicals management".³⁸



B. OTHER INTERNATIONAL OBLIGATIONS

Georgian environmental policy is also informed by the United Nations Sustainable Development Goals (SDGs), which were adopted in 2015. The SDGs are linked to 169 targets that are to be achieved by 2030. Many of these targets have environmental aspects and countries must adapt their national strategies to meet them.

The Administration of the Government of Georgia coordinates the SDG nationalization process and declares the measures required to adapt the SDG agenda and its targets to the national context. The SDGs are an integral part of Georgia's national strategies and priority areas. The Ministry of Environmental Protection and Agriculture has taken responsibility for over nine targets under five different goals, covering climate change, waste management, air quality control, education for sustainable development, fisheries, biodiversity and forest management.

Despite the above, Georgia does not yet have a high-level strategic vision for green growth³⁹. Progress has been made in terms of legislative framework and practical implementation, but Georgia still has important steps to take in introducing modern environmental standards in entrepreneurship, especially with regards to awareness-raising activities.

In 2010, the country acceded to the Copenhagen Accord, declaring that it will "take steps to achieve a measurable, reportable and verifiable deviation from the baseline scenario (below 'business as usual' levels), supported and enabled by finance, technology and capacity-building."⁴⁰

In 2017, the Paris Agreement (on climate change mitigation, adaptation and finance) entered into force in Georgia. In 2015, prior to the adoption of the Paris Agreement, Georgia submitted its Intended Nationally Determined Contribution to the UNFCCC.

The significance of GHG emissions and the need to implement mitigation measures is acknowledged by Georgian Law No. 519-IS on environmental protection (1996) and the Law of Georgia on ambient air protection (1999). Georgia's contribution to global GHG emissions will increase, driven by the projected growth of the population and economic development.

Moreover, to align Georgia's GHG policies with Regulation (EC) No. 842/2006 of the European Parliament and of the Council of 17 May 2006 on certain fluorinated greenhouse gases, a draft Resolution of the Government of Georgia on the approval of the Technical Regulation on the management of fluorinated greenhouse gases was developed within the framework of the EU4Climate project. These technical regulations define the rules of registration, recovery, decontamination, use, prevention and emission of fluorinated GHGs in Georgia and additional measures related to them.⁴¹

38. See the EU-Georgia Association Agreement: [https://eur-lex.europa.eu/legal-content/en/TXT/PF/?uri=CELEX:22014A0830\(02\)](https://eur-lex.europa.eu/legal-content/en/TXT/PF/?uri=CELEX:22014A0830(02))

39. See SME Policy Index: Eastern Partnership Countries 2020: <https://www.oecd.org/countries/georgia/sme-policy-index-eastern-partner-countries-2020-8b45614b-en.htm>

40. Ministry of Environmental Protection and Agriculture (2015). Georgia's intended Nationally Determined Contribution Submission to the UNFCCC [Press release]. https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Georgia%20First/INDC_of_Georgia.pdf

41. Information regarding climate-related measures was provided by the Ministry of Environmental Protection and Agriculture on 1 March 2021



C. THE NATIONAL LEGAL FRAMEWORK FALLING WITHIN THE SCOPE OF THE ECO-INNOVATION APPROACH

The present chapter focuses on the environmental aspects of eco-innovation and provides an overview of the relevant legal instruments in Georgia, and also briefly addresses major recent developments in the labour law system in Georgia.

The legislation that is relevant to agriculture and accommodation and food services sector is analysed in this chapter. The foundation of the Georgian legislation, the Constitution of Georgia, outlines the responsibility to protect the environment and maintain sustainable development in the country, according to its ecological and economic interests.

According to article 29 of the Constitution of Georgia:

“1. Everyone has the right to live in a healthy environment and enjoy the natural environment and public space. Everyone has the right to receive full information about the state of the environment in a timely manner. Everyone has the right to care for the protection of the environment. The right to participate in the adoption of decisions related to the environment shall be ensured by law.

2. Environmental protection and the rational use of natural resources shall be ensured by law, taking into account the interests of current and future generations.”⁴²

The seven main environmental policy directions in Georgia, cited below, are analysed in this section:

- (a) environmental governance
- (b) natural resource management
- (c) ambient air protection
- (d) waste management
- (e) chemicals management
- (f) biodiversity protection
- (g) industrial pollution and hazards

42. Parliament of the Republic of Georgia (1995). Constitution of Georgia. Departments of the Parliament of the Republic of Georgia. <https://matsne.gov.ge/en/document/view/30346>

The section will then provide an overview of (h) innovation and clean technologies, the framework in Georgia and concludes with (i) other relevant laws on environmental protection, as well as recent developments in the labour law mechanism in Georgia.

A. Environmental governance

The law on environmental protection

The Law of Georgia on environmental protection⁴³ (1996) is the principal legislative act in the field of environmental protection and ecological safety. This law regulates legal relations between State bodies and individuals and legal entities in the field of environmental protection and use. The principles of environmental protection are specified in article 5 of the Law, and the State authorities, as well as physical and legal entities (and therefore, business entities), are required to comply with them. All subjects (individuals or legal entities) are required to take appropriate precautions to avoid or mitigate the risk of harm to the environment and human health while planning and carrying out activities. Furthermore, the priority principle (replacement with a less dangerous, but more expensive action), the user-pays principle, the waste minimization principle and other principles are applicable, highlighting the various environmental protection responsibilities. Among the most significant principles is the principle of restitution which stipulates that “the environment degraded as a result of activities shall be brought as close as possible to its original state (restitutio in integrum)”, like the polluter-pays principle, implying compensation for damage caused to the environment by an operator or other individuals or legal entities.

