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Promoting Rule of Law in Georgia (PROLoG)

Regulatory Impact Assessment

Of the Draft Law of Georgia on Entrepreneurs

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Executive Summary

Policy context. In 2013, as a follow-up to public consultations on improving the acting company law in Georgia, a working group was established to elaborate a new Draft Law of Georgia on Entrepreneurs ("Draft Law"). The working group was created under the Private Law Reform Council of the Ministry of Justice of Georgia, the USAID-funded Judicial Independence and Legal Empowerment Project, which was succeeded by the Promoting Rule of Law in Georgia (PROLoG) Activity, with both projects implemented by the East-West Management Institute (EWMI), was a cooperating partner. The group was comprised of Georgian academics and legal practitioners. International experts provided consultations.

The initial goal of the group was to introduce a number of default rules that parties could contract around by prior agreements. This was expected to increase the efficiency of the legal environment and decrease uncertainty, leading to smoother implementation and enforcement. The Association Agreement signed with the EU brought about the need for additional provisions, both imperative and default, to be included in the Draft Law.

Consultation process. The consultation process conducted has been comprehensive. A set of questions for each different group of stakeholders was developed, and official consultations/interviews have been organized and conducted with: legal practitioners, business associations, investment companies, Government of Georgia (GoG) agencies, civil society and research institutions, among others. In total, 26 meeting with 40 stakeholders took place.

Stakeholders were asked to provide their opinion about key articles in the forthcoming law. Most stakeholders agreed that some sort of revision to the current Law of Georgia on Entrepreneurs ("Current Law") is needed. However, opinions about the ideal structure for the new law varied. A summary of the stakeholders' positions is reported in section I.

The two main challenges for the Draft Law on Entrepreneurs are a) to increase the effectiveness of the set of rules and practices for fostering better access to finance, and b) to harmonize efficiently with EU company law.

The Current Law was adopted on 28 October 1994. Since its passage, the volume and complexity of corporate relationships have greatly increased. It is generally agreed that the amendment and consolidation of the law enacted in 2008 was intended to simplify legal regulation, among others things, through a reduction of legislative provisions and abolishment of various statutory requirements. Although it is obvious that the changes of 2008 and the new law's liberal stance facilitated several aspects of corporate relationships, fierce criticism was also triggered. In particular, critics pointed to the need for more regulation and effective control over the growing and changing use of the company system as an instrument of business and finance to circumvent the possibilities of abuse inherent to that system. Allegedly, such possibilities were widely available under the Current Law. In general terms, the low degree of the regulation set out under the Current Law was understood to limit judges and lawyers in resolving of corporate disputes, in areas where it has no explicit regulations at all. The objective was therefore to decrease uncertainties, enhance the "gap-filling" role of company law, and introduce a set of instruments for more effective control of opportunistic behavior that would increase the effectiveness of the law for fostering better access to finance.

The second challenge was associated with adoption of the Association Agenda, which provides for requirements that materially differ from those present in the Current Law. Directive 2012/30/EU (formerly the 2nd Company Law Directive), which covers the formation of public limited liability companies and rules on maintaining and altering their capital, is expected to have the most significant impact on the design of the new company law and its implementation. The objective is therefore to deliver on Georgia's commitments without imposing an unnecessary burden on the private sector.

The options considered in this RIA are:

1. In the "No policy change" option, the acting company law is not changed. Proposed policy interventions (Option 2 and Option 3), are compared against this alternative to measure/evaluate the net benefits of such interventions.
2. Option 2 is a policy scenario in which all key provisions from the Draft Law, as envisioned by the authors, are adopted. A number of provisions apply to both LLCs and JSCs, therefore, in our analysis we focus on the expected impacts of this version of the reform on JSCs and LLCs whenever applicable.
3. Option 3 is a variation of Option 2, from which all imperative provisions which have not been explicitly committed to under AA obligations are removed. More specifically, we will be analyzing the impact of suggested regulations on JSCs only as committed by the AA, and freeing LLCs from the requirements that under the Draft Law were also applied to LLCs.

Comparison of options using multi-criteria analysis

EVALUATION CRITERIA	OPTION 1	OPTION 2	OPTION 3
Incremental costs (NPV)	-	- GEL 36.7 mln	- GEL 16.1 mln
Effectiveness 1 (Increase effectiveness of the set of rules and practices in the areas of company law for fostering better access to finance)	+	+++	++
Effectiveness 2 (Harmonize efficiently with EU company law)	+	++	+++
Feasibility / Ease of compliance	+++	+	++
Minimization of Potential Risks	0	--	-
Maximization of Potential Benefits	0	+++	++

Ranking of options

According to the analysis, all options have some merits. Depending on the weight attributed to the different criteria, the rank may change in favor of one or the other.

Motivation

Option 1 (baseline scenario) appears superior to the other options with respect to the Feasibility/Ease of Compliance criteria. This is because the incremental requirement of this option to implement is essentially zero.

Option 2 appears to be the best way to meet the first objective of the reform. This, according to our assessment, is the option that most increases the effectiveness of the set of rules and practices in the areas of company law for fostering better access to finance. Option 2 is also the most effective in maximizing the positive (and substantial) indirect effects of the reform. However, this option is most challenging to implement and performs relatively poorly on criteria related to cost efficiency, such as Net Present Value (NPV), and is also associated with the highest level of risks.

Finally, Option 3, is ranked higher than all other options on the second effectiveness criteria. This option allows for full harmonization with the EU Directives, with the lowest cost. This option is also superior to Option 2 in terms of minimization of potential risks identified above. It performs relatively poorly with respect to Option 1 or Option 2 on the remaining criteria, but is most balanced, since this option never scores the worst on any criteria.

I. Problem Definition

A. Policy Context

In 2013, as a follow-up on public consultations on improving the acting company law in Georgia, a working group was established to elaborate a new Draft Law on Entrepreneurs. The working group was created under the Private Law Reform Council of the Ministry of Justice of Georgia; EWMI-PROLoG was a cooperating partner. The group was comprised of Georgian academics and legal practitioners. International experts provided consultations.

The initial goal of the group was to introduce a number of default rules that parties could contract around by prior agreements. This was expected to increase the efficiency of the legal environment and decrease uncertainty, leading to smoother implementation and enforcement. The Association Agreement signed with the EU brought about the need for additional provisions, both imperative and default, to be included in the Draft Law. Provisions on company law, accounting and auditing, and corporate governance are outlined in Chapter VI of TITLE VI of the Association Agreement ("Other Cooperation Policies") in Articles 316 through 319.

Article 316 highlights the importance of an effective legal framework and practice:

"Recognising the importance of an effective set of rules and practices in the areas of company law and corporate governance, as well as in accounting and auditing, for creating a fully-functioning market economy and for fostering trade, the Parties agree to cooperate:

> *(a) on the protection of shareholders, creditors and other stakeholders in line with EU rules in this area;*
>
> *(b) on the implementation of relevant international standards at national level and gradual approximation with the EU rules in the field of accounting and auditing, and*
>
> *(c) on further development of corporate governance policy in line with international standards, as well as gradual approximation with the EU rules and recommendations in this area."*

Articles 317 and 318 hold parties accountable for information exchange and coordination on existing and new developments, and regular dialogues on these issues, while article 319 refers to the set of EU acts and international instruments that Georgia will have to approximate according to the provisions set out in Annex XXVIII.

Table 1 below summarizes the key EU Directives relevant to the company law, and in particular to the Draft Law on Entrepreneurs, and the suggested timeline for their transposition.

Table 1: Key EU Directives and timeline for approximation

EU Directives[1]	Timeline	Area	Notes
Directive 2009/101/EC	Within five years	Disclosure requirements for limited liability companies	The proposal on the types of companies that will be exempt from Article 2(f)[2] of that Directive, shall be proposed to the Association Council no later than one year after the entry into force of this Agreement.
Directive 2012/30/EU (Formerly 77/91/EEC)	Within three years	The formation of public limited liability companies and the	Minimum capital requirement shall be clarified and a final decision will be submitted to the Association

[1] For more information on the EU directives see Appendix III

[2] On the publishing of the accounting documents for each financial year currently regulated by the Georgian law, "On Accounting, Reporting and Audit" adopted in 2016

		maintenance and alteration of their capital	Council no later than three years from the entry into force of this Agreement.
Directive 2011/35/EU (Formerly 78/885/EEC)	Within five years	Mergers between public limited liability companies	
Directive 82/891/EEC	Within five years	Division of public limited liability companies	
Directive 89/666/EEC	Within five years	Disclosure requirements apply to branches opened in a Member State by limited liability companies from another Member State or non-EU countries	
Directive 2009/102/EC	Within two years	single-member company (in which all shares are held by a single shareholder)	private limited companies with turnover above 1 million EUR

The Draft Law provides requirements that materially differ from those present in the Current Law. The primary changes to be introduced by the Draft Law concern almost all the aspects of commercial activity. They introduce additional corporate consents and approvals, minimum capital requirements for JSCs, and the need to maintain reserve capital, among others. In particular, Directive 2012/30/EU (formerly 2nd Company Law Directive), which covers the formation of public limited liability companies, and rules on maintaining and altering their capital, is expected to have the most significant impact on the design of the Draft Law and its implementation.

B. Main Sources of Information Used

The main source of information on which this Regulatory Impact Assessment (RIA) is based is the large-scale measurement of administrative costs (the Report) carried out by the consortium Deloitte/Capgemini/Ramboll on behalf of the European Commission in 2008, and covers obligations stemming from EU legislation and from national measures transposing that legislation for companies.

The estimates in the Report are made using the EU Standard Cost Model. The basic principle of the model is to calculate, on the basis of interviews with companies, the costs per occurrence (one type of occurrence could, for instance, be preparing draft terms of a merger) and multiplying by the total (average) number of occurrences in that Member State per year. Then the total costs per Member State per year are calculated.

The Report is supplemented by information specific to the Georgian economy, such as the number of businesses by size, by legal form, and by average labor costs for each type of skill needed to comply with the regulations. Table 2 below lists data and information used in the Report, and the sources of the data.

Table 1: Data and information collected during two phases

DATA AND INFORMATION	METHODS USED / SOURCE
Business Statistics • Number of Companies • Value Added, FDI, Fixed Assets, Employment	Geostat Business Survey
Wage Rates	Geostat - Integrated Household Survey (2015)
Court Statistics	Supreme Court of Georgia; High Council of Justice of Georgia
Interest rates on loans to legal entities; Loans to Domestic Enterprises; Inflation Target ; Nominal Interest Rate 10 yrs. bond (2017)	National Bank of Georgia
Doing Business Indicators; Enterprise Survey; Domestic Credit to Private Sector; Lending Rate	World Bank
Global Competitiveness Index	World Economic Forum
Growth rate of real GDP per employed; Proportion of self-employed in non-agriculture; Proportion of small scale industries in total industry value added; Proportion of small industries with a loan or line of credit	Sustainable Development Goals
Economic Freedom Index	Economic Freedom by the Heritage Foundation (2017)

DATA AND INFORMATION	METHODS USED / SOURCE
GDP Growth Rate (Real)	International Monetary Fund
Costs for Notary Services	Notary Chamber of Georgia
Expert evaluation fees	National Forensics Bureau
Number of firms with supervisory board; Cost of Registering a Company; Cost of Changing Already Registered Information	National Agency of Public Registry

C. Integrating Agenda 2030

The Government of Georgia has taken an active role in contributing to the Sustainable Development Agenda (Agenda 2030) after its adoption in September of 2015. Georgia has undertaken active measures to adjust its own Sustainable Development Goals (SDGs) agenda and targets to national circumstances and to advance their implementation.

Agenda 2030 goes beyond the 17 Goals that countries, including Georgia, have committed to achieve. The agenda is based on the five core principles which should guide all the efforts at the national and international levels.

- Universality: the SDGs apply for all countries: low, middle and high income countries alike
- Integrated Approach: addressing the three dimensions of sustainable development (economic, social and environmental) taking into account the interlinkages and interactions between the three dimensions.
- Shared responsibility: all actors – governments, departments, civil society, private sector, academia - need to assume responsibility for implementation, according to their capabilities.
- Leave no one behind: focusing on the least favorable, marginalized groups when implementing Agenda 2030.
- Accountability/Monitoring und Review: progress in implementation should be made measurable, and should enable mutual learning in order to effectively design policies.

The RIA team, acknowledging its share of responsibility in the implementation of the 2030 Agenda, took special care to conduct the RIA exercise in accordance with these five principles in all stages of the study. An integrative approach towards analyzing the impacts of the suggested policy, engaging a comprehensive set of stakeholders, including the least privileged, marginalized groups has been taken. Criteria for options ranking has been developed in a way that maximizes synergies between three dimensions of sustainability: economic, social and environmental, and addresses trade-offs between goals and targets. Moreover, the study suggests a set of measurable indicators to track progress in implementation of the Draft Law in light of Agenda 2030 that encompass all three dimensions.

D. Stakeholder Survey

First, main stakeholders were identified and categorized in the influence-interest matrix format. Balancing on the influence-interest matrix allowed the RIA team to identify marginalized groups such as SMEs which are expected to be affected by the Draft Law, but do not have enough power and resources to affect policy decisions. This helped to focus on the social dimension of sustainability, since SMEs employ a large share of the Georgian population and therefore play a significant role in addressing the social vulnerabilities of the country. Table 3 below presents stakeholders' mapping on the influence-interest dimension and the three dimensions of sustainability (economic, social and environmental) addressed through the interviews.

A set of common questions for each category of stakeholders was developed, and official consultations /interviews were organized and conducted with: legal practitioners, business associations, investment companies, Government of Georgia (GoG) Agencies, civil society, and research institutions, among others. In total, 26 meeting with 40 stakeholders took place.

