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# PRINCIPLE LINES OF FORMING ATTRACTIVE INVESTMENT CLIMATE IN GEORGIA

### Abstract:

Each foreign investor today considers Georgia with its investment environment to be one of the most attractive countries. This is not a casual issue. Our country, with effective economical policy of the government, makes maximal attempts for avoiding multiple obstacles of forming favorable investment climate giving impulses to its actualization.

My present work is dedicated to the problematic issues of forming investment climate favorable and attractive to the foreign investors, primary ranges of the industrial system – enterprises and organizations; I tried to represent the factors influencing upon formation of attractive investment environment and to give their new grouping and analyzing. In the presented work the following issues are researched: Investment climate and investment attractiveness from theoretical perspective, content and characteristic of principle factors of forming investment climate of the country: Economical factors and their role in creation of investment climate; Influence of administrative-legislative factors upon formation of the investment climate; Influence of social-economical factors upon investment climate; Influence of resources and technical capabilities upon investment climate, within possible bounds, I included practical materials selected for strengthening my theoretical postulates.

Consideration of theoretical aspects forming investment climate discussed in the work as well as generalization of four blocks concerning investment climate and the authors's recommendations:

- to abstain from adoption of laws setting unjustified restrictions to local and foreign investors and delay their development;
- avoidance of regulations, restricting competition at the particular markets and promoting separate companies;
- Harmonization of Georgian legislation with EU legislation and regulations of international legislative institutions;
- Special attention to the environmental issues; share of investments in the basic stock its increase for environmental protection and rational utilization of natural resources;
- revision of legislative and regulatory framework of environmental and sanitary-epidemiology monitoring.
- solution and arrangement of rights related to land use, settlement policy and competences of local residents as well as issues related to compensation, will help local and foreign investors to implement investment projects, create attractive investment climate in Georgia and activate investment processes.

### Keywords:

Economical growth, Investment climate, investment attractiveness, macro-economy stability, legislative base, business, partner fund.

## Introduction

I have dedicated thirty years of my life to the problems related with theoretical genesis of investments, Investment business, investment projects, the issues of formation and functioning of investment market, financial analyze, including securities market in Georgia, as well as investments and investing (Qoqiauri, 1998, 2001, 2004, 2009, 2010, 2013 and etc.).

My present work is dedicated to the problematic issues of forming investment climate favorable and attractive as to the foreign investors, so primary ranges of the industrial system – enterprises and organizations; I tried to represent the factors influencing upon formation of attractive investment environment and to give their new grouping and analyzing. Within possible bounds, I included practical materials selected for strengthening my theoretical postulates (provisions).

Each foreign investor today considers Georgia with its investment environment to be one of the most attractive countries. This is not a casual issue. Our country, with effective economical policy of the government, makes maximal attempts for avoiding multiple obstacles of forming favorable investment climate and giving impulses to its actualization.

It shall also be noted that there is a great abundance of negative factors influencing upon investment environment and they influence upon each other as well. Due to this, state investment policy is of multifaceted complexity and difficult internal structure.

Another phenomenon shall be emphasized as well – one of the most important problems of reforming Georgian economy is not only attraction of foreign investments, but also direction of the mechanisms of implementing investment strategy towards realization of domestic investments and new innovative projects, as well as their practical utilization.

In this regard, the problem of adequacy of the methods of analyzing factors conditioning nature of investment climate from the point of its attractiveness and if such factors assist, or on the contrary – prevent development of investment processes. Objective of the author exists in creation of adequate directions with the help of which it would be possible to analyze sequentially the factors conditioning attractiveness of investment climate; then to evaluate them as investment risks, generalizing outcomes of analyzing; and in the end to create objective grounds for processing measures to form attractive investment climate and activation of investment processes. And herein lies the object of the work submitted by us.

Notwithstanding important volume of researches provided in this direction and giving credit for to the huge army of scientists and patricians, taking part in solving above problems, it shall be noted that the issues of investment attractiveness in Georgia are learnt insufficiently; this, in its turn, doesn't allow processing of particular measures for formation of favorable investment climate in the country with due relevance and cogency and, in the final analysis, activation and intensification of the investment processes.

Our task in the said direction is to give answers to the following questions:

- ✓ What is and what formulation shall be given to the investment climate, and its components – investment attractiveness and investment activity;
- ✓ What are the principle characteristics of investment climate and factors conditioning its formation;
- ✓ What activities shall be held to make investment climate more attractive for investments and investors;
- ✓ What factors influence upon investment climate and in the final analysis upon investment attractiveness;
- ✓ What creation of favorable and attractive investment environment for foreign and local investors depends on?

Purpose and tasks of present work determined its architectonics and following sequence of the issues:

**I. Investment climate and investment attractiveness from theoretical perspective.**

**II. Content and characteristic of principle factors of forming investment climate of the country:**

- 2.1. Economical factors and their role in creation of investment climate;
- 2.2. Influence of administrative-legislative factors upon formation of the investment climate;
- 2.3. Influence of social-economical factors upon investment climate;
- 2.4. Influence of resources and technical capabilities upon investment climate.

**I. Investment climate and investment attractiveness from theoretical perspective**

In understanding of the most part of author, investment climate is the totality of objective conditions for realization of investment activities: resources, capabilities and restrictions, conditioning intensity of attracting investments into the economy of the country.

Now that we speak about the climate, for understanding its essence we may freely use the concept of the climate in its direct meteorology meaning. It is accepted to consider sustainable totality of the situation, conditioned by the environment, representing average regime of weather for extended period of time. If the weather is an instantaneous state of several characteristics, and individual variation from the norm shall not be considered to be climate fluctuation, then significant sustainable trend of the said characteristics for extended period of time eliminates change in climate.