The user-pays and polluter-pays principles introduce taxes for harmful environmental impacts, as well as for use of natural resources. Payment of taxes, according to article 16(3) of this law, would not absolve the operator of responsibility for environmental damage payments.

The potential of economic incentives is also described by the Law of Georgia on environmental protection (through ads, tax incentives, or preferential State credits) as a way of encouraging successful environmental projects.

It is worth noting that the Law of Georgia on environmental protection recognizes the prospect of an environmental audit being conducted by an operator (business) or the Ministry of Environmental Protection and Agriculture. The audit is an examination of an operator’s compliance with environmental regulations and standards (including those set by the operator), as well as the performance of the environmental management system. It covers the whole industrial and technological cycle, and it is carried out to define strategies and means for the environmental evaluation of operations, as well to minimize natural resource losses, harmful environmental impacts and pollution.

Environmental Assessment Code

On 1 June 2017, the Parliament of Georgia adopted the Environmental Assessment Code⁴⁴ to ensure compliance with the following directives:

- Directive 2011/92/EU of the European Parliament and of the Council of 13 December 2011 on the assessment of the effects of certain public and private projects on the environment.
- Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001 on the assessment of the effects of certain plans and programmes on the environment.
- Directive 2003/35/EC of the European Parliament and of the Council of 26 May 2003 providing for public participation in respect of the drawing up of certain plans and programmes relating to the environment and amending with regard to public participation and access to justice Council Directives 85/337/EEC and 96/61/EC.

43. See <https://matsne.gov.ge/ka/document/view/33340>

The law introduced the principles of the EU directives on environmental impact assessment (EIA) and strategic environmental assessment (SEA), the approaches of the Convention on Environmental Impact Assessment in a Transboundary Context (the Espoo Convention) and its respective SEA protocol, and the approaches of the Aarhus Convention. New environmental-assessment related regulations, aligned with EU directives, have been drafted based on the best international legal approaches⁴⁵.

As a result of the adoption of the Code, all activities that have a significant impact on the state of the environment and human health will be subject to an EIA. The scale and categories of the activities will be accounted for in the assessment. At the same time, public involvement at the earliest possible stage of the EIA process has become clearer and more effective, ensuring that the views of all stakeholders are taken into account when making major decisions.

Another important ongoing activity in this regard is the development of the integrated pollution prevention and control (IPPC) legislation in compliance with the AA's requirements. The IPPC approach means structural improvements need to be made in the permit system, including the implementation of the applicable legal, structural, administrative and procedural framework, as well as the introduction of up-to-date environmental management standards, such as best available techniques (BATs) and emission limit values (ELVs) mandated by the AA.⁴⁶

The law on environmental liability

The Georgian Law on environmental liability⁴⁷, adopted on 2 March 2021, was drafted in conjunction with Directive 2004/35/EC of the European Parliament and of the Council of 21 April 2004 on environmental liability with regard to the prevention and remedying of environmental damage (ELD). The national law establishes a system of environmental responsibility closely aligned to EU standards, based on the polluter-pays principle, aiming to prevent, eliminate, mitigate and restore damage to the environment.

The law introduces a completely new environmental liability mechanism, according to which a person who causes significant damage to the environment will be obliged not to pay, but to take remedial action to restore the environment in accordance with a predefined plan. Therefore, the cost of the damage will be fully spent on implementing measures to correct this damage⁴⁸.

B. Natural resource management

Natural resource management legislation covers regulations related to soil, forest, water, fauna, minerals, oil and gas. These acts establish general responsibilities for individuals or legal entities with respect to protecting and not destroying our natural resources.

The law on soil protection

The Georgian Law on soil protection, approved in 1994, is the principal legal act on soil protection in Georgia⁴⁹. It seeks to protect the soil surface, and conserve and increase soil fertility. The law prohibits the use of fertile soil for any activities other than agriculture. The law bans the removal of topsoil from building sites without a feasibility review and an authorized project, and it requires the removed topsoil to be retained for reuse. In the event of temporary use of the ground from an area in which the soil is to be destroyed, such as in mining or landfill, the field must be re-cultivated with the deposited topsoil.

44. See <https://www.matsne.gov.ge/document/view/3691981>

45. See <https://mepa.gov.ge/En/Files/ViewFile/1605#:~:text=The%20Third%20National%20Environmental%20Action%20Programme%20of%20Georgia%20was%20developed,of%20local%20and%20European%20experts>

46. See <https://mepa.gov.ge/En/Files/ViewFile/1605>

47. Draft Law (in Georgian): <https://info.parliament.ge/#law-drafting/20724>

Adopted law (in Georgian): <https://matsne.gov.ge/document/view/5109151>

48. Information regarding the Law of Georgia on environmental liability and the Environmental Assessment Code was provided by the Ministry of Environmental Protection and Agriculture of Georgia on 1 March 2021

Georgia's commitments to international treaties and agreements significantly affect its national legal and policy framework. The main strategic documents in this regard are the SDGs and the United Nations Convention to Combat Desertification (UNCCD), to which Georgia is party. Land Degradation Neutrality is one of the main activities agreed within the framework of the UNCCD, and it supports SDG Target 15.3 ("By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world").

While the AA contains no particular soil-related directive, it requires national legislation on water, air, chemicals, waste and other sectors, as well as overall governance, to be aligned with EU directives. This will affect the soil legal system (for example, the draft law on environmental liability). The agriculture sector will benefit substantially from the improved legal and policy framework.

Georgia's Strategy for Agricultural Development in Georgia (2015–2020)⁵⁰ identifies land degradation as one of the most pressing issues in Georgia's agriculture management sector. The main causes of declining land resource fertility are insufficient pesticide and fertilizer management, issues in drainage systems and unchecked waste management, as well as natural disasters exacerbated by climate change.