Table 3: Stakeholders' MAP

INFLUENCE / INTEREST	LOW INFLUENCE	HIGH INFLUENCE
LOW INTEREST	International Organizations (GIZ/EU Project, USAID/EWMI, EBRD) 🟠 🔵 🟢 Legal/Business Consulting Companies 🟠 🔵 🟢	Government **(**Ministry of Finance**,** Service for accounting, reporting and audit supervision, Data Exchange Agency, RS) 🟠 🔵
HIGH INTEREST	Government (NBG) 🟠 🔵 SMEs 🟠 🔵 Judiciary 🟠 Investors' Council 🟠	Business Associations/ Large Businesses 🟠 🔵 Investment Service/Banks 🟠 Government (Ministry of Justice, Ministry of Economy and Sustainable Development) 🟠 🔵

Dimensions: 🟠 Economic 🔵 Social 🟢 Environmental

Table 4: Summary of stakeholder interviews

STAKEHOLDER / STAKEHOLDER GROUP	SUMMARY OF RESPONSES[3]
Legal Experts/Consultants Nana Amisulashvili- VBAT law firm, Partner Tamta Ivanishvili-	All the legal experts interviewed agreed on the need for more certain default rules in the legal framework. They all agree that the law becomes problematic when parties enter the dispute process. The main reasons for the long and costly dispute process is due to: (i) Lack of qualification in the private sector; general and weak charters, mostly based on a template from the Justice House;

[3] Questionnaire can be found in Appendix I;

Senior Associate, BLC law office Ketevan Bashinuridze- Partner, Georgian Solicitors LLC Marina Guledani- Founding Partner, CFS Legal Guledani & Partners Nona Zubitashvili- Lawyer/GITA Lina Jikia- Senior Legal and Public Policy Analyst/ AmCham. Accredited lawyer in Georgia, UK, and Wales Akaki Chargeishvili- Expert of Business and Tax Law, CHARGEISHVILI LAW INN Giorgi Amzashvili, Access to finance policy adviser, G4G	(ii) Lack of qualified judges in business law; (iii) The general framework of the Law on Entrepreneurs, which has no default rules available in a number of cases. Improvement of the existing situation can be achieved by: (i) Capacity building of the justice system; increased financial literacy of the business population and general public; (ii) Develop a more certain and clear Law on Entrepreneurs, with well-defined default rules. <u>Registration</u> The majority of the experts think that if a detailed charter is required, registration will become more costly. For now, the information required at the registration stage creates a good basis for the transparency of the legal entity. Therefore, they recommend not increasing the cost of registration by requiring additional documents/information. However, the remaining experts think that providing more information should be available for the registry extract: - Nominal value of securities, which should be defined in the charter and should be mandatory (for Joint Stock Companies (JSCs)); - Change in capital (especially, reduction); - Change of partners; <u>Large Transactions</u> Introducing the concept is a good idea, but needs more clarification. Does it involve business transactions? For example, in the case of a construction company, a transaction can easily be more than 25% of the assets by value, and introducing new decision-making mechanisms can hamper business operations in the sector. This concept of “large transactions” is already defined by the Law on Securities, which regulates the terms of important transactions for the listed companies. There is no need to expand it for all JSCs. <u>Conflict of interest</u> The concept of conflict of interest is a good addition to the law. Experts think that a party in a possible conflict of interest situation should not be defined by the size of his/her shareholding (20% in this case). The partner with smaller share can, in some cases, have more power. This should be clarified. <u>Capital Requirements</u> There is no consensus on the usefulness of the capital requirement. A small minority think that the requested capital amount serves as a protection mechanism for the third parties (and thus is useful), but not in all cases. Still, if the capital requirement is introduced, it should be transparent and registered. The large majority of experts are confident that the mandatory capital requirement is meaningless. It cannot protect third parties in the case of big companies. It is not correct to set the same capital requirements for all JSCs from all sectors. A 10% reserve requirement is not acceptable. Having a

	liberal capital requirement supports local entrepreneurs. In most cases, investors invest in ideas and people, not in companies. This is especially true for start-ups. <u>Transparency:</u> More transparency requirements can be applied (and are desirable) to public companies (accountable to the National Bank of Georgia, listed on the stock exchange, public interest entities). The rules of transparency should not be equally requested by the legal form of the company. In addition to registration information, creditors have access to the real estate registry, which also indicates mortgages where they exist. Also, creditors can get information from the Register of Debtors. All these opportunities and transparency levels are enough for third parties to make decisions. <u>Liquidation</u> All experts say that the process is difficult in practice, not because of the law, but due to Revenue Service approval obligations. <u>Reorganization:</u> The process of reorganization (according to Current Law) is registered in Public Registry and any interested person can get access to this information. There is no need for further dissemination of the information. During reorganization, all liabilities are transferred to the new company, and therefore creditor rights are guaranteed. At the same time, the availability of advance credit payments is regulated by civil law, and there is no need for further regulation in the Law on Entrepreneurs. Protecting company information should be a priority. There are many cases when a creditor is a competitor at the same time, and sharing detailed reorganization plans with creditors can therefore be dangerous. A claim protects creditors, but the price and risks of this protection should be analysed. <u>Minority shareholders:</u> Allowing a buyout opportunity for minority shareholders when the dividends have not been distributed for the last three years is a positive change. The ability to expel a partner is almost non-existent and should be defined. Deadlocks (50/50%) do not have defined outcomes now, and should be defined and regulated. <u>Acting Law Enforcement:</u> At the moment, the National Agency for Pubic Registry (NAPR) interprets registration non-mandatory articles as if they were mandatory. The Justice House sometimes does not allow a charter to regulate differently (if it is not following to the dispositional articles of the acting law), which creates problems. Article 5(4’) in the acting law gives an equivalency statement for a document from a foreign jurisdiction. There are many problems in practice for

	recognition of foreign documents. Therefore, equivalency should be defined in detail and should allow courts to recognize the foreign documents from some jurisdictions directly without verification. There is a lack of precedent in the justice system. Therefore, in many cases, disputes proceed to the Supreme Court, which is a long and costly process for businesses. <u>JSC vs. LLC:</u> Almost all of the experts think that the main advantage of choosing the form of a JSC is the confidentiality of shareholders. Only one expert argued that registering JSCs is a better rationale for shareholders than just being confidential. Some of the experts think that directors' roles and responsibilities should be strengthened (e.g. UK practice), especially in LLCs. The responsibilities of directors and shareholders should be clearly set out for both categories, in order to avoid overlap between their functions. More forward-looking directors' obligations will decrease the risk for their company to become insolvent, and will offset existing problems related to dividend distribution, protection of third parties, and creditors. Last, the overloaded judiciary system and the costly process of dispute resolution can be partially assisted by regulating the disclosure procedure. This will enable parties to better prepare for the litigation process, and to have more qualified legal representation during trial, which will improve the dispute resolution culture as a whole and bring it up to a new level. This already successfully exists in many other jurisdictions. Note: Ministry of Economy and Sustainable Development (MoESD), National Bank of Georgia (NBG), and Ministry of Finance (MoF) are drafting a law about "Investment Funds." The new draft will require some support from the "Law on Entrepreneurs," such as more flexible legal forms of corporations for investment funds development (trustee form, availability of Special Purpose Vehicles [SPVs]). The group was not informed about existence of the Draft Law. Designing of the draft law on investment funds was based on the Current Law.
Business Associations Europe-Georgian Business Council (EUGBC) Georgian SME Association (GSMEA) Business Association of Georgia (BAG) Georgian Business Association of Distributors Georgian Producers' Association Employers Association KAR.GE Movement	While the country is expected to increase capital turnover in EU markets, legislation similar to EU law will play a beneficial role for businesses. It will simplify this process. The general nature of the law gives courts the ability to interpret it in a subjective way. The Georgian court system is quite problematic for businesses, as judges tend to be highly unqualified when it comes to business cases. In addition, financial literacy in the country is very low. The public registry sometimes interprets existing law in a way that creates obstacles for firms. If the current law is going to be abolished and new laws established, the business associations interviewed requested the active participation in the law-making process. The time needed to discuss new Draft Law should be no less than 6 months for the associations.

	BAG, which had access on the Draft Law, highlighted the some of the positive aspects of the Draft Law: (i) Introducing the concept of conflict of interest. Informing creditors during reorganization (ii) Expulsion of the partner- currently expulsion is a problem, impossible sometimes. For the SME community, instructions on the law in a separate document will make compliance cheaper and easier. Also, for SMEs it would be highly beneficial if the different types of contracts and letter templates could be developed based on the new Draft Law and be available at Justice House. From the SME perspective, the main provisions that need to be more detailed, in contrast to the existing ones, are: • Process of separation, expulsion and exit of partners should be written in detail. • Process of liquidation; property division process should be more detailed. • Create a separate article for capital. The corporate operation should be defined and for each operation the capital movement standards should be applied. • Create separate and detailed article about investments. Investments should be classified as capital and should not be subject to taxation either. For the transparency requirement, there were expressed pros and cons. Positive aspects: Publishing balance statements; interested investors can get the information they need; accountability of companies increases; financial culture develops, etc. Negative aspects: Competitors can have access to information; the Employers Association thinks that the country should choose the least demanding standards possible. The Distributors Association wishes to have more transparency rules for creditors, including information about capital change, reorganization, etc. For this sector, the insolvency system is very harmful, and the inadequately qualified court system is costly for them. The opinions about capital requirements were varied. The SME representatives think that initiating a capital requirement would be beneficial for large JSCs, while the Employers Association think that it would bring more negative than positive effects, because it might harm the reputation of the country. The 10% reserve may stop money circulation in the economy. Suggestions: 1. Introduce some kind of transition period for firms with a Soviet legacy. Give them time to change their legal form or find other ways of dealing with problems and complying with the new regulation. 2. While doing RIA, take into account the following cost items: registration of additional documents at public registry, consultancy fee of a lawyer.
Businesses	For international investors, it is important to know whether the Law on Entrepreneurs is aligned with any international standards (including EU

Georgian Wine and Spirits (GWS), Chateau Mukhrani, Frixx Gulf, Georgian Stock Exchange (GSE) Deloitte GALT & TAGGART	directives). A certain and stable legislative environment is more important for investors than the content of the legislation, especially when it complies with international standards. Also, one of the most critical issues for foreign investors is transparency and a well-functioning court system, which is an obstacle for now. Therefore, the quality of implementation may remain a problem, whatever changes may be adopted. To summarize: • The business sector (especially the financial sector) has been developing quickly for the last decade, and requires more a more sophisticated and <u>detailed law</u> to be useful in variety of cases. • The version of the Draft Law known to G&T and GSE does not include definitions. Due to the complexity of the Draft Law, a detailed <u>definition section</u> should be developed to avoid interpretation gaps. • Preferably, after the adoption of the law, it will be necessary to have at least a 6-month period of transition to comply. • A strong and accurate <u>communication and dissemination strategy for the business community</u> is a precondition of the law's enforcement. More <u>transparency</u> and accountability requirements should be applied to accountable companies only (accountable to NBG and listed on the stock exchange) and not to every business, nor to all JSCs. These requirements need to be reflected in the special laws (Law on Securities Market of Georgia) and are not necessary in the Law on Entrepreneurs. Additional transparency rules can foster their development. Confidentiality of information should be protected (registry of JSC shareholders should be closed). On the other hand, Deloitte thinks that a change in capital should be reflected in the registry data and should be transparent. • There is a problem with JSCs privatized in 1990s. Of the 360 accountable companies, 120 are listed on the Georgian Stock Exchange (GSE) and most of them are dead companies with no ability to deal with the additional requirements. • Currently, the main difference between <u>JSCs and LLCs</u> is the confidentiality of shareholders in JSCs. • The main obstacle for the <u>liquidation</u> process in Georgia is gaining permission from the tax authority, which is a long process. The long approval period should be more limited than it is today, and more strictly executed by the Revenue Service. <u>Minority shareholders</u> Article 53 (Current Law) is strict and violates property rights (95% vs. 5% owner). This part should be softened to protect 5% shareholders. Buyout rights for minority shareholders should be regulated by charter, but the list of situations for minority shareholder use of buyouts can be defined by the law. The terms of shareholder expulsion should be written in detail. In the Current Law, article 3 (5') is very restrictive. This Article requires 100% of the votes of all shareholders in changing a charter (for some defined

	charter regulations). However, in Article 54 of the Current Law, it holds that it is only necessary for the Board to vote. This conflict in the law is very problematic. According to the latest change in the Current Law (May 2017), there is one problematic topic - pre-emption rights. When a shareholder decides to sell his shares, he/she is obliged to offer the shares to the existing shareholders first. This article cannot be enforced in certain circumstances.
Supreme Court	In fact, the aim of the general and more liberal Law on Entrepreneurs, as it currently stands, was to delegate freedom of choice to company partners to regulate their relations between themselves based on their charter and contracts. However, in practice, this has not happened. Basically, partners fail to take advantage of the law and do not think about it until they are in a dispute; at that point, the law does not help, because there is no relations agreement between the parties. Therefore, more forethought is needed at the moment of registration of the legal entity. There is a much better situation in large JSCs, specifically in banks and big financial corporations. Their activities are regulated not only by the Law on Entrepreneurs, but additionally by the Law on Banks and other relevant legislation. Courts mostly handle medium and large closed company disputes. Most of the cases are insider disputes: disagreements between directors and partners, or between partners. Many of the disputes concern situations where the majority shareholder is the company director at the same time. This is the most problematic part of the Current Law, which does not apply to these cases, because the general formulations of the law are not applicable to closed corporations. Of course, the lack of qualified judges on corporate law is acknowledged. But it is also true that lack of qualifications on the business side also leads to a longer and erroneous judgment process. It is better to have a system with specialized judges.
National Bank of Georgia (NBG)	In the Capital Market Development Strategy, among many other obstacles, transparency of the corporate population and corporate governance is stated as the primary obstacle to capital market development process in Georgia. The suggestion is to transpose the minimum available standard from the relevant directives. In the framework of approximation obligations, the Ministry of Economy and Sustainable Development has started working on a law about Investment Funds. It is important to have coordination and make the two laws consistent with each other. In general, most government institutions are facing an approximation obligation (including NBG), and it is crucial to have a holistic view and coordinate the process so as not to create disconnections and an unsatisfactory legal infrastructure. Capital requirements: If possible, it is suggested not to introduce the mandatory capital requirement for JSCs (60 000 GEL) yet. If the capital requirement is applied to the newly created JSCs only, for new JSCs it will be costlier than for the existing JSCs, which is not fair. If the capital requirement is extended to the existing JSCs, this will be problematic also. There are 360 JSCs accountable to the NBG, from which only about 10 are