The dynamism of changing social-economical conditions of the region promotes sustainable changes of economical state of the given system, at the same time the

conditions and specificity of investment processes are determined with numbers of conditions, which may have sustainable and unsteady nature. Instability of the conditions gives rise to the factor of uncertainty, which shall be considered. Integrally and in the first place, the totality of sustainable trends, determined with numbers of forecasted characteristics of the investment activities, form investment climate of the country.

The concept “investment climate”, its essence becomes apparent in its components – different methods of approaches.

**First method of approach.** Investment climate – this is generalized characteristic of totality of social, economical, organizational, legal, political and social-cultural preconditions, predetermining attractiveness and appropriateness of investment into the varying business systems (economy of the country, region, corporation).

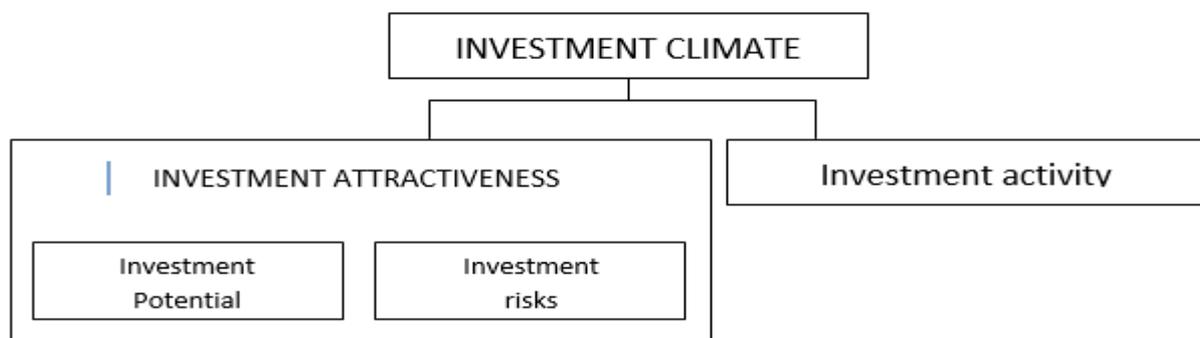
Per se, the concept of investment climate is identified here with the conception of investment attractiveness.

**Second method of approach.** The determination of the investment concept from the position of institutionalism. Investment climate – this is the special subsystem in the institutional system of economy, serving to create prerequisites for the best using of social-economical relations in the development and scientific-technical modernization of productive forces of the society through eager investment activities (Bulgakova, 57-62).

Undoubtedly, this method of approach has particular fundamentals for being used in analyzing of the factors, conditioning quality of the investment climate – main ones but not all of them. Therewith it doesn't give access to the investment attractiveness.

**Third method of approach** to the determination of the investment climate is represented with numbers of authors according to which investment climate of the country, region, sector, and enterprise is made up of the mixture of investment attractiveness and investment activity, reflecting the degree of variability of the climate. Structure of investment climate, conforming to this formulation is given in the Fig. 1 below.

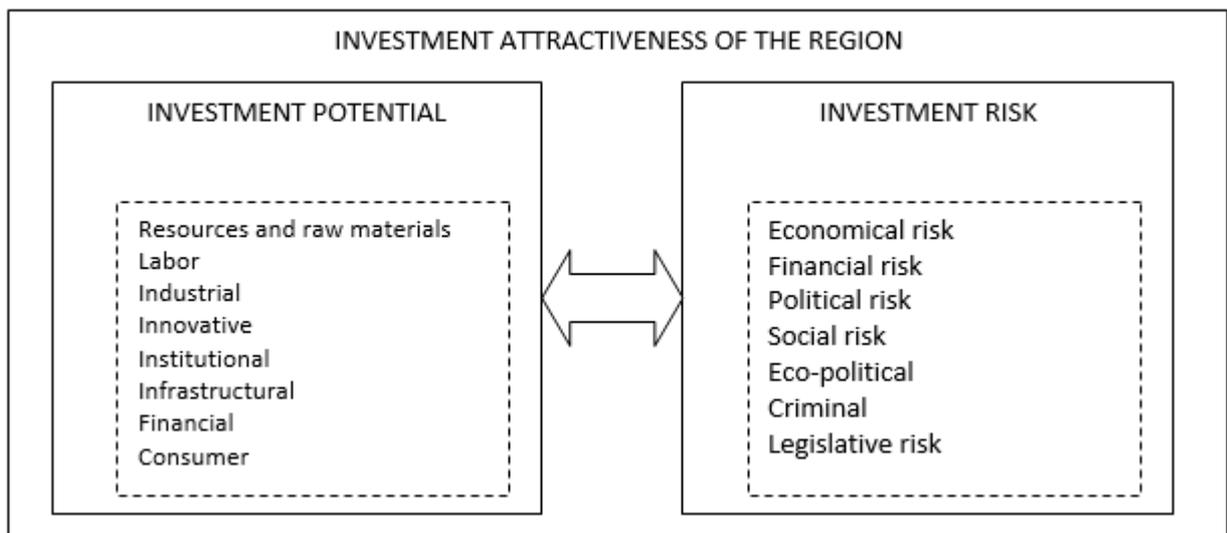
**Fig. 1. Structure of Investment Climate**



Investment attractiveness is described to be correlation of investment potential (totality of the conditions, factors, attracting or repelling investors) and investment risks (totality of factors influencing upon formation of unforeseen financial losses under the conditions of indeterminateness of the outcomes of investment activity or probability of failing to achieve outcomes of investments in full or partially).