The vision of the new Agriculture and Rural Development Strategy of Georgia (2021–2027) is based on the principles of sustainable development, development or diversification of rural economic opportunities, and a general improvement of social status and living standards. At the same time, the strategy considers increasing growth of SMEs one of the benefits, leading to promotion of non-agricultural sectors in rural areas.⁵¹

The law on water

Georgia has several major laws and sub-legislative acts regulating protection and management of water resources. Existing legislation is vague and lacks precise oversight on key issues such as pollution prevention tools, ownership, and the possession and use rights related to water sources, as well as a water cadastre. The Law of Georgia on water (1997)⁵² describes the key issues concerning water protection and use. It establishes the fundamental principles of the country's water policy and ensures the security of State interests in water protection. However, it does not completely encompass all areas of water management, as this is covered by the Law of Georgia on subsoil (1996)⁵³.

International environmental treaties and obligations have a major role in Georgian water policy. The AA contains provisions from five EU directives on water- and marine-related issues (except for the flood directive) and the AA implementation road map sets out more than 25 actions designed to align the Georgian Law on water with EU standards.

Other obligations are assumed by the country through international treaties. For example, Georgia is a signatory to the Bucharest Convention on the Protection of the Black Sea against Pollution and the International Convention for the Prevention of Pollution from Ships (MARPOL). Georgia is also party to the Ballast Water Management Convention and other international treaties pertaining to the protection of the Black Sea from anthropogenic impacts (for example, the International Convention on Oil Pollution Preparedness, Response and Co-operation).

Water quality and water resources management, including maritime environment

To comply with Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for Community action in the field of marine environmental policy, the Par-

49. See <https://matsne.gov.ge/ka/document/view/93874>

50. See <https://mepa.gov.ge/En/PublicInformation/30>.

51. See http://enpard.ge/en/wp-content/uploads/2015/05/ARDSG-FINAL-version-_ENG.pdf.

52. See <https://matsne.gov.ge/ka/document/view/33448>

53. See <https://matsne.gov.ge/en/document/view/33040>

liament of Georgia adopted Law No. 2084 of 23 March 2018 on amendments to the Law of Georgia on maritime space.⁵⁴ According to the amendment, the Government of Georgia must approve a “National Maritime Strategy for the Protection of the Black Sea and the Action Plan for Achieving Good Quality of the Marine Environment” by 1 September 2022.

Draft legislation – water quality and water resources management, including the marine environment

The draft Law on water resources management was developed to comply with:

Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, as amended by Decision 2455/2001/EC (which, in turn, amended Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks);

Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources, as amended by Regulation (EC) No. 1882/2003 of the European Parliament and of the Council of 29 September 2003 adapting to Council Decision 1999/468/EC the provisions relating to committees which assist the Commission in the exercise of its implementing powers laid down in instruments subject to the procedure referred to in Article 251 of the EC Treaty;

Council Directive 91/271/EEC of 21 May 1991 concerning urban waste-water treatment, as amended by Commission Directive 98/15/EC of 27 February 1998 amending Council Directive 91/271/EEC with respect to certain requirements established in Annex I thereof;

Regulation (EC) No. 1882/2003 of the European Parliament and of the Council of 29 September 2003 adapting to Council Decision 1999/468/EC the provisions relating to committees which assist the Commission in the exercise of its implementing powers laid down in instruments subject to the procedure referred to in Article 251 of the EC Treaty;

The adoption of the law, in accordance with the principles of integrated water resources management and the creation of a safe environment for human health, will create a unified system of water resources management, based on international approaches, in line with Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy.

The law on oil and gas

The Georgian Law on oil and gas⁵⁵ provides detailed regulations regarding the use of these resources. The law outlines the criteria for an oil and gas license, and license holder’s responsibilities, including adhering to transport tariffs, maintaining public safety and environmental protection.

Forest Code

Pursuant to article 233 of the AA, Georgia is obliged to take measures to ensure forest conservation and sustainable forest management. Georgia has already taken significant steps in this direction, including the adoption of the new Forest Code of Georgia⁵⁶ on 22 May 2020.

The objective of the Code is to establish a legal basis for sustainable forest management to protect Georgia’s biodiversity, and maintain and improve the quantitative and qualitative characteristics of the country’s forests so that they can continue to fulfil their ecological, social and economic functions.

54. See <https://matsne.gov.ge/ka/document/view/4116149?publication=0>

C. Ambient air protection

The law on ambient air protection

The Law of Georgia on ambient air protection (1999)⁵⁷ establishes the legal framework for ambient air protection. Several by-laws and technical regulations were made to implement the law. However, the existing legislative framework only covers certain modern approaches and does not fully meet the EU requirements set in the AA, such as inclusion of the BATs and ELVs.

According to the legislation in force, businesses have obligations with respect to the circulation and use of pesticides and agrochemicals. In particular, businesses that carry out these activities have to inform State bodies about them at the end of the year, observe the rules of safe use, provide the supervisory authorities with information upon request, register themselves with the Ministry of Environmental Protection and Agriculture and submit samples as part of the registration procedure, among other actions.⁵⁸

The Ministry of Environmental Protection and Agriculture developed the Technical Regulation on ambient air quality standards⁵⁹, approved by the Government of Georgia on 27 July 2018 by Decree No. 383, to align Georgia's legislation with Directive 2008/50/EC of the European Parliament and of the Council of 21 May 2008 on ambient air quality and cleaner air for Europe, as well as Directive 2004/107/EC of the European Parliament and of the Council of 15 December 2004 relating to arsenic, cadmium, mercury, nickel and polycyclic aromatic hydrocarbons in ambient air.