	active in trading. Most of the JSCs are “dead” companies created in the 1990s, with no resources available to meet the new obligation. This is a political decision - should we care about those companies or not. JSCs should be more open and transparent, but again the rules should not be burdensome, and should be based on best practices and aligned to international standards, so that foreign investors understand easily what the country is requiring. A problematic issue is the capacity of the judiciary system. NBG only participates in disputes which are related to the Law on Securities, and there they face lack of knowledge and low capacity of the system.
Ministry of Economy and Sustainable Development (MoESD) Economic Policy Department Regulatory Impact and Competitiveness Research Division	The main possible obstacle from the viewpoint of the Doing Business rating is the business registration process. MoESD thinks that the new requirements about charter development will increase the time needed for registration, since businesses will need to provide more information for registration than needed before. The capital requirement might be harmful for the business environment, and they suggest delaying the adoption of the provision. In the Draft Law, a new concept, the Business Letter, is introduced, which they feel will create additional bureaucracy in the private sector. In the last two years, MoESD has introduced a number of amendments to the Current Law. MoESD is going to compare these changes to the Draft Law. MoESD claims that the changes were made based on the real needs of businesses and that it would be desirable to maintain those provisions in future.
Revenue Service	The biggest problem is information about capital. Under the Current Law, an enterprise is able to change capital as they wish and not register any information about these changes anywhere. This created a major problem in the Estonian Income Tax regime. Under Georgia’s new taxation model (profit tax is nullified for retained profit; company is paying profit tax only at the moment of dividend distribution), companies may use a different profit shift approaches, which will be hard to control within the given capital transparency conditions. It is necessary to register capital and submit any changes in the registry (in addition, it should be easy for taxpayers to see these changes, e.g. from an electronic webpage). Also, registration of all types of activities and registration of actual addresses would be useful information from the Revenue Service perspective. The second biggest problem is information about shareholders of a joint stock company. Under current legislation, joint-stock companies can have independent registrars and accordingly, no state structure has any information about shareholders. It is advisable to regulate this situation by law and to reflect information about partners and changes in partnerships in the registry, as is the practice for other entrepreneurial entities. The third main issue is when the company is selling and disposing of property before a liquidation/insolvency. The Revenue Service offers the new edition of Part 3 of Article 14 of the Georgia’s Law on Entrepreneurs in order to be

	able to investigate and make dishonest taxpayers accountable. The transparency rule will benefit Revenue Service operations. More information will be available for the Revenue Service, and will allow better risk assessment and more targeted tax inspections of companies.
Other Government Entities: Service for Accounting, Reporting and Auditing Supervision (SARAS) Data Exchange Agency (DEA)	The Draft Law on Entrepreneurs makes reference to the Accounting, Reporting and Audit law. The new law, "On Accounting, Reporting and Audit," is already adopted (entered into force on 8 June 2016) and the annual financial reports from Public Interest Entities (PIE) were expected by October 1, 2017. The new financial reporting rules will gradually apply for other categories of companies starting in 2018. It would be desirable to develop a business-friendly portal, where all the reports and information requested by different laws can be placed. There is a problem in coordination between different state agencies and improved coordination with the Ministry of Justice, the Data Exchange Agency, and the Ministry of Finance is required. DEA consulted with SARAS a year ago to integrate SARAS services in to the existing portal, My.gov.ge. Since then, no active steps have been taken, probably due to lack of coordination. On the portal, there already some e-services for businesses and it is planned to add many more. The DEA thinks that all kinds of e-services, including submitting reports, should be available at my.gov.ge.

E. Rationale for Intervention

Access to finance is one of the top constraints for business development in Georgia. The analysis shows that despite a favorable business environment, access to finance remains a constraint for companies, particularly SMEs, and thus also an important limitation on employment, economic growth and shared prosperity (European Investment Bank, 2016).

A regulatory framework encompassing formal rules and their effective enforcement help private credit market participants to deal with agency problems in the separation of management and finance. The agency problem in this context refers to the difficulties investors[4] have in assuring that their funds are not expropriated or spent on useless projects with no economic returns. Economic literature identifies two main factors that foster participation of private creditors in the financial markets: power of creditors to easily retrieve their money and access to information. Access to information about borrowers, their credit history, and financial performance allow creditors to deal with typical agency problems such as adverse selection, i.e. to select right entrepreneurs, companies, and projects, and to manage moral hazard, i.e. to make sure managers are performing in a way that maximizes return on investment.

The relationship between an investor and a manager, who most commonly in Georgia is also a majority shareholder, is governed by a contract that specifies how the manager will use the funds, and how returns are divided. Ideally, the terms of contract would provide guidance on rights and responsibilities of the manager and investor in all states of the world, which in reality is infeasible since it is impossible to foresee all the contingencies and prescribe required actions. The problem persists even if the manager is motivated to accommodate the investors by developing a complete contract.

[4] Creditor and investor are used interchangeably to describe any legal person or individual with intention to earn returns on funds they own.

Some would argue that there is no need for explicit laws and regulations to deal with contingencies, since in the long run competition will force managers to adopt rules, including a corporate governance mechanism, enabling them to attract external funds at the lowest cost, hence, competition would take care of corporate governance. The other perspective emphasizes high payoffs from opportunistic behavior, which coupled with expensive and imperfect contract enforcement, creates incentives for managers to expropriate investor funds. Explicit laws in these circumstances would reduce enforcement costs and limit opportunistic behavior of managers. It can be interpreted as a set of tools balancing conflicting interests between managers and shareholders, among shareholders, and between shareholders and the corporation's other stakeholders, including creditors and employees (Armour et al, 2017).

Typically, company law is a combination of default and imperative provisions. Default rules provide a "public good," as seen in economic terms, through provision of standards that simplify contracting among parties involved and saves costs (Ayres and Gertner, 1989). Default provisions are most effective if they reflect the terms that the majority of well-informed parties would themselves most commonly choose. Imperative or "immutable" laws, on the other hand, provide - in more paternalistic manner - rigid restrictions on some activities. The key policy challenge is then to find the right balance between default and imperative rules while retaining flexibility for the contracting parties and moderating uncertainties associated with "incomplete contracts." The legislative models around the world differ substantially. In the USA, freedom of contract is the general principle, including in stock corporation law, while the opposite is true in Germany. Most other European countries locate themselves somewhere in between these two outliers (Hopt, 2016).

Legal Perspective on Company Law Regulatory Challenges

The Current Law was adopted on 28 October 1994. Since its passing, the volume and the complexity of corporate relationships have greatly increased. It is generally agreed that the amendment and consolidation of the law effected in 2008 was intended to simplify legal regulation, among other things, through a reduction of legislative provisions and abolishment of various statutory requirements. As a result, in terms of the absence of regulatory constraints and the low volume of "default rules," the entire regulation of corporate governance and related relationships was passed to the "free autonomy" of the stakeholders, shareholders and partners to agree among themselves on the terms of corporate co-existence, with minimal regulatory intervention.

Although it is obvious that the changes of 2008 and its liberal stance facilitated several aspects of corporate relationships (in particular, easy incorporation of an entity and minimum start-up costs related to such incorporation), it also trigged fierce criticism. In particular, the critics pointed to the need for more regulation and effective control over the growing and changing uses of the company system as an instrument of business and finance to, *inter alia*, circumvent the possibilities of abuse inherent to that system. Allegedly, such possibilities are widely available under the Current Law.

The possibility of abuse is not the only adverse consequence which some interviewees criticized in relation to the Current Law. It was widely argued that the absence of statutory requirements and restrictions (also in the form of "default rules") and the lack of relevant concepts or guidelines made it difficult to resolve the corporate deadlocks or similar impasses in the corporate decisional processes, which mostly occurs in so called closed corporations.[5] As the Current Law affords no method of resolution, such deadlocks tend to result in a material adverse effect on the activities of the company, such as the obstruction of routine business matters, harmful effects on corporate financing, and continuing litigation between shareholders.

In general terms, the low degree of the regulation set out under the Current Law is understood to limit judges and the lawyers in deciding on the resolution of corporate disputes, where the Current Law

[5] Under closed corporation we mean a small size company, in most cases operating through LLC, where the shareholders operate without strict formalities and detailed corporate governance rules and who are closely associated with the business carried out by the corporation.

affords no explicit regulation at all. Thus, there are many questions of sufficient importance to merit the legislative attention left unresolved under the Current Law or arising out of its provisions. Most of these questions were raised in relation to closed corporations, where shareholders are acting on a less formal basis without detailed regulation of various corporate governance issues, which may arise in the future. In other cases, it was mentioned that vague formulations of the Current Law leave room for conflicting understandings of certain legal provisions. This makes it hard for corporate stakeholders, as well as for the lawyers, to identify the outcomes of certain corporate decisions. As a result, such vague formulations could lead to the inappropriate use of legal forms of the companies (such as the legal forms of LLC and JSC). For example, a current regulation on dividend payments, by which there is no obligation to distribute dividends, has been mentioned a source of such abuse in JSCs and LLCs. More specifically, it concerns the so-called shadow dividend, when a company uses profit for high or excessive compensation to the majority shareholder, who simultaneously performs executive functions, when it could be paying the dividend to other (minority) shareholders. Such cases have already prompted court proceedings from the minority shareholders and the Georgian courts have yet to form a stance on this issue.

The interviews with various experts and stakeholders in the field highlighted further gaps of current legislation on corporations. For example, the Current Law lacks any regulation with regard to conflict of interest situations, where an individual or company is in a position to exploit a professional or official capacity in some way for their personal or corporate benefit. Currently, the rules on conflict of interest are provided only in the Law on Securities Market, dated 24 December 1998, which however is applicable only to the reporting company. Moreover, there is need for effective infrastructure and rules to be in place to ensure that complex models, such as drag along rights, tag along rights and other share options, are duly enforced by the shareholders.

It shall be also noted that some were inclined to question the need for major changes to the existing statutory framework. However, it is not really prevailing view that there is no room for further improvements in the law as it stands now.

F. Background to Baseline Scenario

The baseline scenario is defined as a policy option in which nothing changes in the existing legislation, and current economic and social trends (e.g. GDP growth, development of the economy, structure of the economy, etc.) are expected to continue evolving as they are doing currently, in the absence of reform. Our expectation is that in the baseline scenario, the problems highlighted above would be magnified.

Of particular interest under the baseline option is access to finance and financial market development indicators (regulatory framework and infrastructure), which according to the current trends, lag behind the levels expected and required for fast and inclusive economic growth and prosperity. This is suggested by the analysis of the scant available data, in particular:

- Domestic credit to private sector (% of GDP);
- Lending rates (%)
- Doing Business Indicators by the World Bank
- Global Competitiveness Indicators by the World Economic Forum
- Economic Freedom Index by the Heritage Foundation

Access to finance and financial market development has also been emphasized in the UN Agenda 2030, especially so for SMEs. In particular, Global Target 8.3, "Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services, and Global Target 9.3, "Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets," emphasize the need for financial services and credit for SMEs and others.

Current Structure of Private Sector in Georgia

According to the National Statistics Office of Georgia (GeoStat), the total number of registered firms exceeds six hundred thousand, but only about one quarter of them are active. The majority (60%) of all active firms constitute individual entrepreneurs. 39.5% of the total and 97% of the remaining companies are registered as LLCs, while JSCs represent 1.2% of the remaining companies and 0.52% of total active firms, including individual entrepreneurs. A much lower share is made up of Limited Partnerships and Joint Liability Companies.

A similar distribution in the legal form of active firms can be observed in Armenia, where 56% of all active firms are individual entrepreneurs, 28.9% are LLCs, and around 2% of 189,000 registered enterprises are JSCs[6]. In 2014, the share of individual entrepreneurs in EU28 enterprises averaged at 54%, though individual country measures varied significantly, from 89.4% in Poland to 14.4% in Estonia and Luxembourg[7].

[6] Armenia Electronic Register
[7] Eurostat, Business Demography

Table 5. Distribution of firms by legal form, 2017

Legal forms	Total Registered Active and Passive firms	Total Registered Active Firms[8]
Total – Georgia	**616,568**	**159,899**
Joint Liability Companies (JLCs)	2,762	270
Limited Partnerships (LPs)	187	25
Limited Liability Companies (LLCs)	199,879	62,895
Joint Stock Companies (JSCs)	2,371	841
Cooperatives (Coops)	4,920	290
Individual entrepreneur (Entr.)	405,039	95,100
Branch of foreign enterprise (Foreign)	1,410	478

Source: GEOSTAT

Retailing, Real Estate Activities and Manufacturing are the top three sectors of economic activity for firms active in the Georgian market. The economic activity sector is unknown for about 27% of total active firms. The top three sectors vary across legal forms. Most of the LLCs operate in retailing and real estate activities, with a significant number also engaged in the manufacturing and construction sectors. JCSs are mostly engaged in real estate activities, manufacturing and financial services.