Two characteristics make principle components of investment attractiveness: investment risk and investment potential (see Fig. 2).

**Fig. 2, Model of Investment Attractiveness**



Size of investment risk characterizes probability of losing investments and incomes from them and it is determined with the following components:

- Economical risk (trends in economical development of the country);
- Financial risk (degree of the budget balance and state of finance of the enterprise);
- Political risk (credibility of authorities);
- Social risk (level of social strain);
- Ecological (level of environmental contamination);
- Criminal (crime rate in the region and extent of economical crimes);
- Legislative risk (juridical conditions of investments, tax remission).

Investment potential is material foundation to provide dynamics of social-economical development.

They separate following potentials out of the components of investment potential:

- Resource-primary potential (provision with natural resources);
- Labor (labor resources and their educational level);
- Industrial (outcomes of activities in the principle fields of economy);
- Innovation (development level of research-and-development activities and their financing, involvement of achievements of scientific-technical progress);
- Institutional (level of development of commercial banks, insurance companies, small business and joint ventures);
- Infrastructural (transport-geographic state of the country and its infrastructure provision);
- Financial (volume of budgetary incomes, profitableness of enterprises and incomes of population);
- Consumer (total buying power of population).

From the position of innovative opportunities, investment potential is determined “to be the ability to consider the object of real sector, providing sufficient degree of renovation of the production factors, their combinations in the technological process of manufactured product, organization-management structures and corporate culture”.

Definitely investment attractiveness and investment activity are the most important characteristics of investment climate, but with present method of approach they represent factors of single level.

In pair with the investment climate they also consider the concept “investment activity”. Under investment activities they usually consider the parameter conditioning “development and intensity of investment activity, characterized with the volumes and rates of attracting investments into the capital asset or level of variability of investment activity” (Qoqiauri, 2010).

Undoubtedly, investment attractiveness, as well as investment activity is in close connection with the concept of investment climate, though with present method of approach, all of them are represented with the factors of same level; and this is not quite correct.

They think that cause-and-effect relations are lightly different. Investment climate is the fundamental characteristic and its nature conditions attractiveness of the region for the investor, which means that it determines investment attractiveness. If there is high level of attractiveness and the investors, like butterflies, fly to the light, the same will be shown in the degree of investment activity. In such case all those, who are attracted with the climate, will rush there in high volume and with high intensity.

$$\left\{ \begin{array}{l} V_1 = f(A_1) \\ A_1 = f(C_1) \end{array} \right.$$

Where:  $C_1$  is investment climate;  $A_1$  – investment attractiveness;  $V_1$  – investment activity.

Thereupon, we have to speak about the system in which investment activity is the resulting value of investment activity in the region, depending on its investment activities in the region, also depending on investment attractiveness, which, in its turn, is determined with such essential parameter as investment climate.

It is important to consider the methods of approach to the essence of the investment climate of the country and its components which are the most widely represented in the scientific literature, in order to determine interrelation of the concepts “investment climate”, “investment attractiveness” and “investment activity” and identify cause-consequence relation between them. We shall not only pay attention to the fact of existence of the cause-consequence relation, but also to identify the indicators are resultant and which – factorials.

Investment climate determines the degree of attractiveness of the country for investors, i.e. the degree of favorableness of the climate determines investment attractiveness of the country. The countries, which were able to create image of being attractive for investments, show higher results of investment activities, as in quantitative, so – qualitative relations.

Though, any investment activity with determination is directed towards making returns from the invested funds. Consequently, investment climate shows sustainable opportunities created during particular period of time and the risks of making sustainably high and guaranteed (with minimal risk) income (Qoqiauri, pp. 102-103; 106-107).

## **II. Content and Characteristic of Principle Factors of Forming Investment Climate of the Country**

### **2.1. Economical factors and their role in creation of investment climate**

One of the objects of the investors is selection for the objects of investment such ones, which have the best perspectives for development and may provide the highest effectiveness of investments. Foundation to such selection is evaluation and forecasting of attractiveness of separate potential objects of investments from the point of totality of economical conditions, influencing upon effectiveness of financial and economic activities of particular object and its market position.

Economical factors, as principle components of investment attractiveness feature perfect peculiarity of the object of investment, conditioned with its economical sustainability and perspectives of its development. They are generalized characteristics of investment features of particular object, from the point of its market positions (external economic impulses) and economical sustainability, peculiarities of manufacturing, financial and economic activities, stages of life cycle and perspectives of development (internal economical factors. Internal environment is made of the factors, having permanent immediate influence upon functioning of the enterprise in general, and including set of key processes and elements of the enterprise, conditions of which in totality are determined by the potential and opportunities of the particular object of investment).

In terms of evaluation of economical effectiveness of investment into the particular objects, the investors, of course, in the first place are interested in the extent of profitableness of owned assets. Such method of approach is oriented towards selection of investment policy of the enterprise, determining the most effective ways of using the capital in the investment process and formation of separate lines of investment activity.

In the scientific literature they observe quite considerable variance of factors, influencing upon investment attractiveness and, at the same time, they have no consistency and clear structuring.

Evaluation of investment climate and economical factors determining it, exists in determination and measurement of the key factors of economical nature, as at the level of Georgian economy (i.e. national economy in whole), so at the level of primary links of the economy (i.e. enterprises and companies). In the last analysis, this will allow determination of principle peculiarities of the objects of investment attracting investors and restrictive factors playing the role of the barriers and restrictions for potential investors.