Draft amendments to the law on atmospheric air protection

On 2 March 2021, the Parliament of Georgia adopted the Law on amendments to the Law of Georgia on atmospheric air protection⁶⁰, which is an integral part of the environmental liability legislative package, and the aim of which is to regulate issues related to the prevention, mitigation and elimination of environmental damage.

According to the law, for the purpose of self-monitoring, persons undertaking specific activities subject to the environmental decision will be obliged to use instrumental methods to determine the actual amount of organized emissions of harmful substances into the ambient air from stationary sources of pollution.



55. See <https://matsne.gov.ge/ru/document/download/18424/22/en/pdf>

56. See <https://matsne.gov.ge/document/view/4874066?publication=0>

57. See <https://matsne.gov.ge/ka/document/view/16210>

58. See Law on pesticides and agrochemicals: <https://matsne.gov.ge/ka/document/view/18106>

59. See <https://matsne.gov.ge/document/view/4277611?publication=0>

60. See <https://info.parliament.ge/#law-drafting/20751>

Developed legislation – amendments to the law

In accordance with the amendment to European Parliament and Council Directive 94/63/EC of 20 December 1994 on the control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations, the draft amendments to Decree No. 60 of the Government of Georgia of 15 January 2014 on approval of the Technical Regulation on safety of gas stations and bulk terminals and Decree No. 65 of 15 January 2014 of the Government of Georgia on approval of the Technical Regulation on safe operation of oil depots were prepared. These amendments were discussed with the representatives of the relevant sectors within the framework of the project “Support to implementation of the Environmental provisions of the EU-Georgia Association Agreement” and will be submitted to the Government of Georgia for approval.

The amendments define the requirements for loading and storage facilities at petrol stations and stipulate a reduction in the annual loss of gasoline in each terminal during storage and use.

In order to align the country’s legislation with the aim of limiting emissions of VOCs due to the use of organic solvents in certain paints, varnishes and vehicle refinishing products established in Directive 2004/42/CE of the European Parliament and of the Council of 21 April 2004, an EU Support Project has been established, and the Draft Government Decree on the introduction of VOC content limit values for paints and varnishes, analytical methods and a control system including introduction of a requirement for product labelling was prepared.

Moreover, to align Georgia’s legislation with the aims of Regulation (EC) No. 1005/2009 of the European Parliament and of the Council of 16 September 2009 on substances that deplete the ozone layer, as well as to facilitate the implementation of the Montreal Protocol, a package of legislative amendments has been prepared under the Institutional Enhancement Project. In particular, requirements are set for the collection, recovery, recycling and disposal of ozone-depleting substances. Internal discussions on the legislative package are under way⁶¹.

D. Waste management

In 2014, Georgia adopted a new Waste Management Code⁶², which incorporates into the national law the respective EU regulations on waste (Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and Council Directive 1999/31/EC of 26 April 1999 on landfill of waste) as required by the AA. The new legislation provides improved regulations and sets clear obligations for manufacturers whose products become waste after use. The fundamental obligation is the duty to comply with proper waste management procedures in the process of developing the product, which should eventually:

- Reduce the negative impact on the environment, including reducing the generation of waste in the production process and subsequent use.
- Encourage the recovery and disposal of waste generated from products.

The legislation stipulates that manufacturers of products that later become waste (packaging waste, tyres, used oils, batteries, accumulators, electrical equipment, etc.), and the product vendors must be responsible for creating and marketing products that are designed for multiple use and that are technically durable. It also stipulates that they are responsible for ensuring that the generated waste can be conveniently recovered and is safe for placement in the environment. In addition, the new legislation obliges product manufacturers, as well as vendors, to establish a separate collection,

61. The Law on Technical Regulation on the approval of ambient air quality standards; the draft Law on amendments to the Law on ambient air protection; the draft amendments to Decree No. 60 of the Government of Georgia on approval of the Technical Regulation on safety of gas stations and bulk terminals; the draft Government Decree on the introduction of VOC content limit values for paints and varnishes, analytical methods and a control system including introduction of a requirement for product labelling; and the draft Law on amendments to the Law of Georgia on atmospheric air protection were provided by the Ministry of Environmental Protection and Agriculture on 1 March 2021

62. See <https://matsne.gov.ge/en/document/view/2676416>

transport, recovery (including recycling) and environmentally safe disposal system for their product waste.

With the aim of implementing the national legislation, on 25 May 2020, the Government of Georgia adopted four technical regulations regarding the extended responsibility of the manufacturer. It applies to the following waste streams: (a) electrical and electronic equipment, (b) waste oils, (c) tyre waste, (d) batteries and accumulators.⁶³ Additional normative regulations were adopted to implement this legislation.⁶⁴

To ensure the responsible State agencies are able to efficiently manage the system and implement these additional normative regulations in a coordinated manner, the National Waste Management Strategy 2016–2030⁶⁵ has been approved. The strategy sets out Georgia's waste management policies and strategic directions for this period. To complement the strategy, the National Waste Management Action Plan 2016–2020 has been developed and adopted. The action plan includes the implementation of waste prevention measures by companies, as well as promotion of the introduction of a bottle and crate return scheme among producers of both alcoholic and non-alcoholic beverages.

E. Chemicals management

Georgia is party to the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, the Vienna Convention for the Protection of the Ozone Layer and the Stockholm Convention on Persistent Organic Pollutants. It is also a signatory of the Minamata Convention on Mercury, but is yet to ratify it.

Policymaking related to the management of chemicals in Georgia is greatly influenced by the United Nations Environment Programme-hosted Strategic Approach to International Chemicals Management (SAICM), which is a policy framework for chemicals management that participating countries can use.