Table 6. Number of active firms by legal form and sector

Sectors	All	JLCs	LPs	LLCs	JSCs	Coops	Entr.	Foreign
Total - Georgia	**159,899**	**270**	**25**	**62,895**	**841**	**290**	**95,100**	**478**
Agriculture, Forestry and hunting	**1,441**	-	-	807	14	127	491	2
Fishing	**118**	-	-	68	1	5	44	-
Mining	**581**	2	-	440	10	-	118	11
Manufacturing	**11,765**	22	1	5,751	120	30	5,829	12
Electricity, Natural gas and water production/distribution	**131**	1	-	97	19	-	14	-
Construction	**6,117**	3	1	5,014	58	3	915	123
Retailing	**59,646**	107	6	19,600	66	15	39,821	31
Hotels and Restaurants	**5,485**	19	-	2,924	22	-	2,518	2
Transportation and storage	**8,558**	5	-	3,590	51	-	4,878	34
Financial Service	**1,752**	2		910	75	13	745	7
Real estate activities	**12,655**	83	15	8,786	278	19	3,302	172
Public Administration	**154**	-	-	56	0	-	93	5
Education	**1,365**	12	-	1,044	2	-	304	3
Human health and social work activities	**2,568**	9	1	1,472	50	-	1,034	2
Communal, social and personal services	**4,035**	3	-	1,583	15	3	2,423	8

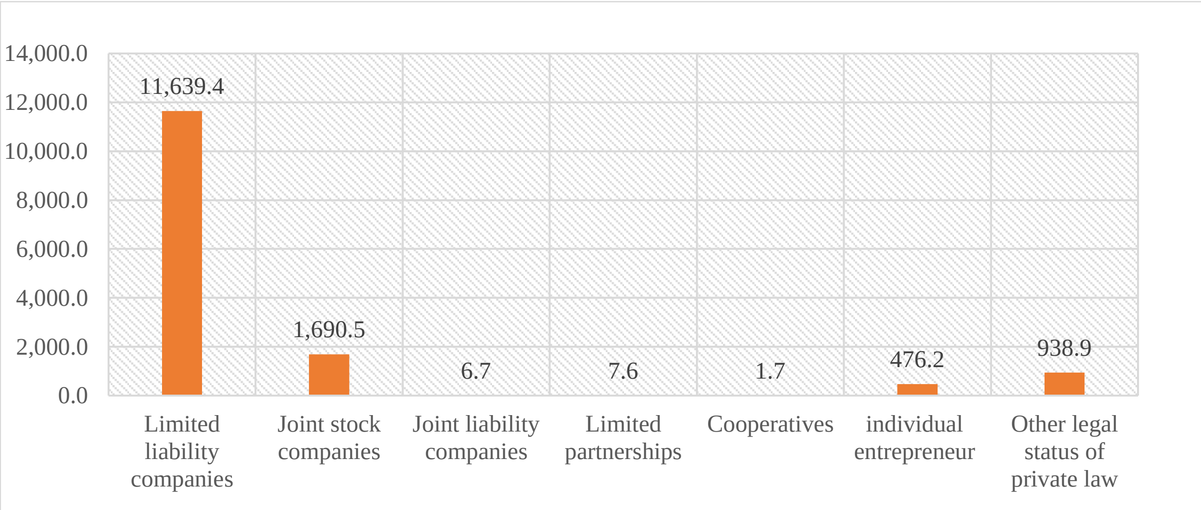
[8] Based on Revenue Service Data

House maid and household activity related to the production of goods and services for their own use	**99**	-	-	4	-	-	95	-
Activities of exterritorial organizations	**5**	-	-	-	-	-	5	-
Unknown Economic Activities	**43,424**	2	1	10,749	60	75	32,471	66

Source: GEOSTAT

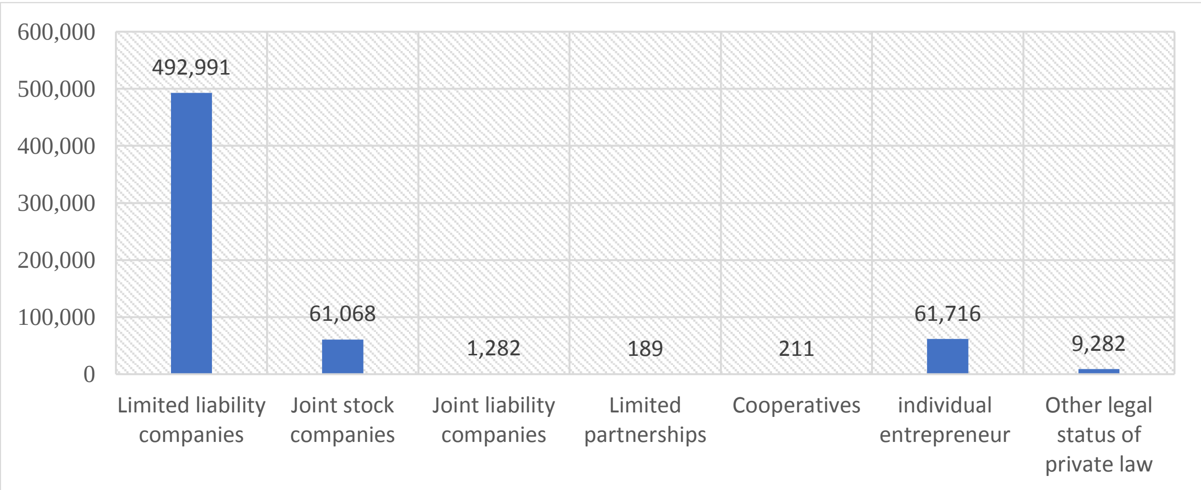
LLCs are the key drivers of business sector activity in Georgia. Total value added by LLCs, employment and investment in fixed assets significantly exceed the rest of the legal forms, taken together as reported by GEOSTAT[9].

Figure 1. Value added by legal form, 2015 (mln GEL)



Source: GEOSTAT

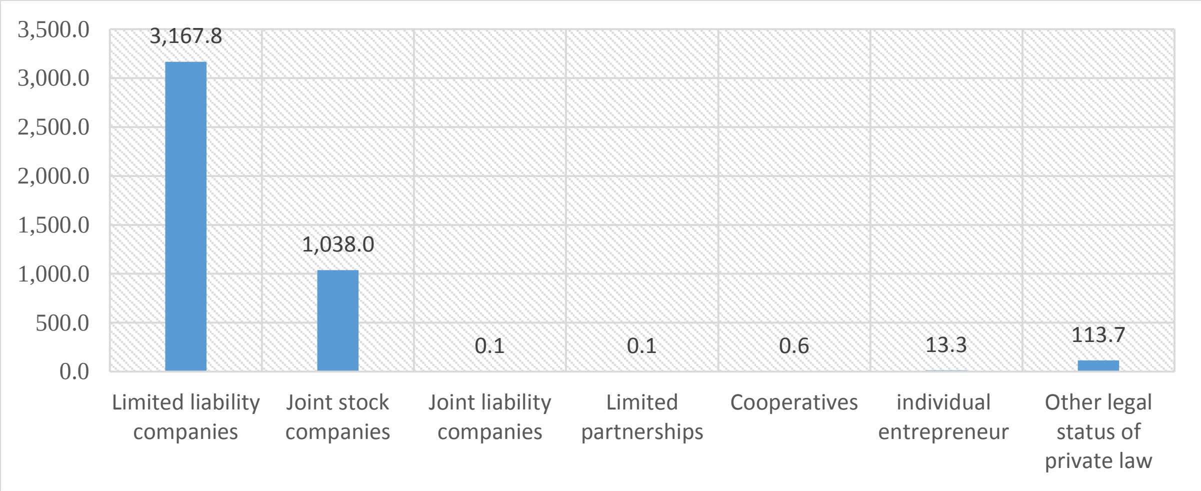
Figure 2. Number of employed by legal form, 2015



Source: GEOSTAT

[9] This data is based on GEOSTAT Business Statistics and excludes Financial Intermediation, Public Administration, private households employing domestic staff and undifferentiated production activities of households for own use, activities of extra-territorial organizations and bodies, retail trade on markets and fairs, non-commercial legal persons, and entities of public law.

Figure 3. Investment in fixed assets by legal form, 2015 (mln GEL)



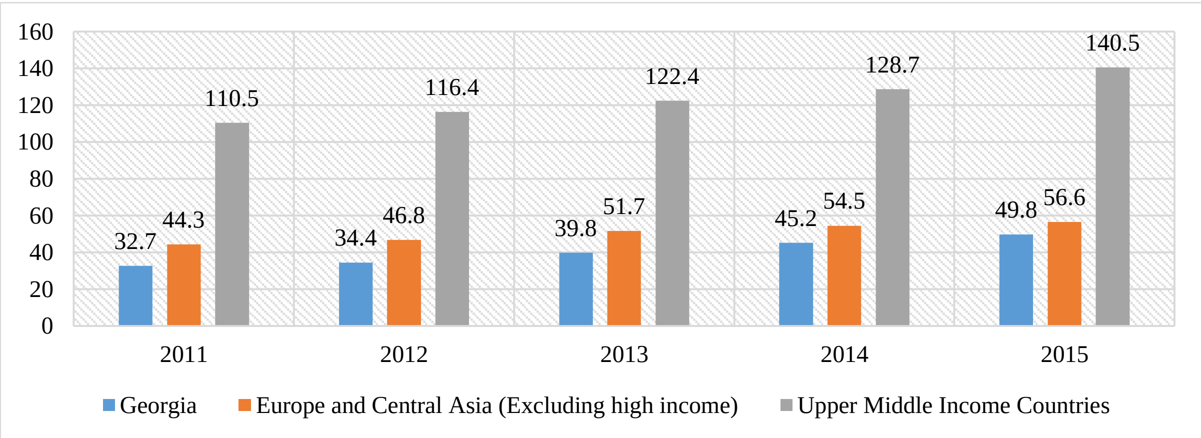
Source: GEOSTAT

Access to Finance Indicators

Domestic credit to the private sector refers to financial resources provided to the private sector by financial corporations, such as loans, purchases of nonequity securities, and trade credits and other accounts receivable, which establish a claim for repayment. Financial corporations include monetary authorities and deposit money banks, as well as other financial corporations where data is available.

Credit is an important link in money transmission; it finances production, consumption, and capital formation, which in turn affects private sector development and economic activity. Georgia lags behind its peers from the region, as well as from similar income groups. While some positive trends in the last years can be observed, the private sector remains largely underfinanced by domestic financial institutions, which hinders its growth and development.

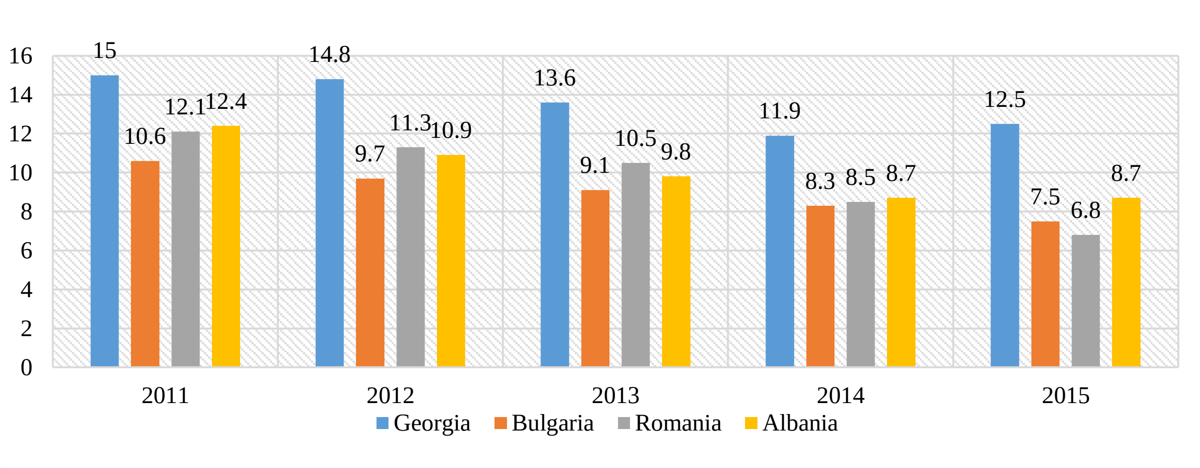
Figure 4. Domestic credit to the private sector (% of GDP)



Source: World Development Indicators

Another important indicator for measuring access to finance is the lending rate, which is the bank rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to creditworthiness of borrowers and objectives of financing. Interest rate formation is highly dependent on the risks borne by the lender company. Lack of certainty in corporate governance and costly resolution of court disputes increases the risk premium charged by financial institutions, along with non-developed financial markets and a lack of alternative financial instruments. Higher lending rates translate into a higher cost of financing in private sector activity. Despite declining trends, lending rates in Georgia substantially exceed rates in peer economies, reflecting riskiness and the underdevelopment of the private sector in the country.

Figure 5. Lending Rate (%)



Source: World Development Indicators

Limited access to finance by Georgian firms is further confirmed by the World Bank Enterprise Survey for Georgia. The Enterprise Survey Access to Finance Indicators provide an assessment of how firms finance their operations and the characteristics of their financial transactions. The results are based on a survey with 360 large, medium and small companies in the manufacturing sector.

While almost all firms use financial services on the deposit side, such as a checking or savings account, the proportion of firms with bank loans or line of credit is quite low. The collateral requirement to secure credit is excessively high and firm investments is mostly financed internally.