Thus, investment attractiveness is considered at the level of the enterprise, sector, region, and country. The enterprise in this system is the end point of application of resources, where particular investment projects are implemented. All participants (subjects) of investment activities focus on it, where each subject has own interest. In this regard, investment attractiveness of the enterprise, with a view to economical factors, will feature economical expediency of investment, based on the agreement of interests and opportunities of the investor and recipient of the investment, providing achievement of the goals of each of them in terms of reasonable level of profitableness and risk of investments.

Evaluation of qualified characteristics of management is of great importance for the investor as well, which are difficult to evaluate thought the instrumentality of quantitative measures, i.e. current system of management at the enterprise, professional qualification of the management, efficiency of cost control system and budgeting of the management

decisions. Absence of reliable estimate of these factors raises risk of losing invested funds and probability of additional unforeseen expenses.

Though, potential investor is, in the first place, interested in maximization of his income, he is more interested in the perspectives of long-term growth of his income. Even financially sound enterprise, if it is currently operating quite invariably, will not be of investment interest, if the sector in which it is operating, is unattractive and unpromising.

Attractiveness of any investment project will be determined with the attractiveness of the sector in which its realization takes place. In other words, for strategic investor the arguments of investment of funds into particular sector will not be enough, if its development falls on the scale of national economy. Due to this, in terms of evaluation of investment attractiveness, it is necessary to evaluate the factors determining investment attractiveness of the sector for potential investor.

In the most of the existed methods, evaluation of investment attractiveness of the sector includes two aspects: potential analysis (in the first place, characterized with the value of expected income) and evaluation of the extent of investment risk (perspectives of its obtaining and probability of negative deviation of the outcome of investment from the expected value).

Quantitative assessment of investment attractiveness of the sector from the point of contribution into the national economy, for example, may be implemented with the help of calculating macro-economical multiplier, showing the extent of growing of gross domestic output of investments into this sector raise by one unit.

Based on the current state of economical development, characterized with the high level of global competitiveness in terms of continuously increasing globalization, the investor, especially the foreign one, evaluates country state (i.e. attractiveness of investment climate of the country in general) as well, apart from regional state of the investment object. Notwithstanding total financial profitability of the investment project, risk of political and economical instability in the country will not allow attracting of the capital in the demanded volume ( Kovzanadze, 2015).

Economical factors at the level of national economy are given below:

- 1. Current growth trend of the volume of national production** (dynamics of economic growth, volume of national production, development level of the structure of production, rough and reproducing directions of production).
- 2. Degree of stability of economical growth and variability of economical conditions** (stability of economical growth and national incomes, variability of structure of national production, level of economical risk).
- 3. Status and economical state of the country in the world** (degree of integration into the global economical space, general political situation, international economical connections).

**4. Characteristic peculiarities of domestic market** (maturity degree of commodity-money relations); degree of governmental regulation of tariffs, prices, credit relations, market conjuncture, level of inflation, percentage rates, exchange rate, stability of national currency).

**5. Nature of governmental regulation of economy and degree of state intrusion into the business** (national mentality, degree of public conscience, interrelation between government and society, extent of governmental regulation of business activities and state intrusion into the economy; nature of relation between business and government, corruption level).

And finally, we separate stability of macroeconomic development out of the economical factors. It shall be noted that Georgian economy is of zigzag (turbulent) nature.

Deep economical crisis since restoration of state independence (1991) was followed with the fall of industrial production, ruining infrastructure; the country overcame hyperinflation, and reduction of the volume of Gross Domestic Product in 70 percents (Meskhia, 2015).

With the help of the credits of International Monetary Fund and World Bank economical situation was gradually stabilized in 1995-2003. New monetary unit was introduced; more thoughtful macroeconomic policy was pursued [13]; besides these, taxation system was simplified, particular restrictions on inflow of foreign investments and foreign trading operations took place, the process of privatizing small and middle enterprises was accelerated. By means of the reforms of social-economical nature the process of economical growth started, namely, said index reached peak indicator – 11.2% in 1996.

In the raise of the country economy it is purposeful to mention inflow of investments in 2001 with the magisterial transit pipelines and foreign financial assistance in connection with construction of Baku-Sochi and Baku-Jeyhan pipeline.

At the trajectory of development of the country I'd like to separate last 10-15 years; at the background of important positive outcomes and healing of the state budget during this period, effective reforms were carried out. For facilitation of the damage inflicted with global crises and Russian-Georgian War of 2008, Georgian government received assistance up to 4.5 billion US Dollars from the countries of the Commonwealth and international organizations, including 2.5 billions of low interest credit, and 2 billion in the form of grants (Meskhia, 2015).

Generally, economical growth of the country is determined according to the changes in Gross Domestic Product, which means total price of manufactured gross final products and services rendered within the bounds of the country. Let us look through GDP growth rates below:

Table 1

**Georgian GDP and Direct Foreign Investments growth rate in 2004-2015****Years GDP growth rates in percents Foreign investments (million US Dollars)**

Years	GDP growth rates in percents	Foreign investments (million US Dollars)
2004	5,9	499,1
2005	9,6	449,8
2006	9,4	1190,4
2007	12,6	2014,8
2008	2,6	1564,0
2009	-3,7	658,4
2010	6,2	814,5
2011	7,2	1117,2
2012	6,4	911,6
2013	3,3	941,9
2014	4,8	1272,5
1 <sup>st</sup> quarter of 2015	3,2*	175*

*Calculated on the basis of the data of National Service of Statistic of Georgia.*

*Notice: \* estimated figure*

As you can see in the Table, during last ten years the lowest percentage growth was identified in 2008-2009, related with the August War of 2008 and economical crisis of 2009, rate of economical growth in 2004-2012 made averagely 6.2%. As for the years 2013-2015, rates of economical growth averaged 3.3%. Consequently, rate of economical growth seems to be two times less than before 2012.