In addition, the AA obliges Georgia to carry out specific actions to improve chemicals management, more specifically, aligning its national legislation with the EU regulations on the import and export of hazardous chemicals; on the classification, labelling and packaging of substances and mixtures (the CLP Regulation); and on ozone-depleting substances.

Currently, Georgian legislation does not properly regulate chemicals management. The Law on hazardous chemical substances (1998) was nullified in 2010 and a new law has not yet been developed and enacted. Some aspects related to chemical substances are regulated by the Law on pesticides and agrochemicals (1998)⁶⁶ and the Law on licenses and permits (2005).⁶⁷ The Law on pesticides and agrochemicals regulates actions arising from the registration, manufacture, labelling, packaging, marketing, storage, handling, use, decontamination, disposal, exchange of information, advertising, import and export of pesticides and agrochemicals. The Law on licenses and permits obliges legal persons to obtain permits to import, export, re-export and transport ozone-depleting substances.

F. Biodiversity protection

In Georgia, the main legal acts regulating nature and species protection are the Law on environmental protection (1996), the Law on wildlife (1996), the Law on the "Red List" and "Red Book" (2003) and the Law on the system of protected areas (1996). Fisheries and establishment of game farms are regulated by by-laws. New draft laws have been prepared on biodiversity and hunting. These are likely to become the main legal instrument in this field, as well as for the alignment of Georgian legislation

63. See <https://matsne.gov.ge/ka/document/view/4877952?publication=0>; <https://matsne.gov.ge/ka/document/view/4877971?publication=0>; <https://matsne.gov.ge/ka/document/view/4877915?publication=0>; <https://matsne.gov.ge/ka/document/view/4877932?publication=0>

64. See Ordinances No. 143, 144, 145 and 146 of the Government of Georgia: http://www.gov.ge/index.php?lang_id=ENG&sec_id=368. Information regarding the laws on waste management was provided by the Ministry of Environmental Protection and Agriculture on 1 March 2021

65. See <https://mepa.gov.ge/En/PublicInformation/20>

66. See <https://matsne.gov.ge/en/document/download/18106/9/en/pdf>

67. See <https://matsne.gov.ge/en/document/download/26824/52/en/pdf>

to EU requirements and for the implementation of multilateral agreements related to biodiversity. In addition, there are multiple laws on the establishment and management of designated protected areas. Prohibiting or allowing the introduction of living genetically modified organisms (GMOs) in Georgia, their use, distribution and introduction to nature, as well as other issues related to GMOs, are regulated by the Law on living genetically modified organisms (2014), which was developed in line with the Cartagena Protocol on Biosafety to the Convention on Biological Diversity (CBD). The law also regulates transboundary movement and the use of living GMOs in closed systems.

Georgia is party to the following environmental conventions, as well as their related protocols and agreements:

- Convention on Biological Diversity and its related Cartagena Protocol on Biosafety
- Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES)
- Convention on Wetlands of International Importance especially as Waterfowl Habitat (Ramsar Convention)
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Agreement on the Conservation of African-Eurasian Migratory Waterbirds (AEWA)
- Agreement on the Conservation of Cetaceans in the Black Sea, Mediterranean Sea and Contiguous Atlantic Area (ACCOBAMS)
- Agreement on the Conservation of Populations of European Bats (EUROBATS).

The main national policy document shaping Georgia's national policy in the field of biodiversity is the National Biodiversity Strategy and Action Plan (NBSAP) for 2014–2020 (2014), approved by Decree No. 343 of the Government of Georgia on 8 May 2014. The NBSAP sets 21 national targets and respective actions which aim to preserve the values of biodiversity, raise public awareness of the significance of biodiversity and its benefits, integrate biodiversity aspects in various sectors, mitigate threats to biodiversity and improve its status.

The AA also sets concrete requirements for Georgia which were translated into actions in the AA implementation road map. The road map covers actions related not only to conservation activities, but also to sustainable fisheries.

The draft law on biodiversity

The draft Law on biodiversity has been prepared to comply with the following EU legislation:

- Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora;
- Council Directive 97/62/EC of 27 October 1997 adapting to technical and scientific progress Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora;
- Council Directive 2006/105/EC of 20 November 2006 adapting Directives 73/239/EEC, 74/557/EEC and 2002/83/EC in the field of environment, by reason of the accession of Bulgaria and Romania;
- Regulation (EC) No. 1882/2003 of the European Parliament and of the Council of 29 September 2003 adapting to Council Decision 1999/468/EC the provisions relating to committees which assist the Commission in the exercise of its implementing powers laid down in instruments subject to the procedure referred to in Article 251 of the EC Treaty;
- Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds.

The Law on conservation of wildlife will be amended to align it further with Directive 2009/147/EC of the European Parliament and of the Council. The purpose of the biodiversity bill is to create a solid legal basis for the protection of Georgia's biodiversity, and to maintain and improve the quantitative and qualitative characteristics of the country's native species and habitats so that they can continue to fulfil their ecological, social and economic functions.

Red List and Red Book of Georgia

On 22 December 2018, the Parliament of Georgia adopted amendments to the Law on the "Red List" and "Red Book"⁶⁸, aimed at addressing the issues identified in the Georgian national legislation under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Based on analysis of the legislation, the CITES Secretariat assigns each signatory country a category. Prior to the adoption of this law, the Georgian legislation was placed in the second category, which meant that the national legislation was partially in line with the requirements of the Convention. Following the adoption of the draft law and the legislative analysis carried out by the Secretariat, in September 2019, the legislation of Georgia was promoted to the first category.

Law on aquaculture

On 24 June 2020, the Parliament of Georgia adopted the Law on aquaculture⁶⁹.