Table 7. World Bank Enterprise Survey, 2013

Access to Finance Indicators	Georgia
Percent of firms with a checking or savings account	94.2
Percent of firms with a bank loan/line of credit	35.8
Proportion of loans requiring collateral (%)	95.6
Value of collateral needed for a loan (% of the loan amount)	223.3
Percent of firms not needing a loan	59.8
Percent of firms whose recent loan application was rejected	4.6
Percent of firms using banks to finance investments	22
Proportion of investments financed internally (%)	75.2
Proportion of investments financed by banks (%)	12.1
Proportion of investments financed by supplier credit (%)	1.1
Proportion of investments financed by equity or stock sales (%)	10.8
Percent of firms using banks to finance working capital	27.6
Proportion of working capital financed by banks (%)	15.3
Proportion of working capital financed by supplier credit (%)	3.5
Percent of firms identifying access to finance as a major constraint	18.3

Source: World Bank Enterprise Survey

Regulatory Framework and Financial Market Infrastructure

Doing Business Indicators

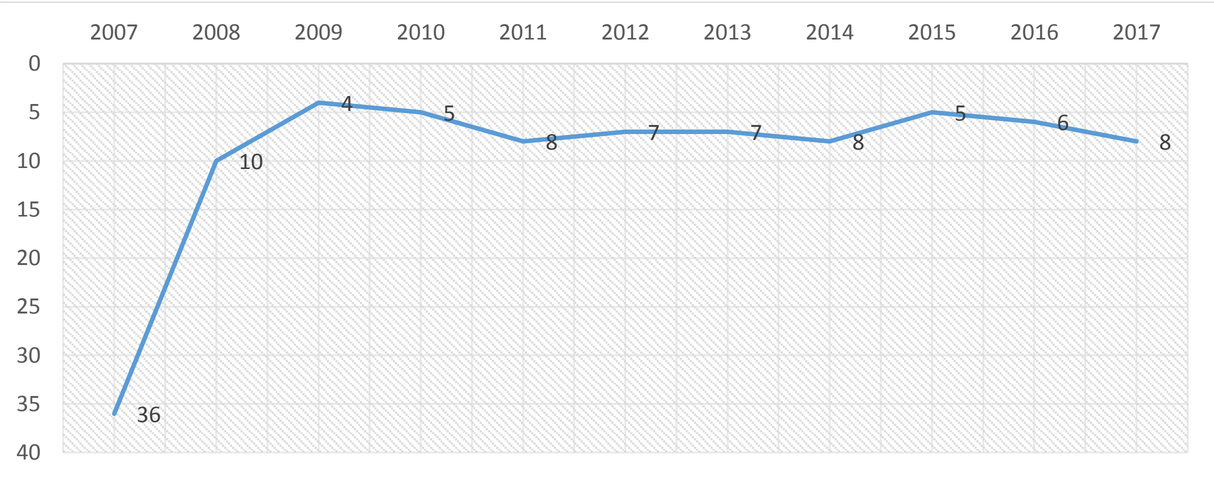
Georgia has made remarkable progress on Doing Business Indicators. In 2006, the country ranked in 100th place, but, thanks to a rapid and effective reform process, by 2010, it climbed all the way to 10th position. Georgia's Doing Business ranking peaked at #9 and 8 in the world in 2013 and 2014, respectively. Changes in methodology that came with 2015 and 2016 reports "downgraded" Georgia to 15^{th} and 24^{th} place, but in 2017, Georgia managed to recover, mostly thanks to improvement on "Getting Electricity" and "Protecting Minority Investors" indicators.

Two of the indicators that are the most relevant to the current study are Starting Business and Protecting Minority Investors Indicators.

The "Doing Business" Starting Business Indicator

The Doing Business Starting Business Indicator records all procedures that are officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. Georgia has made a significant progress in the Starting Business Indicator, climbing from 36^{th} place in 2007, to 8^{th} place in 2017.

Figure 6. Starting Business Indicator for Georgia



Source: World Bank Doing Business Project

Table 8. Starting Business Indicators for Georgia, 2017

No.	Procedure	Time to complete	Cost to complete
1	Register the company with the Entrepreneurial Register and obtain an identification number and certificate of state and tax registration	1 day	GEL 100 (regular registration) or GEL 200 (expedited registration) + GEL 1 (bank charges)
2	Open a bank account and pay registration fees	1 day	no charge
3	Registration for VAT	1 day	no charge

Source: World Bank Doing Business Project

"Doing Business" Protecting Minority Investors Indicator

Georgia has made even more progress on the Protecting Minority Investors Indicators. In 2007, Georgia ranked number 135, while in the 2017 "Doing Business" Report, Georgia was placed at number seven, advancing significantly in its ranking from 2016.

Protecting Minority Investors Indicators are based on detailed information collected through a survey of corporate and securities lawyers about **securities regulations, company laws and court rules of evidence and procedure**. To construct the six indicators on minority investor protection, scores are assigned to each based on a range of conditions relating to disclosure, director liability, shareholder suits, shareholder rights, ownership and control and corporate transparency in a standard case study.[10] The summary table below shows the details underlying the scores for Georgia.

Table 9. Protecting Minority Investors Indicators for Georgia, 2017

Extent of Disclosure Index (9/10)	**Extent of shareholder rights index (7/10)**
Review and approval requirements for related-party transactions	Shareholders' rights and role in major corporate decisions
Internal, immediate and periodic disclosure requirements for related-party transactions	
Extent of director liability index (6/10)	**Extent of ownership and control index (8/10)**
Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transactions	Governance safeguards protecting shareholders from undue board control and entrenchment
Available legal remedies (damages, disgorgement of profits, fines, imprisonment, and rescission of the transaction)	
Ease of shareholder suits index (8/10)	**Extent of corporate transparency index (8/10)**
Access to internal corporate documents	Corporate transparency on ownership stakes, compensation, audits and financial prospects
Evidence obtainable during trial	
Allocation of legal expenses	
Extent of conflict of interest regulation index (7.7/10)	**Extent of shareholder governance index (7.7/10)**
Simple average of the extent of disclosure, extent of director liability and ease of shareholder indices	Simple average of the extent of shareholders rights, extent of ownership and control and extent of corporate transparency indices
Strength of minority investor protection index (7.7/10)	
Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices	

Source: World Bank Doing Business Project

While Georgia's regulatory framework in protecting minority investors is assessed quite positively by the Doing Business report, problems remain in some of the sub-indices, especially in the Extent of Director Liability Index and Extent of Shareholder's Rights Index.

[10] For more details, see the Data Notes section of the "Doing Business 2017" report

Global Competitiveness Indicators (GCI)

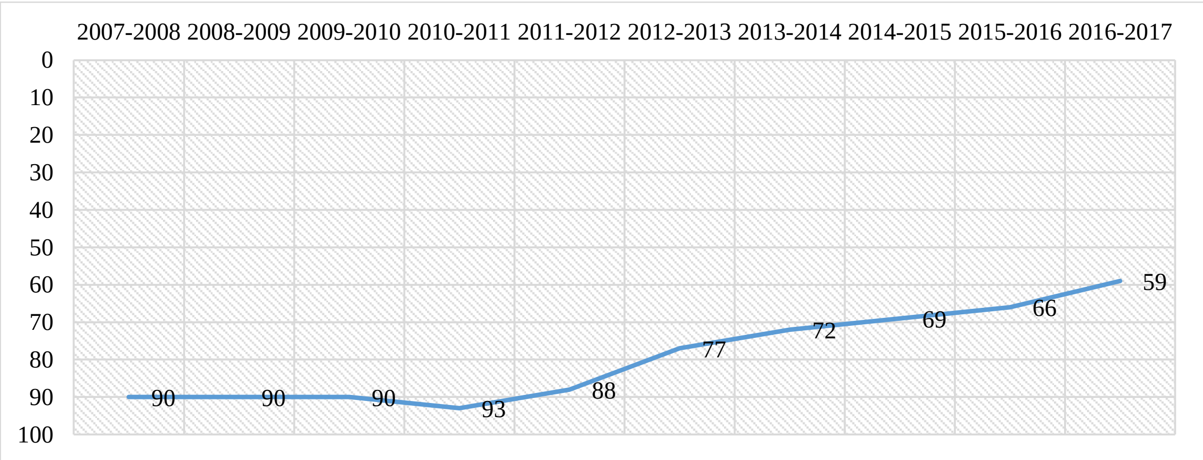
The Global Competitiveness Report defines competitiveness as the set of institutions, policies and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that a country can achieve.

The report analyses competitiveness along 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. These are, in turn, organized into three sub-indices in line with three main stages of development: basic requirements, efficiency enhancers, and innovation and sophistication factors. The three sub-indices are given different weights in the calculation of the overall index, depending on each economy's stage of development, as proxied by its GDP per capita and share of exports represented by mineral raw materials.

The GCI uses the World Economic Forum's annual Executive Opinion Survey to capture concepts that require a more qualitative assessment, or for which comprehensive and internationally comparable statistical data are not available. It also uses statistical data from internationally recognized agencies, notably the International Monetary Fund, the United Nations Educational, Scientific and Cultural Organization, and the World Health Organization.

Global Competitiveness Indicators are recognized as most comprehensive in terms of providing an assessment of business environment in a country from different perspectives. Financial market development, including indicators such as Protection of Minority Shareholders' Interests, Venture Capital Availability, and Financing through Local Equity Market, are identified as a key bottleneck for fostering market competitiveness in Georgia. To a lesser extent, issues such as Strength of Auditing and Reporting Standards and Efficacy of Corporate Boards indicate the existing problems in corporate governance. Indicators such as Efficiency of Legal Framework in Challenging Regulations, and Efficiency of Legal Framework in Settling Disputes contribute equally to Georgia's overall relatively weak performance in Global Competitiveness Rankings.

Figure 7. Global Competitiveness Ranking, Georgia



Source: World Economic Forum, Global Competitiveness Report

Table 20. Selected Global Competitiveness Indicators for Georgia, 2017.

2016-2017 Georgia Rank 59	Rank\138	Value
Burden of government regulation	8	4.8

Legal rights index 0-10 (best)	13	9
Strength of investor protection 0-10 (best)	20	6.8
Efficiency of legal framework in challenging regulations	52	3.7
Ease of access to loans	52	4.2
Efficiency of legal framework in settling disputes	53	4
Soundness of banks	54	5.2
Reliance on professional management	56	4.5
Strength of auditing and reporting standards	61	4.7
Efficacy of corporate boards	77	4.8
Financial services meeting business needs	79	4.1
Regulation of securities exchanges	81	4.1
Affordability of financial services	82	3.6
Venture capital availability	94	2.6
Protection of minority shareholders' interests	105	3.6
Financing through local equity market	130	2.4

Source: World Economic Forum, Global Competitiveness Report. Value ranges between 0(worst) and 7 (best) unless stated otherwise.

Economic Freedom Index

The Economic Freedom Index is based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom:

- Rule of Law (property rights, government integrity, judicial effectiveness)
- Government Size (government spending, tax burden, fiscal health)
- Regulatory Efficiency (business freedom, labor freedom, monetary freedom)
- Open Markets (trade freedom, investment freedom, financial freedom)

Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these twelve economic freedoms, with equal weight being given to each.

The Index relies on different sources, including the World Economic Forum, the World Competitiveness Report; Transparency International, the Corruption Perceptions Index; the World Bank, Doing Business" Indicators, the Credendo Group, the Country Risk Assessment, and many more.

The well-known Heritage Foundation index also confirms the existence of the challenges identified by other indicators, with the Rule of Law diagnosed as the weakest pillar.

Table 11. Economic Freedom Index for Georgia

Economic Freedom	**Georgia**
Region	**Europe**
World Rank	**13**
Region Rank	**5**
2017 Score	**76.0/100**
Fiscal Health	93.5

Trade Freedom	88.6
Tax Burden	87.3
Business Freedom	87.2
Investment Freedom	80
Monetary Freedom	78.2
Labor Freedom	75.9
Gov't Spending	74.4
Judicial Effectiveness	66.5
Government Integrity	65.0
Financial Freedom	60
Property Rights	55.1

Source: The Heritage Foundation, values range between 0(worst) to 100 (best)

II. Objectives

A. General Objectives

1. Increase the effectiveness of rules and practices in the area of company law to foster better access to finance
2. Harmonize efficiently with EU company law

B. Specific and Operational Objectives

1. Increase the effectiveness of rules and practices in the areas of company law to foster better access to finance:
   a. Decrease uncertainties, and enhance the "gap-filling" role of the regulatory framework;
   b. Increase opportunities for external financing for LLCs;
   c. Improve the corporate governance of JSCs;
   d. Improve protection for minorities and third parties;
   e. Increase corporate transparency.
2. Harmonize efficiently with EU company law:
   a. Transpose EU company law directives in line with Georgia's AA commitments at the lowest cost, while maintaining flexibility and responsiveness to domestic challenges.