Compared with the estimated figure planned by the government, much less wealth has been created in the economy of the country. The economy was increased less for 1.8 billion Georgian Laris in 2013, in 2014-2015 performance of the estimated figure lacked 1.1 billion Georgian Laris.

One phenomenon shall be emphasized, in 2014 nominal GDP growth was forecasted to be 8.7%; with the preliminary evaluation, it was truly increased in 8.7% and made 2.917 billion Georgian Lari; i.e. economical growth conformed to the prognosis, but it didn't reach scheduled level, provoked by low growth rates of the year 2013. In such case, the wealth less for 176 billion Georgian Lari was created in the country economy. Finally, during last three years economy of the country lost 2.9 billion Georgian Lari.

Therefore, first task of investment attractiveness – macroeconomic stability of the country is characterized with uneven variations and its amplitude is characterized with sharp fluctuations.

## **2.2. Influence of administrative-legislative factors upon formation of the investment climate**

In creation of favorable investment environment we shall emphasize necessity of creating civilized legislative domain in Georgia; of course, it shall be backed with the laws of market economy. We mean legal and regulatory framework, its state, particularly adequacy of legislation in the field of business taxation with tax administration; antimonopoly regulation; law regulating foreign investments; custom and visa legislation; legislation in the field of business protection and investors' rights; laws on copyright.

We also consider the nature of state assistance of small and middle business to be important as well as its legal and regulatory protection and promotion.

We have already written about these issues in 2008-2009 (Qoqiauri, 2009).

Group of the factors of administrative law exercises a significant influence upon formation of investment climate and, as a consequence, upon acceleration or retardation of investment process. Herewith, from the position of the entrepreneurs, including foreign ones, their role in the factors, conditioning investment climate is not only too big, by it is being increased.

According to the practice, administrative factors implement the most important role in making decision on investment. Especially if taking into consideration absolute fact that low level of institutional development under the conditions of formation of market economy, from the one hand, will not provide realization of market factors without activation of administrative factors in full.

Thereby, administrative factors were and still remain to be special group of factors being able, on the one hand, to implement positive role in raising attractiveness of investment climate, and on the other hand, under particular conditions, they turn into the barriers and restrictions preventing implementation and development of investment processes.

As far as administrative factors are formed within the bounds of particular legislative field, and their nature is predetermined with legislative acts and regulatory documents of

different kinds, in the given context it appears to be sufficient reason to consider them not as simple administrative, but also the factors of administrative law.

Will the given group of factors provide effective promotion of raising attractiveness of the investment climate or, on the contrary, it will retard the process and thus weaken motivation and incentives to investments depend on their adequacy. Their development in the form of the barriers and restrictions, especially of such as administrative restrictions for entering investors' region; long-standing and labor intensive process of agreement and obtaining permits for capital construction; difficult and unjustified unprofitable accessibility to the land and energy resources; national migration policy and etc. are not only preventing essentially mobilization of investment, but also create abstract opportunities for occurrence of corruption relations promoting transformation of administrative factors into the barriers and restrictions on the way of investments even more.

At the same time there are numbers of problems in relation with these factors, which may be solved only in terms of reforming institutional processes. Particularly, this is corruption and criminal risks, insufficiently adequate tax administration, contravention of principles of supremacy of statute law, selective enforcement and etc.

Analyze of origination of the factors of administrative law and conditions of their development as barriers and restrictions, also identification of the nature of their influence upon investment climate and evaluation of this influence become of more relevance in the issue of solving the problem of influence of administrative factors upon investment climate. Especially, if taking into account the fact that existence of such kinds of barriers are not only essential impediment for functioning of the business, but it also brings to the partial, and sometimes, full displacement of entrepreneurs to the "shadow sector" of the economy, filling it up (which is especially characteristic for small and middle business), taking the business outside the country, termination of the business, also losing attractiveness of the entrepreneurial activities, identified in the lower share of small and middle business in Georgian economy and retardation in its growth.

Administrative factors at macro level are of similar form, as at the regional one, but, of course, they differ in composition and depend on some parameters. Let us consider them.

- 1. General political situation in the country** (position of Georgia in global economy and its rating in creation and conduct of business; independence of law enforcement and judicial systems; law enforcement practice, providing supremacy of law; counteraction to criminal seizures and mergence; relation with the using modern market organization forms (holdings, outsourcings, franchising and etc.)
- 2. Condition of state regulatory and legal framework and efficiency of the government in its reforming** (i.e. adequacy of law in the field of business taxation and nature of tax administration; antimonopoly regulation legislation regulating

foreign investments; custom law; legislation in the field of protection of business and investor's rights; legislation in the field of copyright).

3. **Nature of state economical, industrial and investment-innovation policy and their interrelation** (adequacy of regulation of entrepreneurial activities; development of competition and restriction of activities of the monopolies; improvement of custom administration; size and role of governmental sector in the economy; condition of the issues and existence of reforms in the field of creation and conduct of business; efficiency of the measures of supporting small and middle businesses; also protection of national manufacturers and foreign investors; situation with formation of favorable innovation-investment domain).
4. **Established system of regulation of financial-credit system** (especially financial law; regulation of the conditions of crediting and refinancing rate; measures on maintenance of stability of national currency and regulation of its rate);
5. **State of public sector and nature of interaction in the triangle: public – government – business** (level of self organization of public society; pursue of the public for control and existence of respective institutions; real controllability of the society for government and business; nature of cooperation of public and business).