The law encourages both investors and other relevant parties to take effective steps to ensure that the potential of aquaculture is maximized and that significant progress is made, both economically and ecologically.

G. Industrial pollution and hazards

Draft law on industrial emissions

To comply with Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control), the Technical Regulation on approval of conditions for waste incineration and co-incineration was approved by Resolution No. 325 of the Government of Georgia of 8 June 2018. In order to align it with the other articles of the same directive, a draft Law on industrial emissions was developed. The adoption of the bill will establish an integrated environmental system closely aligned to EU standards.

The latest and most important principle introduced by the bill is the concept of best available technologies, which should be based on integrated permit conditions. The bill also ensures public participation in the decision-making process.

Draft law on chemicals and mixtures

The draft Law on chemicals and mixtures was developed with the support of the Czech Development Agency (CzechAid) in accordance with Regulation (EC) No. 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No. 1907/2006,⁷⁰ and the development of relevant by-laws. The initial working version of the normative act on classification, labelling and packaging of substances and mixtures has already been developed⁷¹.

68. See <https://www.matsne.gov.ge/ka/document/view/4433910>

69. See <https://matsne.gov.ge/document/view/4901055>

70. See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32008R1272>

71. Information regarding the draft laws on industrial emissions and chemicals and mixtures was provided by the Ministry of Environmental Protection and Agriculture on 1 March 2021



H. Innovation and clean technologies

Georgia took on an international obligation to advance innovation and clean technologies in the country. Several AA articles are dedicated to this specific issue. One particularly relevant example is chapter 13, article 239, which states that parties to the agreement shall work together on “trade-related aspects of the current and future international climate change regime, including means to promote low-carbon technologies and energy efficiency”.

Article 298 focuses on cooperation in the field of energy, outlining the obligation of parties to improve technologies in energy production, transportation, supply and end use, with particular attention to energy-efficient and environmentally friendly technologies.

Articles 300 to 340 mention the importance of innovations and technological development for tackling climate change and protecting the environment. The emphasis is on the use of modern, cleaner technologies contributing to more sustainable production patterns. Article 314 further states that Georgia shall adopt support instruments for technology-based business start-ups, cluster development and access to finance.

As for national policy framework, the Law on innovations⁷² aims to:

- establish and improve a national innovations ecosystem required for the social and economic development of Georgia
- build the economy of the country on the basis of knowledge and innovations
- facilitate the use of technologies developed in other countries in Georgia
- promote introduction and export of intellectual property and technologies created in Georgia
- ensure penetration of high technologies into all areas of science and economy in order to increase the competitiveness of these areas.

72. See <https://matsne.gov.ge/en/document/view/3322328>

In this law, the Government of Georgia approves the country strategy in the field of innovations and determines the subjects responsible for the implementation of the strategy.

The governmental agencies responsible for the promotion of innovations ecosystem are Enterprise Georgia and Georgia's Innovation and Technology Agency (GITA). These agencies are tasked with informing SMEs about business opportunities in the EU, particularly regarding the transfer of knowledge, technology and innovation that are essential to developing their competitiveness.

One of the main support mechanisms to assist technology-based business start-ups is GITA's small grants programme, which finances innovative projects through start-up co-financing grants and innovations co-financing grants. Start-up grants promote small and innovative enterprises by issuing GEL 100,000 to implement one-year projects. The innovations co-financing grants aim to promote innovations in business processes and the introduction of technologies for enterprises by issuing GEL 500,000 to implement an innovation project with a two-year expiration period.

According to the Global Innovation Index 2020, Georgia ranks sixty-third among 131 economies¹, meaning that Georgia's access to the latest technologies and overall level of technological development remains low. The low level of technological development and innovation in Georgia leads to irrational use of natural resources and threatens the country's natural prosperity.

I. Other relevant laws on environmental protection

Liability for violation of environmental laws

The Code of Administrative Offenses of Georgia⁷⁴ envisages administrative liability for the violation of environmental laws by businesses and identifies agencies responsible for imposing such liability (for example, municipal bodies or respective agencies of the Ministry of Environmental Protection and Agriculture).

In accordance with Chapter XXXVI of the Criminal Code of Georgia⁷⁵, acts against the environment constitute a criminal offence (articles 287–3061 of the Criminal Code of Georgia; liability of the legal person is regulated only by article 2891 – Violation of the procedures in the use of living genetically modified organisms).

Consumer rights

The key consumer rights protection issues are covered in the Law on product safety and Free Movement Code.⁷⁶ These issues include the protection of human life, health, property, and the environment; placement of safe products on the market and their free movement; ensuring competition and facilitating the process of product movement; placing products on the market to promote competition; and ensuring that the facilities with increased technical risk conform with the anti-exploitation regulations.

73. Cornell SC Johnson College of Business, INSEAD & World Intellectual Property Organization (2020). Global Innovation Index 2020. Georgia. https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020/ge.pdf

74. See <https://matsne.gov.ge/en/document/view/28216?publication=381>

75. See <https://matsne.gov.ge/en/document/view/16426?publication=209>

76. See <https://matsne.gov.ge/ka/document/view/1659419>

77. Article 231; see also articles 227–230: http://www.parliament.ge/ge/ajax/downloadFile/34754/AA_ENG

78. See https://www.nbg.gov.ge/uploads/finstability/roadmap/sustainable_finance_roadmap_eng.pdf

Trade and investment

Trade and investment promotion provisions establish Georgia's commitments in the field of environmental protection. These provisions must be implemented within the respective time frames, including the introduction of specific environmental regulations for the private sector, which ultimately aim to improve the ecological condition of the country.