Table 12. Summary of objectives

OBJECTIVE	INDICATOR	RESPONSIBILITY	TIMING
Increase effectiveness			
Decrease uncertainties, and enhance the "gap-filling" role of the regulatory framework	Number of entrepreneurial legal disputes; Efficiency of legal framework in settling disputes.[11]	Ministry of Justice (MoJ); Ministry of Economy and Sustainable Development(MoESD)	# of entrepreneurial legal disputes decreases by 20% by 2020 Gradually increasing to maximum in the first 10 years of reform
Increase opportunities for external financing for LLCs	Financing through local equity market[12] Ease of access to loans[13]	MoESD	Gradually increasing to maximum in the first 10 years of the reform
Improve the corporate governance of JSCs	Efficacy of corporate boards[14]	MoESD	Gradually increasing to maximum in the

[11] Global Competitiveness Indicators, World Economic Forum; Executive Opinion Survey: "In your country, how efficient are the legal and judicial systems for companies in settling disputes?" [1 = extremely difficult; 7 = extremely easy]
[12] Global Competitiveness Indicators, World Economic Forum; Executive Opinion Survey: "In your country, to what extent can companies raise money by issuing shares and/or bonds on the capital market?" [1 = extremely difficult; 7 = extremely easy]
[13] Global Competitiveness Indicators, World Economic Forum; Executive Opinion Survey: "In your country, how easy is it for businesses to obtain a bank loan?" [1 = extremely difficult; 7 = extremely easy]

[14] Global Competitiveness Indicators, World Economic Forum; Executive Opinion Survey: "In your country, to what extent is management accountable to investors and boards of directors?" [1 = extremely difficult; 7 = extremely easy]

			first 10 years of the reform
Improve protection for minorities and third parties	Protection of minority shareholders' interests[15] Strength of investor protection[16]	MoESD; MoJ	Gradually increasing to maximum in the first 10 years of the reform
Increase corporate transparency	Strength of auditing and reporting standards[17]	MoESD; Ministry of Finance (MoF); MoJ	Gradually increasing to maximum in the first 10 years of the reform
Harmonization			
Transpose EU company law directives in line with Georgia's AA commitments with least costs while maintaining flexibility and responsiveness to domestic challenges	Number of EU company law directives adopted Regulatory cost of EU company law directives adopted	MoJ	All six directives are adopted by 2020; Least cost option, based on RIA analysis, is adopted

[15] Global Competitiveness Indicators, World Economic Forum; Executive Opinion Survey: "In your country, to what extent are the interests of minority shareholders protected by the legal system?" [1 = extremely difficult; 7 = extremely easy]
[16] World Bank/International Finance Corporation; Strength of Investor Protection Index on a 0–10 (best) scale
[17] Global Competitiveness Indicators, World Economic Forum; Executive Opinion Survey: "In your country, how strong are financial auditing and reporting standards?" [1 = extremely difficult; 7 = extremely easy]

III. Policy Options

This section outlines the policy options selected after consulting with stakeholders, identifying the nature of the problem to be solved, and defining the objectives that policy options should help achieve.

In selecting the alternative options to be evaluated, the RIA team was guided by two criteria: 1) the alternative would have to be in compliance with EU Directives and 2) the alternative would provide more flexibility compared to the provisions stipulated in the Draft Law.

Option 1

In the "No policy change" option, the acting company law is not changed and therefore, the trends associated with the current formulation of the law are unchanged. This implies that economic and social trends (e.g. GDP growth, development of the economy, structure of the economy, etc.) are expected to continue evolving as they are currently doing, in the absence of reform. The risk of deterioration in regulatory enforcement due to increasing economic activity and business sophistication will not be averted; moreover, Georgia will fail to create an enabling environment for fostering access to finance and will default on its harmonization commitments with the EU. On the other hand, any additional burden on the public and private sector associated with the new regulations will be avoided.

Proposed policy interventions, Option 2 and Option 3, will be compared against this alternative to measure/evaluate net benefits (qualitative and quantitative, where feasible) of such interventions.

Option 2

Option 2 is a policy scenario in which all key provisions from the Draft Law, as envisioned by the authors, are adopted. A number of provisions apply to both LLCs and JSCs; therefore, in our analysis, we will be focusing on the expected impacts of this version of the reform on JSCs and LLCs wherever applicable.

The main risks associated with this option are:

1) Reduced effectiveness and flexibility in the governance of JSCs and LLCs;
2) An increase in management costs for JSCs and LLCs;
3) Increased difficulty in opening a JSC;
4) Distorted incentives leading to the choice of an LLC or other legal form to avoid additional burdens, partially offsetting the potentially positive effects of the reform;
5) Friction in implementation and enforcement of the Law on Entrepreneurs, further deteriorating the efficiency of public institutions.

Ways to minimize these risks would be:

- Support of a gradual implementation of the reform, allowing a transition period to comply with the new legislation, especially for the smallest companies, and deferring costs and allowing companies to develop a greater understanding of the potential benefits associated with the reform;
- Giving the greatest possible emphasis to the introduction of default rules (to be applied in absence of a different agreement among the parties) as opposed to the introduction of imperative rules (constraining the parties).

Option 3

Option 3 is a variation of Option 2, from which all imperative provisions which have not been explicitly committed to under AA obligations are removed. More specifically, we will analyze the impact of suggested regulations on JSCs only as committed by the AA, and freeing LLCs from the requirements that under the Draft Law were also applied to LLCs.

The main risks associated with this option are:

1) Reduced effectiveness and flexibility in the governance of JSCs;
2) An increase in management costs for JSCs;
3) Increased difficulty in opening a JSC;
4) Distorted incentives leading to the choice of an LLC or other legal form to avoid additional burdens, partially offsetting the potentially positive effects of the reform;
5) Friction in implementation and enforcement of the Law on Entrepreneurs, further deteriorating efficiency of public institutions

Also in this case, ways to minimize these risks would be:

- Support of a gradual implementation of the reform, allowing a transition period to comply with the new legislation, especially for the smallest companies, and deferring costs and allowing companies to develop a greater understanding of the potential benefits associated with the reform;
- Giving the greatest possible emphasis to the introduction of default rules (to be applied in absence of a different agreement among the parties) as opposed to the introduction of imperative rules (constraining the parties).

The policy options (Options 1, 2, 3) included in the analysis concern:

- Capital movements (Directive 2012/30/EU (2nd Company Directive))
- Minimum capital requirements (Directive 2012/30/EU (2nd Company Directive))
- Mergers (Directive 2011/35/EU (3rd Company Directive))
- De-merger/divisions (Directive 82/891/ EEC (6th Company Directive))
- Capital loss (Directive 2012/30/EU (2nd Company Directive))
- Registration (Directive 2009/101/EC (1st Company Directive))
- Conflict of interest provisions (Not obliged by any directive)
- Expulsion and exit of a partner (Not obliged by any directive)

IV. Analysis of Impacts

The methodology applied in the (efficiency-focused) analysis of the impacts is Cost Benefit Analysis (CBA), coupled with qualitative analysis for the components that were impossible to quantify given time and data constraints. The efficiency-focused analysis will be complemented with multi-criteria analysis, in order to include other components, in addition to efficiency considerations, in the comparative analysis.

The costs are estimated based on the EU Standard Cost Model.[18] Whenever a measure is likely to impose a (quantifiable) significant administrative costs on business, the voluntary sector, or public authorities, the EU Standard Cost Model is applied. The main aim of the model is to assess the net cost[19] of information obligations imposed by EU legislation.

Administrative costs are defined as costs incurred by enterprises, the voluntary sector, public authorities, and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties. Information is to be interpreted in a broad manner, i.e. including, reporting, registration, and monitoring and assessment needed to provide the information. In some cases, the information has to be transferred to public authorities or private parties. In others, it only must be available for inspection or supplied on request.

Stakeholders

CBA of the proposed action is performed with respect to company stakeholders, who can be grouped in two main categories:

- Internal Stakeholders: owners, management, and employees
- External Stakeholders: investors (shareholders not involved in management), public authorities, suppliers, lenders, customers and competitors.

Model parameters

- The time horizon of the analysis will be 10 years.
- The discount rate used is 7.37% (i.e. real return on 10-year government bonds). A sensitivity analysis will be performed at 4.76% and 9.98%.[20]
- After quantifying the expected impacts in each area for each alternative, the expected Net Present Value (NPV) of all alternatives is determined.

In all the cases in which the quantification of costs and benefits is not possible, a qualitative evaluation of the incremental costs and benefits of different options with respect to the baseline scenario has been prepared, in the attempt to test whether this affects the ranking of the options from an efficiency-focused point of view.
The main assumptions used in the quantitative analysis will be discussed in the CBA section below.

Discussion of sensitivity analysis

To test the robustness of the results to changes in the underlying assumptions, a partial sensitivity analysis is performed, inputting into the model the minimum (and later, the maximum) values for each of the following variables, keeping constant the expected values for all remaining variables in the model, to check which variables have the greatest influence (positive and/or negative) on the final results. Based on the sensitivity analysis, we quantify the best and worst-case scenarios (highest and lowest NPVs).

The variables utilized in the sensitivity analysis procedure are indicated in Table 13.

[18] More details on EU Standard Cost Model can be found here http://ec.europa.eu/smart-regulation/guidelines/toc_tool_en.htm
[19] net costs = costs introduced by a proposal if adopted, minus the costs it would eliminate at EU and/or national level
[20] Central value ± 1.96 Standard Deviations, corresponding to the boundaries of 95% confidence interval.

Table 13: The ranges of the variables used in sensitivity analysis

Variable Name	Standard Deviation	-1.96 SD	Central (initial) Value	+1.96 SD
GDP Growth (real) - starting one	3.87%	-3.59%	3.98%	11.56%
Nominal Interest Rate 10 yrs bond (2017) - starting one	1.37%	7.90%	10.59%	13.28%
Real wage growth (2010-2015)	5.75%	-3.00%[21]	5.60%	13.18%[22]
Other variables		Lower Bound	Central (initial) Value	Higher Bound
Growth rate LLCs		4%	9.11%	14.22%
Growth rate JSCs		-4%	0.16%	4.32%
Share of Small JSCs needing to either change form or recapitalize		35%	60%	85%

[21] Assumption of zero nominal growth.
[22] Symmetric to lower bound.

A. Costs and Benefits Analysis

Policy interventions analyzed and their expected impact

Registration and start-up costs

Article 2 of the 1st Company Directive affecting all legal forms, and Article 2-3 of the 2nd Company Directive, affecting JSCs as adopted in the Draft Law, introduce number of additional requirements that need to be disclosed by companies affected and hence registered and updated in the Public Register. In addition, Article 5 of the 1st Company Directive introduces the notion of company letters and forms that each company should adopt in their business processes.

Moreover, legal experts who were interviewed also expect increase in the complexity of charters, which will result in increasing the costs of legal services such as drafting charters and incorporation, in general.

Empirical evidence has established a robust link between the start-up costs of an enterprise and the number of newly registered firms, employment, productivity and other economic outcomes. While it is not expected that the changes will have impact on the Doing Business Starting a Business indicator due to way the indicator has been designed, increasing the complexity of requirements to start a business might still have a negative impact on the number of new business created.

On the other hand, a relative increase in entry costs for JSCs will encourage self-selection of enterprises with higher potential for growth, and decrease monitoring and regulatory costs for public entities.

Out of the stakeholders interviewed, representatives of MoESD were the most explicit about their concerns regarding registration and start-up costs.

Capital Loss

Article 19 of 2nd Directive calls for a general meeting if there is a serious loss of subscribed capital. The lost amount that qualifies as serious loss is set out to be a figure higher than half of the subscribed capital. This provision, with minor modifications, has also been adopted in the Draft Law. The requirements carry a relatively low value to internal stakeholders and external stakeholders of the smaller companies since management of such companies consists of the owners. For the larger companies, the value of this information is substantial, allowing external stakeholders, such as minority investors to keep in check company financial standing.

Capital Movement

The 2nd Directive provides for a comprehensive set of requirements that Member States should adopt in relation to increases and decreases of subscribed capital, disclosure of information regarding capital changes, etc. These measures are enacted as safeguards for external stakeholders, including investors and creditors, and the value of this information is considered to be high, particularly for stakeholders of larger companies. The majority of stakeholders interviewed also welcomed the proposed capital reduction and capital movement transparency initiatives.

Some articles, however could be imposing unnecessary costs on companies. One such article is Article 31 of the 2nd Directive, requiring an expert valuation for any non-cash contribution. Such valuations could be time-consuming, inconvenient and expensive, and thus make it more difficult (and/or costly) to attain equity financing. These provisions are particularly costly for small enterprises if contributions are made in-kind. Moreover, the extent to which expertise is available to properly provide for an independent assessment in Georgia is also questionable. Extended liability for the declared value of the contribution in the event of insolvency could be substituted for compulsory examination of contributions in-kind, as advised by field experts.

An additional provision that could unnecessarily restrict JSCs is the prohibition of contributions in the form of work and services. This could have adverse consequences on start-up high-technology companies, which could significantly benefit from intellectual/ human capital contribution.

Merger/De-merger

The 3rd and 6th Directives, as well as provisions adopted in the Draft Law, apply to mergers and divisions of JSCs. and in some cases, to LLCs, even if inclusion of the latter is not required by the directives. These provisions are designed to ensure appropriate protection of shareholders by establishing certain information and publication duties that the companies involved must comply with. In addition, these provisions contain rules for the protection of the companies' creditors.

The value of documentation (terms of merger in writing, written reports by management and written reports by an independent expert) is considered to be low to both internal and external stakeholders of small companies. The reason for this is that these companies often have a very limited number of external stakeholders, and the management of these companies is often constituted solely by the owners themselves. However, the value to the stakeholders of large companies is significant, particularly for minority shareholders who are in need of more information and are less capable of protecting their own interests without additional protections.

Legal Capital Requirements

The rules on legal capital contained in the 2nd Company Law Directive and adopted in the Draft Law are intended to avoid or reduce ex ante the risk of a company's insolvency due to poor management or opportunistic behavior by the company or majority shareholders. The main function of these rules is thus to protect both creditors and minority (non-controlling) shareholders.

There are two set of rules in relation to the legal capital:

(i) Prescribing a minimum legal capital which must be invested in a trading company, and

(ii) Restricting transfers of assets to shareholders where the net assets fall below the value of the legal capital invested.

A minimum level of legal capital could serve as a clear signal of creditworthiness to creditors, decreasing the costs of uncertainty and intermediation. Legal rules could be extended by individual agreements imposing additional requirements if need be. But research (Armour (2006), Santella and Turrini (2008)) in this field has argued that the minimum legal capital rules, as such, provide no useful protection, either to voluntary creditors (ranging from banks to public authorities, trade creditors and company employees) nor to involuntary creditors (such as tax authorities).