In the European countries they waste at average 6 procedures within the term of 14 days for registration of enterprises, and in the countries joining EU in 2004, they need only 5 procedures for registration of the enterprises, saying nothing about one of the leaders in global rating – New Zealand, where they need only 1 procedure and 15 minutes of time for registration of enterprise. There's still something to strive for.

In the paper of the World Bank and International Financial Corporation they bring examples of 26 countries including China (Hong Kong), Canada, Mexico, Morocco, Singapore, where there is the system of "Single Window". Hong Kong example is one of the most representatives in this regard, where the government united 8 procedures with participation of 6 agencies and 2 private firms into the framework of Single Window. Ultimately number of procedures for obtaining construction permits was decreased to 6.

Successful reforms implemented till today (35 reforms since 2005) turned Georgia into the first reformer among the countries of Eastern and Central Europe.

According to the data of the World Bank the Country got into the Top Ten of the countries in 2014, namely, property registration is the first place, using construction permits – 2nd place, using credit – 3rd place, starting business "Doing business 2014" – 8th place; besides this, Georgia has high rating of criteria for protecting investors, going ahead Japan, Sweden and Norway (Shonia, mamuladze, 2015).

**Let us consider briefly current investment legislation framework.**

Particular legislative regulations were adopted for improvement investment climate in Georgia; though, international assessment and report of the problems existed in relation with the investment environment is not quite good. Namely, according to the data of 2013-2014, Georgia has following rates in the index of global competitiveness: protection of property right – 120th place; efficiency of legal framework of solving disputes – 92nd place; effectiveness of antimonopoly policy – 138th place; intensity of local competitiveness – 123rd place; scales of domination at the market – 119th place (Shonia, mamuladze, 2015).

The law regulating investments adopted in July of 1991 in Georgia, declared invalidate in 1995 after adoption of the law on foreign investments; the Law adopted in 1996 on assistance of investment activities and warranties; the law of 2006 – on state assistance of investments; Law of 2013 – on investment funds – these are main legislative regulations of investments, which are not enough. We consider it to be necessary to adopt other laws on investment activities in total and foreign investment (Erkomaishvili, 2015).

**2.3. Influence of social and ecological factors upon investment climate**

Ecologically clean habitat and conditions of his/her health and longevity are the most important components of the quality of life of a person, as well as health of future generations. Industrial and economic activities of people give rise to dangerous pollution of natural environment. Influence of different fields and sectors of economy upon natural environment unequal. Structural pollution of the environment shall be considered not only in terms of justification of regional environmental policy, but also in terms of selecting priority lines of its development based on the influence of the economical sectors upon environments.

Meaning of the group of social-economical factors in formation of investment climate during different period of time was evaluated differently by investors. According to the survey of investors (2010-2012), including foreign ones, weightage of this group for making decision by the investors makes 10-15%.

In relation with all groups of factors, social-ecological one is not the dominated, but during last years, there are historical trends of widening social-ecological responsibilities of business, giving relative rise to their importance.

European Union is being initiatively forwarding the organization of “Green Economy”. According to the UN Environmental Program (UNEP) “green economy is determined as the economy increasing prosperity of people and providing social justice and at the same time, decreasing essentially environmental risks and its degradation...”.

For Georgia, the concept of “Green Economy itself” is novelty and it is not actually used in official documents.

Modern global market environment dictates new rules, in which social-ecological responsibility shall become the norm for conducting entrepreneurial activities, one of the key factors in the process of making business decisions.

In addition, during recent years, global trend of widening social-ecological responsibilities of business has become universally recognized. For the instrument for decreasing nonfinancial risks they consider corporate social-ecological responsibility. Modern concept of corporate social-ecological responsibility generalize not only influence upon environment and sustainable development of company, but also creation of secure jobs, and observation of ethic norms and formation of ecological responsibility of conduct subject to the interests of all parties.

All stated above confirm that meaning of social and ecological factors in formation of investment climate at every hierarchy level will increase year by year. Currently, we have such period of development of economy, when protection of the mankind is becoming much more important than further technological progress. In our country new ideology is being formed, through which economical stability shall be provided, together with ecological tolerance and social welfare.

Considering the factors composing social-ecological group and forming investment climate of the region at every level of economic management and characteristics of each factor, we shall also consider the issues conditioning investor's decisions on investment of capital.

## I. Social

- 1. Social conditions for the employees of the enterprise:** level of remuneration at the enterprise and system of labor motivation, social policy of the enterprise, existence of social infrastructure, measures of social assistance of workers, social stability and psychological climate inside the staff; danger of strikes and intensification of social tension inside the enterprise, closeness of the enterprise with the settled places, micro district, and transport provision.
- 2. Social importance of the sector and level of its attractiveness for employment assistance:** number and share of employed in the sector as compared with total amount of employed population, average level of remuneration in the sector as compared with other sectors and kinds of activities.
- 3. Level of social stability in the region:** social stoppage, possibilities of social exposures and strikes, measures for social assistance.
- 4. Level of social stability in the country:** social situation, opportunities of social exposures and strikes, internal and external dangers of violation of social stability and safety, sustainability of demographic dynamics, quality of life of population, state measures for social assistance.

## II. Environmental impact:

Ecologic environment – factor determining age of life of population to a large extent, making important characteristics to the territorial competitiveness in the long-term outlook.