Based on the AA, the State commits to strengthen the role of trade in achieving sustainable development, including economic, social and environmental directives⁷⁷.

Sustainable finance

The National Bank of Georgia developed the Roadmap for Sustainable Finance in Georgia⁷⁸ (2019), which summarizes all possible actions that the National Bank of Georgia intends to take regarding sustainable finance development in the near future. The ultimate goal of this road map is to provide a credible, predictable and stable regulatory framework and prepare the market for a transition to sustainable finance. It aims to support the incorporation of sustainability issues into decision-making by providing coherent and consistent actions and allowing time for the system to adapt. The road map includes several key areas, such as raising awareness of and capacity-building on sustainable finance, as well as embedding environmental, social, and governance management into the risk-assessment frameworks and decision-making processes of financial institutions and corporations. These actions will support transparency and market discipline which will eventually steer more capital towards sustainable sectors.

Labour reform in Georgia

On 29 September 2020, the Parliament of Georgia adopted an important labour law reform package. By offering much greater protection to workers, the adoption of the reforms – which were developed with extensive support from the International Labour Organization (ILO) – constitutes an important step towards bringing Georgia's labour legislation in line with the relevant international labour standards of the ILO and EU directives and striking a better balance between the rights and interests of workers and employers.

The reform package consists of a Law on labour inspection services and amendments to the Labour Code, which include provisions concerning discrimination and equal pay; overtime pay, layoff benefits and paternity leave; limits on verbal employment contracts; night work; mandatory weekly rest; part-time work; collective redundancy, and the transfer of undertakings.

77. Article 231; see also articles 227–230: http://www.parliament.ge/ge/ajax/downloadFile/34754/AA_ENG

78. See https://www.nbg.gov.ge/uploads/finstability/roadmap/sustainable_finance_roadmap_eng.pdf

ANNEXES

TABLE A.1. Percentage structure of gross domestic product⁷⁹

Sector	2015	2016	2017	2018	2019
Agriculture, forestry and fishing	8.8	8.3	7.2	7.8	7.4
Mining and quarrying	1.2	1.2	1.2	1.2	1.4
Manufacturing	10.0	8.8	9.9	10.2	10.1
Electricity, gas, steam and air conditioning supply	1.9	2.1	2.2	2.5	2.3
Water supply; sewerage; waste management and remediation activities	0.8	0.9	0.9	0.8	0.8
Construction	7.6	8.8	9.1	8.3	8.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.7	13.9	14.0	13.9	14.3
Transporting and storage	6.1	5.7	6.4	6.3	6.6
Accommodation and food service activities	3.4	3.3	4.1	4.6	5.2
Information and communication	3.1	2.9	2.8	2.8	3.1
Financial and insurance activities	5.8	5.7	5.9	6.1	5.1
Real estate activities	12.4	12.7	12.0	11.4	11.5
Professional, scientific and technical activities	2.5	2.7	2.7	2.6	2.6
Administrative and support service activities	1.0	1.2	1.2	1.3	1.4
Public administration and defence; compulsory social security	8.6	8.6	7.5	7.5	6.9
Education	4.8	4.7	4.6	4.5	4.4
Human health and social work activities	4.3	4.4	4.4	4.2	4.2
Arts, entertainment and recreation	3.0	3.0	3.0	3.0	3.5
Other services activities	0.9	0.9	1.0	0.9	0.7
Activities of households as employers; undifferentiated goods - and services - producing activities of households for own use of household for own use	0.1	0.1	0.1	0.1	0.1
Total	100.00	100.00	100.00	100.00	100.00

79. National Statistics Office of Georgia (2021). National Accounts of Georgia, 2019. <https://www.geostat.ge/en/single-archive/3352>.

TABLE A.2. Share of persons employed in each sector in 2019, by size of enterprise (%)⁸⁰

Sector	Large	Medium	Small
Agriculture, forestry and fishing	26.1	27.0	46.8
Mining and quarrying	54.3	11.8	33.9
Manufacturing	37.3	25.5	37.2
Electricity, gas, steam and air conditioning supply	86.6	8.7	4.8
Water supply; sewerage, waste management and remediation activities	84.4	10.5	5.1
Construction	20.5	31.5	47.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	29.6	15.4	55.0
Transporting and storage	49.3	9.7	41.0
Accommodation and food service activities	19.1	20.7	60.2
Information and communication	46.4	19.3	34.3
Real estate activities	5.4	15.6	79.0
Professional, scientific and technical activities	1.7	25.1	73.1
Administrative and support service activities	38.9	18.0	43.1
Education	16.3	36.4	47.3
Human health and social work activities	59.6	22.8	17.6
Arts, entertainment and recreation	48.4	22.4	29.2

TABLE A.3. Share of total persons employed in 2019, by sector⁸¹

Sector	Number	Share (%)
Agriculture, forestry and fishing	12,753	1.7
Mining and quarrying	8,830	1.2
Manufacturing	91,506	12.1
Electricity, gas, steam and air conditioning supply	15,114	2.0
Water supply; sewerage; waste management and remediation activities	14,519	1.9
Construction	69,956	27.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	209,953	27.7
Transporting and storage	61,163	8.1
Accommodation and food service activities	48,634	6.4
Information and communication	24,764	3.3
Real estate activities	19,277	2.5
Professional, scientific and technical activities	27,007	3.6
Administrative and support service activities	27,739	3.7
Education	23,324	3.1
Human health and social work activities	74,885	9.9
Arts, entertainment and recreation	19,002	2.5
Other services activities	8,425	1.1

80. National Statistics Office of Georgia (2020). Business Sector in Georgia. <https://www.geostat.ge/en/single-archive/3348>