Big financial institutions rely on the contractual mitigation of risks of insolvency, while other types of voluntary creditors institutionalize self-protection mechanisms, since if the company goes insolvent there are very limited, if any, resources left for other creditors after banks and other large financial institutions take their share. Since there is no requirement that it be left as a reserve after the incorporation of the company, legal capital loses its value to stakeholders in the long term.

Diversity of enterprises and financial needs of each type of enterprise makes it impossible to customize legal capital requirements for each type of enterprise; consequently, no meaningful link between enterprise and legal capital can be made.

A restriction on the distribution of capital to shareholders can also be understood as a protective mechanism for creditors against the risk of opportunistic behavior by shareholders. Distributions to shareholders reduce a company's net assets, therefore increasing its risk of default. While there are clear benefits to imposing dividend constraints based on net asset values, it makes less sense to establish these restrictions by reference to historic contributions by shareholders, as opposed to the state of the balance sheet at the time the loan was made.

Overall, a minimum capital requirement and related restrictions create an 'entry price' for joint stock companies and deter individuals who rashly incorporate JSCs without much consideration for consequences. However, it is difficult to judge whether such outcomes are effective or desirable.

Most of the stakeholders interviewed also expressed skepticism towards the minimum capital requirement; its benefits in providing security to creditors and other stakeholders are very vague, and it is expected to deteriorate the image of the country as a business-friendly environment even if it does not affect Doing Business indicators. It might impose significant costs on the business sector, especially when it comes to existing companies. For example, JSCs which were privatized after the collapse of the Soviet Union may find it restrictively difficult to comply with the new requirements. Despite potentially having large asset bases, and capital above GEL 60,000, these JSCs might not be able to find financial resources to provide assessment of their capital. In all other cases, due to a widely dispersed ownership structure with many shareholders, it will be difficult to raise additional capital or reorganize, and they might end up in legal limbo. Therefore, additional analysis as to which companies and will be affected and when needs to be done regarding the amount of minimum legal capital.

Quantitative analysis of the policy interventions analyzed

In the quantitative part of this analysis we focus on the cost side due to the lack of sufficiently solid evidence about the causal relation between the measures introduced by a reform such as the one under analysis and the benefits associated with them.

Methodological Notes

The administrative costs of companies are assessed based on the average cost of required administrative activity (Price) multiplied by the total number of activities performed per year (Quantity). The average cost per action is estimated by multiplying a tariff (based on average labor cost per hour) and the time required per action. Where appropriate, other types of costs such as assessment or registration fees are taken into account. The quantity is calculated as the frequency of required actions multiplied by the number of entities concerned. In case of multiple relevant administrative activities per information obligation, these are summed up to calculate the administrative cost per information obligation.

The main source of information on which this RIA is based is the large-scale measurement of administrative costs carried out by the consortium Deloitte/Capgemini/Ramboll on behalf of the European Commission in 2008 ("the Consortium Report") and covers obligations stemming from EU legislation and from national measures transposing that legislation.

The assessment of effects on the administrative burden on businesses, citizens or public administrations resulting from the Draft Law began with the identification of key EU Company Law Directive Articles determined to have greatest administrative cost implications for companies. Identified articles were matched with articles in the Draft Law, and an incremental analysis against Current Law was performed to identify additional required actions imposed by the Draft Law[23]. This was followed by the quantification of costs related to incremental required actions and was concluded by calculation of Net Present Value based on the macroeconomic assumptions described below.

The entire workflow is summarized in Table 14 below.

[23] A description of key provisions and their equivalent provisions in the Current Law, if such exists, and incremental changes analyzed in Option 2 and Option 3, is given in the APPENDIX IV to the paper.

Table 14: Step by step application of the model

Phase I: Preparatory analysis	
Step 1:	**Identification of key EU Company Law Directive Articles determined to have greatest administrative cost implications for companies**
Step 2:	**Matching of the articles with the Draft Law**
Step 3:	**Identification of required actions based on the Draft Law** (e.g. holding general meeting, filling forms, etc.)
Step 4	**Performing incremental analysis on required actions with respect to the Current Law**
Step 5	**Identification of the frequency of required actions and relevant cost parameters** (e.g. expert fees, court fees, etc.)
Step 6	**Choice of data sources** (e.g. for assessment of labor costs, number of hours it takes to perform required actions, etc.)
Phase II: Data capture and standardization	
Step 7	**Assessment of the number of entities concerned** (e.g. 100.000 SMEs)
Step 8	**Assessment of the performance of a 'normally efficient entity' in each target group, taking into account cost parameters identified in step 5** (e.g. enterprises have once a year to spend, on average, 25 hours of work by an accountant fill in the required documentation and 5 hours of shareholders' time to attend the general meeting)
Phase III: Calculation and reporting	
Step 9	**Calculating yearly incremental costs of required actions for Options 2 and 3**
Step 10	**Calculating NPV for Options 2 and 3 over a 10-year period based on the macroeconomic assumptions**

Macroeconomic assumptions

The values of the main macroeconomic variables, their sources and assumptions about their development are displayed in Table 15.

Table 15: Macroeconomic variables, sources and assumptions

Variables	Initial Values in 2018	Final Values in 2027	Source
GDP Growth (Real)	3.98%	3.13%	Based on the International Monetary Fund (IMF) World Economic Outlook projection for 2018 and assuming a trend towards 2% in year 2040. Based on the average real growth rate in the United States since 1968.
Inflation	3.00%	3.00%	Based on the NBG inflation target
Discount Rate	7.37%	7.37%	Real interest rate on 10-years government bonds
Nominal Interest Rate On 10-yrs Government Bonds	10.59%	10.59%	Based on the average interest rate of 2017 issues of 10-year government bonds in Georgia.
Growth Rate of LLCs	9.11%	6.07%	Estimated on the basis of Geostat Business Survey data, period 2011-2017. Converging to the long-term expected average real growth rate of the economy (2%) in 2040.

Growth Rate of JSCs	0.16%	0.95%	Estimated on the basis of Geostat Business Survey data, period 2011-2017. Converging to the long term expected average real growth rate of the economy (2%) in 2040.

Assumptions about the incidence of the analyzed changes on companies

Another important set of assumptions concerns the number of companies impacted by specific provisions. We chose to adopt the same assumptions developed for the assessment of the impact associated with the implementation of the Directive being incorporated in Georgian legislation, based on experience in EU countries[24]. The assumptions are presented in table 16.

Table 16: Share of Companies affected every year, by size

Variables	Small	Medium	Large
Capital Loss	5.00%	3.00%	2.00%
Capital Movement	5.00%	5.00%	5.00%
De-Merger	3.00%	3.00%	2.00%
Merger	1.00%	1.00%	0.50%
Extraordinary Dividend	10.00%	10.00%	10.00%

Source: The Consortium Report

Option 1 Baseline scenario

Costs and benefits associated with the baseline scenario are not quantified. Instead, the focus of this analysis is on the direct quantification of the incremental costs and benefits of Options 2 and 3, on the basis of the information collected.

Option 2

QUANTIFIED COSTS

- *Companies*
  - **Time spent for the new requirements/procedures:** After determining what part of the requirements included in the draft legislation was incremental with respect to the status quo (expressed in number of additional minutes per procedure), we defined which part of the increased administrative burden was taken care of using internal resources, and which part was instead outsourced. The increase in internal burden was monetized by converting the number of minutes into months and multiplying this by the average monthly wage of finance and administration department managers (obtained from the Integrated Household Survey - Geostat). The increase in outsourced activities was monetized by converting the number of minutes into months and multiplying this by the average monthly wage of professional accountants/auditors (also obtained from the Integrated Household Survey - Geostat).
  - **Additional Fees:** several procedures required, in addition to extra administrative resources, the payment of fees to courts and other experts. In all these cases, costs have

[24] The percentages in table 16 were developed by a panel of national experts from different EU countries and are reported in the Consortium Report.

been computed on the basis of the existing tariffs as identified by extensive desk research.

- ***Shareholders***
    - **Time spent for the new requirements/procedures:** In this case, we also identified a number of procedures introduced/modified by the reform requiring the direct participation of shareholders (mostly in general meetings to authorize some operation). As for companies, after determining what part of the requirements included in the draft legislation was incremental with respect to the status quo (expressed in number of additional minutes per procedure), we monetized the opportunity cost for stakeholders (as a function of the time spent in the meetings, as well as in travel time, and time spent becoming acquainted with the company reports). We approximated this cost by converting the expected number of hours into months and multiplying this by the average monthly wage in the Georgian labor market (obtained from the Integrated Household Survey - Geostat).
- ***Government***
    - While one can expect an additional administrative burden to emerge because of the reform, we assumed that the fees paid by the companies will be designed to ensure full cost recovery (i.e. the additional costs will be all borne by the companies themselves).

QUANTIFIED BENEFITS: none.

UNCERTAINTIES

The main uncertainties here pertain to the following issues:

- Percentage of companies affected by the reform. We adopt the same estimates produced by the Consortium Report when assessing the expected impact of the implementation of the Directive in the EU. A higher incidence would imply higher costs, while a lower incidence would lead to lower costs.
- The impact of the reform on small JSCs. Given the incomplete information available, it is not clear how many JSCs are small companies. Costs that appear to be relatively limited for large JSCs (even if higher in absolute terms), might be much more substantial for small companies and contribute to affect their behavior.
- Behavioral response of companies to the reform. In particular, it is not clear what percentage of JSCs will be transformed into LLCs in order to minimize the reform impact (from our analysis it is clear that at the company level the burden of the reform is larger for JSCs).
- Assets of companies (and related costs). Our cost estimates are based on available information. If companies' asset bases are greater than those estimated, costs can be expected to be greater, and vice-versa if companies' asset bases are smaller.

Option 3

QUANTIFIED COSTS

- ***Companies***
    - **Time spent for the new requirements/procedures:** same methodology as in Option 2. However, in this case, the overall costs will be substantially reduced by the exclusion of LLCs.
    - **Additional Fees:** same methodology as in Option 2. However, in this case, the overall costs will be substantially reduced by the exclusion of LLCs.

- ***Shareholders***
    - **Time spent for the new requirements/procedures:** same methodology in Option 2. However, in this case the overall costs will be substantially reduced by the exclusion of LLCs.
- ***Government***
    - Same as in Option 2.

QUANTIFIED BENEFITS: none.

UNCERTAINTIES:

The main uncertainties here pertain to the following issues:

- Percentage of companies affected by the reform. Same considerations as in Option 2 for JSCs. In this option, however, LLCs are excluded.
- Impact of the reform on small JSCs. Same considerations as in Option 2.
- Behavioral response of companies to the reform. In particular, it is not clear what percentage of JSCs will be transformed into LLCs in order to minimize the reform impact (from our analysis it is clear that at the company level the burden of the reform is larger for JSCs). The percentage is likely to be larger in this case.
- Assets of companies (and related costs). Same considerations as in Option 2, but only for JSCs.

Summary of Cost-Benefit Analysis

Our results, summarized in tables 17, 18 and 19 and in figures 8, 9, 10 and 11, indicate that both options lead to a modest increase in costs with respect to the Baseline Scenario (both in overall and in average terms). This is due to the following reasons:

1. The aspects of the reform we have been quantifying affect just a fraction of the companies in a given year. In Table 17 you can see the estimated number of companies affected in 2018, by size and legal form. Please note that the number of companies affected is obtained by multiplying the number of existing companies by the expected incidence.

Table 17: Companies affected in 2018, by size and legal form[25]

Variables	LLCs			JSCs		
	Small	Medium	Large	Small	Medium	Large
Capital Loss				14	3	1
Capital Movement				14	6	3
De-Merger	2,089	58	7	8	3	1
Merger	696	19	2	3	1	0
Extraordinary Dividend				28	12	6

Source: Authors' calculations

[25] Clearly the number of LLCs affected in Option 2 would be zero. Costs will increase with time because of the increase in real wages.

2. The incremental costs per company affected do not appear to be extremely high, as shown in table 18.[26]

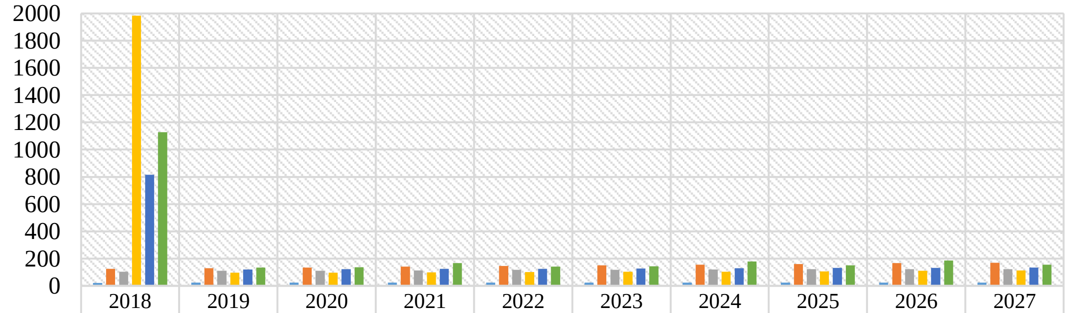
Table 18: Cost per company affected in 2018, by size and legal form in GEL[27]

Variables	LLCs			JSCs		
	Small	Medium	Large	Small	Medium	Large
Registration	233	465	930	750	1,398	2,395
Capital Loss				15	25	49
Capital Movement				1,301	1,445	1,715
De-Merger	74	129	231	565	1,007	1,566
Merger	74	129	231	565	1,007	1,566
Extraordinary Dividend				2	3	4
Capital assessment (JSC)				400	700	1,000
Capital integration (JSC)				674		

Source: Authors' calculations

This translates into a quite low average cost per company[28] per year associated with the reform, as shown in Figures 8 and 9. The only year in which costs appear to be more significant (for JSCs) is the first year, as all JSCs are expected to need an official assessment of their capital and – if needed – to integrate it to reach the minimum threshold of 60,000 GEL. This is also the reason why the average cost per small JSC is expected to exceed the average cost per medium and large JSCs in the first year of the reform.