Business entities have different stimulus for environmental activities – inducement for maintenance of natural resources with those, to whom they are important economical resources (tourism), and inducement for consumption of natural resources for those, to whom they are free social resource.

Investment projects may have different actual severity of environmental impact:

- Kinds of activities making no actual influence upon environment;
- Kinds of activities of average influence upon environment, i.e. eco-social outcomes of which may be easily predicted, prevented and(or) alleviated in the presence of necessary financial and technical feasibility;
- Kinds of activities with high ecological risk have following characteristics: applied technologies, related with utilization of scarce resources or hazardous materials, or causing potential important and(or) permanent environmental and social consequences on the strength of volume of the operation or entail important environmental obligations, volume of which are hard to determine at the stage of investment projection. In such case investor will require conducting complex social-economical examination, as a rule, by means of attracting competent specialist in ecology and (or) social problems of required knowledge and experience.

Generalizing stated above, they offer separation of following factors, influencing upon environment and forming investment climate of the region at every level of economic management.

1. **Level of impact of enterprise upon environment:** level of impact of the enterprise upon eco-system, volume of atmospheric emission and discharges to water, existence of environmental restrictions, ecology and sanitary restrictions on using land plots for constructions, cost of construction and maintenance of environmental facilities, existence of cleaning devises and need in them, their age and state at the enterprise, sanitary-environmental restrictions for enterprise and its products.
2. **Industry peculiarities of environmental impact:** impact of the enterprise on the environment in conformity with hygienic and ecological norms, existence of environmental restrictions, cost of construction and maintenance of environmental facilities, and sanitary-ecological restrictions for the enterprises of such sector and their products.

3. **Environmental situation in the region and controlling it:** sanitary-ecological situation in the region, opportunities for environmental incident, ecologically dangerous production in the region and their share, position of the region in terms of requirements imposed on the environment, level of ecological load on the region and requirements to the investors in terms of opening new enterprises, existence of sufficient budgetary assignments to the sectors, responsible for reproduction and protection of natural resources (forestry, water economy, geological prospecting, nature conversation bodies).
4. **Environmental setting in the country:** existence and share of ecologically dangerous productions in the country, environmental situation, sustainability of ecological balance, level of ecological accident rate in the country, level of fracturing of eco-system in terms of economic activities, existence of sufficient budgetary assignments of sectors, responsible for reproduction and protection of natural resources (forestry, water economy, geological prospecting, nature conversation bodies).

### III. Protection of labor

According to the Labor Code, labor protection is the system of life and health conservancy of the employees in terms of labor activities, including legal, social-economical, organization-technical, sanitary-hygienic, medical-preventive, rehabilitation and other activities.

Here are characteristics of factors per levels:

1. **Peculiarities of contexts and labor protection at the enterprise:** labor condition and state of labor protection, existence of manufacturing factors creating harmful and dangerous conditions of labor, level of exposure – and fire hazard of the enterprise, requirements for special clothes, provision with the devices of labor protection, sanitary requirements to the workers of the enterprise, necessity of having of sanitary books, demands from the organization of state monitoring and licensing of separate kinds of activities.
2. **Sectorial peculiarities of conditions, context and labor protection:** sectorial system of observance of the measures of labor protection, requirements for special clothes, provision with the devices of labor protection, sanitary requirements to the workers of the enterprise, necessity of having of sanitary books, demands from the organization of state monitoring and licensing of separate kinds of activities.
3. **The factor does not appear at the regional level, namely, it is determined with the factor of federal level.**

4. **Legislative and regulatory framework in the field of labor protection:** degree of readiness of labor legislation, level of demands of labor protection and their stability.

Our purpose is not only determination and naming social-ecological factors, but also to identify how each factor influences upon formation of investment climate of the region and to show how to decrease or eliminate obstacles for investment.

#### **2.4. Influence of the resources and technical opportunities upon investment climate**

Resource factors of forming investment climate characterize such aspects, as provision with the complex of resources, necessary for provision of investment process (financial and cash assets, also assets of other nature), functioning of the enterprise (HR potential, material-technical base, raw materials, energy, intellectual property and etc.) and level of efficiency of using such resources. Maximal return from existed resources of industrial subject and creation of favorable conditions for attraction of investments are the most important factors in terms of making investment decisions.

Investment attractiveness of any object of investment is formed, from the one hand, with resource potential, and from the other hand – possible risks, as investment activities are objectively related with occurrence of the risks of different kinds. According to the classical economical theory, basic kinds of resources used for creation of prizes of life, are: labor, land, capital, entrepreneurial abilities, and information.

Generally for implementation of investment activities they usually separate necessity of existence of following forms of resources:

**Financial and cash assets;**

**Information assets** (outcomes of intellectual activities, research and development);

**Labor resources** (work force);

**Natural assets** (materials and raw materials, mineral products, land assets and etc.);

**Material and technical assets** (equipments, technologies, floating capital and other objects of principle production assets).

Attractiveness of different objects for investors directly depends on the opportunities of such object of investment, i.e. from the existence and quality of resources necessary for implementation of the process of investment. As any investor, investing resources is focused upon maximization of his/her income, i.e. return from the invested sources, he/she, in the first place, evaluates resource opportunities for particular object and forecasts investment risks. In the capacity of the potential opportunities, necessary for successfulness of investment project, we may distinguish financial, informational, labor, natural, material and technical resources. Innovation activity for the enterprise, in the first

place, considers its development, and growth of its aggregate capital. Investment attractiveness of the enterprise makes ground to its continuous stable growth.