81. National Statistics Office of Georgia (2020). Business Sector in Georgia. <https://www.geostat.ge/en/single-archive/3348>

TABLE A.4. Number and share of registered enterprises in 2019, by sector

Sector	2015	2016	2017	2018	2019
Agriculture, forestry and fishing	4,940 0.8%	5,410 0.9%	5,692 0.9%	5,979 0.9%	6,267 0.9%
Mining and quarrying	1,369 0.2%	1,461 0.2%	1,581 0.2%	1,676 0.2%	1,744 0.2%
Manufacturing	28,462 5.1%	29,853 5.1%	31,494 5.0%	33,192 4.9%	34,710 4.9%
Electricity, gas, steam and air conditioning supply	247 0.0%	261 0.0%	267 0.0%	277 0.0%	294 0.0%
Water supply; sewerage, waste management and remediation activities	667 0.1%	678 0.1%	689 0.1%	700 0.1%	725 0.1%
Construction	15,489 2.6%	16,710 2.8%	18,066 2.8%	19,303 2.8%	20,872 2.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	134,840 24.3%	140,277 24.0%	146,985 23.5%	152,975 23.0%	157,769 22.5%
Transporting and storage	16,962 3.0%	17,869 3.0%	19,122 3.0%	20,311 3.0%	21,470 3.0%
Accommodation and food service activities	12,834 2.2%	14,054 2.3%	15,554 2.4%	16,944 2.4%	18,224 2.5%
Information and communication	4,890 0.9%	5,068 0.9%	5,357 0.8%	5,660 0.8%	6,002 0.8%
Real estate activities	7,821 1.4%	8,033 1.4%	8,347 1.3%	8,737 1.3%	8,943 1.3%
Professional, scientific and technical activities	10,681 1.9%	11,360 1.9%	12,246 1.9%	13,022 1.9%	13,777 1.9%
Administrative and support service activities	5,747 1.0%	6,378 1.0%	7,132 1.1%	7,781 1.1%	8,333 1.1%
Education	3,062 0.5%	3,246 0.5%	3,459 0.5%	3,688 0.5%	3,869 0.5%
Human health and social work activities	4,088 0.7%	4,220 0.7%	4,382 0.7%	4,531 0.7%	4,670 0.7%
Arts, entertainment and recreation	2,683 0.5%	2,812 0.5%	2,962 0.5%	3,114 0.4%	3,240 0.4%
Other services activities	9,297 1.6%	9,637 1.6%	10,049 1.5%	10,426 1.4%	10,885 1.4%

Unknown activities	297,844	319,010	345,610	373,060	401,273
	54.6%	55.3%	56.3%	57.6%	59.1%
Total	561,923	596,337	638,994	681,376	723,067
Total without unknown activities	264,079	277,327	293,384	308,316	321,794

TABLE A.5. International agreements that Georgia has acceded to in the field of environmental protection

AGREEMENTS	DATE
Convention on the Protection of the Black Sea Against Pollution	1993
The Black Sea Biodiversity and Landscape Conservation Protocol	2009
Protocol on Protection of the Black Sea Marine Environment Against Pollution from Land Based Sources	2009
Protocol on The Protection of the Black Sea Marine Environment Against Pollution by Dumping	1993
Protocol on Cooperation in Combating Pollution of the Black Sea Marine Environment by Oil and Other Harmful Substances in Emergency Situations	1993
Convention on Biological Diversity	1994
Cartagena Protocol on Biosafety to the Convention on Biological Diversity	2008
United Nations Framework Convention on Climate Change	1994
Kyoto Protocol to the United Nations Framework Convention on Climate Change	1999
Doha Amendment to the Kyoto Protocol	2020
Paris Agreement	2017
Convention for the Protection of the Ozone Layer	1995
Montreal Protocol on Substances that Deplete the Ozone Layer	1995
London Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer	2000
Copenhagen Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer	2000
Montreal Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer	2000
Beijing Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer	2010
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	1996
Convention on Wetlands of International Importance especially as Waterfowl Habitat	1996
Convention on Long-range Transboundary Air Pollution	1999
Protocol on Long-term Financing of the Cooperative Programme for Monitoring and Evaluation of the Long-range Transmission of Air Pollutants in Europe to the Convention on Long-range Transboundary Air Pollution	2012
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	1999

United Nations Convention to Combat Desertification	1999
Convention on the Conservation of Migratory Species of Wild Animals	2000
Agreement on the Conservation of Cetaceans of the Black Sea, Mediterranean Sea and Contiguous Atlantic Area (ACCOBAMS)	2001
Agreement on the Conservation of African-Eurasian Migratory Waterbirds (AEWA)	2001
Agreement on the Conservation of Populations of European Bats (EUROBATS) of Populations of European Bats	2001
Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention)	2000
GMO Amendment	2016
Stockholm Convention on Persistent Organic Pollutants (POPs)	2006
Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade	2006
Convention on the Conservation of European Wildlife and Natural Habitats	2008
European Landscape Convention	2010
Agreement Between the Republic of Georgia and the International Atomic Energy Agency for the Application of Safeguards in Connection with the Treaty on the Non-Proliferation of Nuclear Weapons (INFCIRC/617)	2003
Protocol Additional to the Agreement Between the Republic of Georgia and the International Atomic Energy Agency for the Application of Safeguards in Connection with the Treaty on the Non-Proliferation of Nuclear Weapons	2003
Convention on the Physical Protection of Nuclear Material (INFCIRC/274/Rev.1)	2006
Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (INFCIRC/546)	2009
Convention on Early Notification of a Nuclear Accident (INFCIRC/335)	2010
Convention on Assistance in the Case of a Nuclear Accident or Radiological Emergency	2018



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