Thus, investment attractiveness of industrial enterprises are characterized with effective using of resources by the enterprises, their abilities for self-development on the basis of increasing profitableness of capital, technical-economical level of production, quality and competitiveness of products, stability of financial performance.

It is known that investment resources of the enterprise are formed with the help of internal sources of the enterprise (profit distribution) and external sources (attraction of external national or foreign investments), at the same time, accumulated capital is the base for investments. Steadiness of the investment process of the enterprises is the feature of no small importance of the enterprise, i.e. this process is being continued at every stage of lifecycle of the enterprise, from the beginning till ending.

However, growth rates of the volume of investments of the enterprise are determined purely individually for each enterprise. As a rule, growth rate of internal investments are determined with the dividend policy of the company, level of capitalization and etc. Investment attractiveness for external investors is determine to be investment potential of the company (state of material-technical base; scientific-technological potential of the enterprise; level of provision with raw materials and primary dependence; HR potential of the enterprise; state of infrastructure), as well as investment risks. Investment potential provides opportunities for making maximal income on the invested sources, and investment risks allow evaluation and prevention of political, economical, financial and legislative and other hazards, directly influencing upon profitableness of investment capital.

As for the investment climate of the country in whole, it shall be noted that for Georgian investor (for residents) in terms of determination of attractiveness of investment climate, country risks are not actual. Different from Georgian investor, foreign one is in the first place interested in the investment climate of the country, than investment climate of regions, sectors and finally – Industrial subjects, as the investor shall to take the hurdle of entering market of other country.

Resource-technical potential of the country is of great importance, as well as opportunities for its using in the investment process. Principle groups of factors, characteristic resource opportunities of the country are described below.

1. **Existence of natural and raw material resources and level of primary dependence** (provision with principle kinds of raw material resources, level of primary dependence of the country and existence of own raw materials);
2. **Demographic situation in the country** (composition and qualification of labor resources, implementation and efficiency of the measures for improvement of

demographic situations, state of manpower development, migration policy of the country);

3. **Level of technological development and scientific-technological potential of the country** (level of technological development as compared with the civilized countries, rates of technological progress in creation and modification of technique, scales of using innovation technologies);
4. **Level of development of the complex of sectors of public economy, service industry** (including contraction, transport, communication, water supply and sewerage system, education, science, health care and etc.).
5. **System of organization of state patent-licensing works** (organization of patent-licensing works, information provision, level of information security, opportunities for obtaining new patents and generation of innovations, quality of standards, technical norms, their control and restrictions, system of copyright protection).

Assessment and analyze of investment climate on the one hand is the foundation for processing its investment policy, and, on the other hand, opportunity of identifying defects in the management activities, foresee activities for attraction of investment resources. This, in the first place, allows investors to clarify themselves in decisions about investments into the particular object.

### **Conclusions and recommendations**

From middle years of 2000, main driver of increasing Georgian economy was the investments, inflow of which started upon starting of state management reforms. Georgia was the most successful in fighting corruption in liberalization of economy, in tax and regulatory fields.

Real growth of Gross Domestic Product during 6 months in 2015 in Georgia made 2.6 percents. This index of growth is the lowest during recent years.

It shall be emphasized that it would be impossible to speak about improvement of the rate of economical growth no important investment boom has taken place in Georgia.

For this, it is necessary to improve investment climate and analyze positive and negative trends in this field.

Among positive trends following shall be noted:

- One of the main achievements of the government, which came in 2012, is releasing business from governmental pressure;
- Agreement of deep and comprehensive free trade was signed and activated with European Union;

- New legislation regulating competition has been adopted;
- In 2011, partner fund was established in Georgia for assistance of business and implementation of investment projects in the prior sectors from the government. Today total volume of the investment projects of the fund reached 2 billion US Dollars (Kovzanadze 2015).

Interest in Georgia has been increased during last period from the side of large transnational companies and different solid businessmen.

Investment climate became most attractive in energy-sector. Important and volumetric investments are implemented here. Principle areas of investments are determined in construction of object of new generation, numbers of projects are started from the point of strengthening energy infrastructure; they consider rehabilitation of old transmission lines and substations and construction of new infrastructure.

Investment environment **worsening list** is much longer, particularly:

- Unstable legislation environment and delayed amendments;
- New migration policy;
- Delayed process of reforms of labor code;
- Restriction in selling land to the foreigners;
- New regulations of post service;
- Unfortunately, elite corruption signs are identified and conflicts of interests are being detected, which will be the most preventing phenomenon for entering of reliable and qualified investors;
- High interest rates on loans are of serious problem and I consider it to be unsolvable. Business is in hard situation for paying such high interests. Interbank competition shall be increases; to avoid agreement between the banks on maintenance of high interest rates. This latest scares local and foreign investors greatly.

### **For improvement of attractiveness of the country:**

We shall abstain ourselves from adoption of laws setting unjustified restrictions to local and foreign investors and delay their development;

We shall avoid regulations, restricting competition at the particular markets and promoting separate companies;

Harmonization of Georgian legislation with EU legislation and regulations of international legislative institutions shall be continued;

Special attention in this regard shall be paid to the environmental issues; share of investments in the basic stock shall be increased for environmental protection and rational utilization of natural resources.

Legislative and regulatory framework of environmental and sanitary-epidemiology monitoring shall be reviewed;

Rights related with land use, settlement policy and competences of local residents shall be solved and arranged.

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Official statistic data of National Statistic Service, National Bank of Georgia, ministries and agencies of Georgia are used in the Study.