Figure 8. Average cost per company per year – present value in GEL (Option 2)



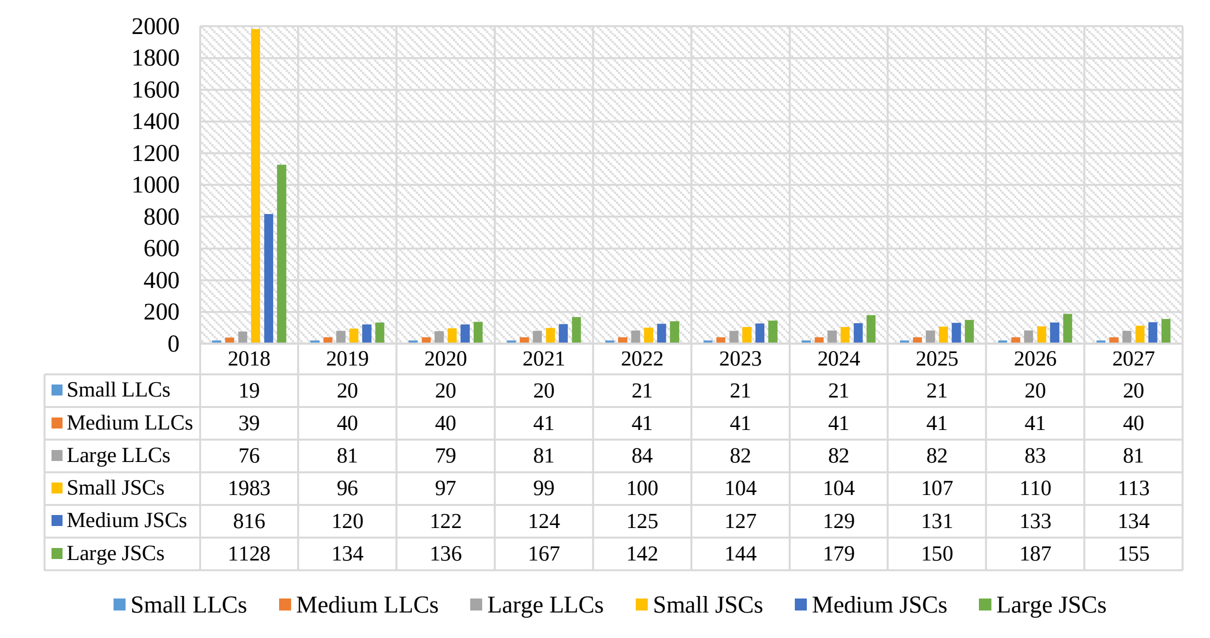
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Small LLCs	22	23	23	24	24	24	25	25	25	25
Medium LLCs	125	130	135	141	146	151	156	161	166	171
Large LLCs	104	110	110	114	118	117	119	121	124	124
Small JSCs	1983	96	97	99	100	104	104	107	110	113
Medium JSCs	816	120	122	124	125	127	129	131	133	134
Large JSCs	1128	134	136	167	142	144	179	150	187	155

Small LLCs Medium LLCs Large LLCs Small JSCs Medium JSCs Large JSCs

Source: Authors' calculations

[26] One should note that the higher costs for JSCs are due to the necessity to assess the value of the capital (and grow as the value of the capital grows).
[27] In option 2 the costs for LLCs would not occur if the merger involved only LLCs.
[28] Total costs divided by number of total companies in that size, and legal form category

Figure 9. Average cost per company per year – present value in GEL (Option 3)

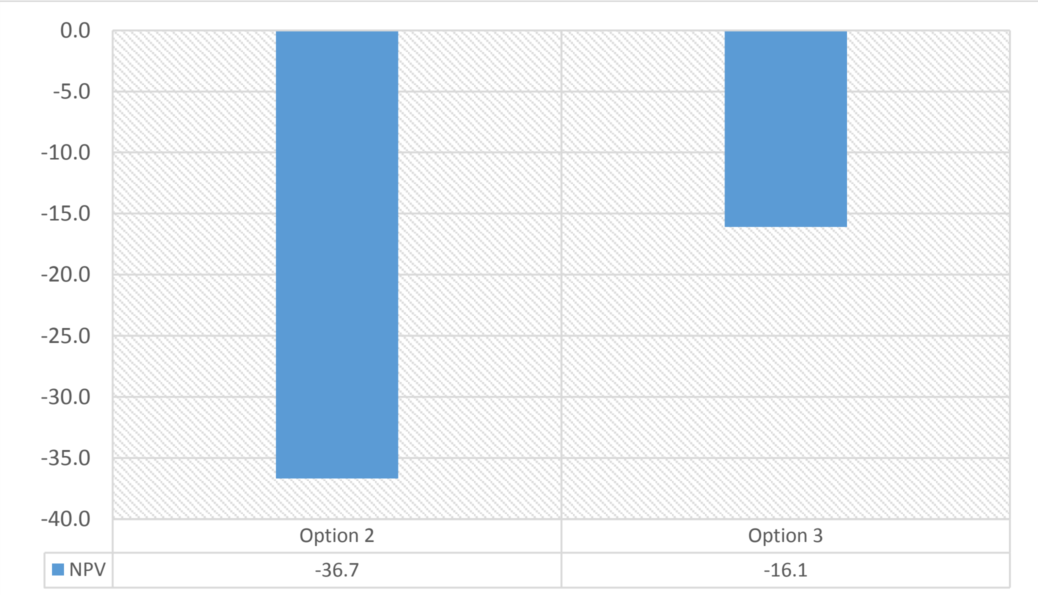


	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Small LLCs	19	20	20	20	21	21	21	21	20	20
Medium LLCs	39	40	40	41	41	41	41	41	41	40
Large LLCs	76	81	79	81	84	82	82	82	83	81
Small JSCs	1983	96	97	99	100	104	104	107	110	113
Medium JSCs	816	120	122	124	125	127	129	131	133	134
Large JSCs	1128	134	136	167	142	144	179	150	187	155

Source: Authors' calculations

When analyzing the results reported in Table 19 and Figures 10 and 11, one should always keep in mind that no benefits have been quantified. Therefore, the efficiency-based assessment of the reform under analysis relies even more on the qualitative analysis than usual, and it is crucial that the reader considers the qualitative and the quantitative analyses jointly. This said, excluding LLCs from the reform measures under analysis is expected to reduce the incremental costs associated with the above-mentioned measures by almost 43%, from approximately 36.7 (Option 2) to approximately 16.1 (Option 3) million in today's GEL (table 19 and figure 10).

Figure 10. Comparison of incremental NPV costs of policy options (mil. GEL, constant prices)



	Option 2	Option 3
NPV	-36.7	-16.1

Source: Authors' calculations

Table 19: Summary of incremental costs and benefits

	OPTION 2	OPTION 3
Incremental Costs (PV)	36,7 mil. GEL	16,1 mil. GEL
Qualitative impacts (if quantitative not possible)[29]	***POSITIVE:*** Improved safeguards for external stakeholders including investors and creditors for LLCs and JSCs. Increased transparency in capital movements for JSCs. Relative increase of entry costs for JSCs might encourage self-selection of enterprises with higher potential for growth and decrease monitoring and regulatory costs for public entities. Reduced ex ante the risk of the company's insolvency due to poor management or opportunistic behavior by the company or majority shareholders for JSCs. ***NEGATIVE:*** Reduced effectiveness and flexibility in the governance of JSCs and LLCs. Distorted incentives leading to the choice of LLC legal form or other legal forms with lower compliance costs to avoid additional burdens, partially offsetting the potentially positive effects of the reform. Friction in implementation and enforcement of the Law on Entrepreneurs further deteriorating the efficiency of public institutions.	***POSITIVE:*** Improved safeguards for external stakeholders including investors and creditors smaller than Option 2. Increased transparency in capital movements comparable to Option 2. Relative increase of entry costs for JSCs might encourage self-selection of enterprises with a higher potential for growth and decrease monitoring and regulatory costs for public entities smaller than in Option 2. Reduced ex ante the risk of the company's insolvency due to poor management or opportunistic behavior by the company or majority shareholders comparable to Option 2. ***NEGATIVE:*** Reduced effectiveness and flexibility in the governance of JSCs and LLCs smaller than in Option 2. Distorted incentives leading to the choice of LLC legal form or other legal forms with lower compliance costs to avoid additional burdens, partially offsetting the potentially positive effects of the reform smaller than in Option 2. Friction in implementation and enforcement of the Law on Entrepreneurs further deteriorating the efficiency of public institutions lower than in Option 2.

[29] List those items that have a significant impact on the decision making, but cannot be quantified

B. Case Law Analysis on Selected Number of Provisions

Below are legal frameworks and case studies related to the topics covered by the Current Law that are hard to quantify and assess in theory[30]. However, practice demonstrates that these gaps might be filled if the Draft Law is applied. These topics include: conflict of interest, exit rights, and expulsion of a shareholder from a company.

- Conflict of Interest

The definition of an interested person, as well as the standard proposed by the Draft Law on identifying conflict of interest, may act as an incentive for companies and directors to have a more comprehensive understanding of consequences of their acts. Moreover, court proceedings may become more efficient and less time-consuming, since the court may use the standard offered by the Draft Law.

- Partner Exit and Expulsion

It is evident that the Draft Law can contribute to a better understanding of the grounds that may be applied when granting shareholders the opportunity to exit from their companies. This might give more legitimacy to court decisions. Moreover, it may facilitate more efficient court proceedings and shorten the period of rendering decisions, because the courts will have a better understanding of the notion of exit and more comprehensive guidance.

Since the expulsion of a shareholder may be an important issue for the companies to continue their business operations successfully, and since this issue is very sensitive due to its nature (as it concerns the property rights of the shareholders), a comprehensive regulation of this matter will be important. Moreover, it should be noted that, as the statutory discretion given to the courts increases the possibility for courts to rule on expulsion cases, the legitimacy of courts is also increased. The court currently may only discuss failing to contribute to company capital as a reason for expulsion; with the proposed changes, the court will have more flexibility to assess the conduct of the parties and make a decision based on those facts. Regarding property rights and business interests, we believe that the court or any other dispute resolution body is crucial for balancing and protecting each of those interests.

[30] Full report on Case Law can be found in the APPENDIX VI to the report

C. Wider Impacts

The following analysis of impacts summarizes all possible direct and indirect impacts as well as distributional effects (even though they are not calculated).

Table 20: Summary impact of selected options

High impact	Medium impact	Low impact

IMPACT	OPTION 2	OPTION 3
Administrative	Public entities – the administrative burden on public entities is expected to be significant, particularly new company registration, due to the more detailed charter requirements and information about the placed capital. A substantial increase in information disclosure requirements, implementation and enforcement of new regulations will put significant pressure on the Public Registry, the Revenue Service, the judiciary, and other institutions that oversee these functions. These institutions must also ensure that the private sector is aware of and ready for upcoming regulatory changes. In equilibrium, increased administrative costs are expected to be translated to companies through cost-recovery, but due to the large number of companies, per company cost is not expected to increase substantially. The administrative burden on businesses is expected to be moderate and mostly short term until enough capacity is in place to comply with the new requirements. Total administrative costs to comply with the key provisions of the option are estimated at GEL 36.7 mil. for the 10 year-period. Additional resources (not quantified) will be needed to familiarize companies with the new regulations and to build internal capacity for proper compliance. <u>One-off costs:</u> Compliance with the 60,000 GEL capital requirement will force those JSCs that have capital below this threshold to increase their capital or reorganize; both actions are costly and will mostly affect small and some medium sized companies. Regardless of capital size, all companies, existing or new, will have to prove the existence of an adequate level of capital, the cost of which is estimated at GEL 400-1,000, depending on the size. Additional	Impacts are qualitatively similar to those discussed in Option 2. However, the magnitude of the impacts can be expected to be slightly smaller, because of the lower number of affected companies. Incremental administrative costs for LLCs is much lower because new company registrations ranging between GEL 20 and 81, depending on size and growing over the years in accordance with wage growth rates. As a result, total administrative cost for companies is estimated at GEL 16.1 mil. for the 10-year period.

	integration costs for small JSCs, for administration only, is assessed at GEL 674. Incremental costs of incorporation are assessed at GEL 233-930 for LLCs, and GEL 750-2,395 for JSCs, depending on their size. These costs mostly originate from the increase in complexity of charters and other start-up costs. Recurrent costs: According to our estimate, on average, beyond the first year of law enforcement the average compliance cost per company will vary between GEL 23-104 for LLCs, and GEL 96-134 for JSCs, depending on the size of the company and growing over the years in accordance with growth in wage rates. These estimates assume that shareholders do not decrease their attendance and participation rates in general meetings, but if they choose to participate less actively in the administration of the company, or if general meetings are called more frequently (and attendance is costly), overall costs will decrease.	
Regulatory Framework	The impact on the regulatory framework of the Draft Law is expected to be substantial. The channels through which the Draft Law will impact the regulatory framework are the following: - Explicit rules (also in the form of "default rules") that fill the gaps in concepts or guidelines highlighted by stakeholders will enable resolution of corporate deadlocks or similar impasses in the corporate decision-making process, increasing the efficiency of the legal framework. - Statutory rules promoting information transparency and regulating relationships between different company stakeholders will reduce enforcement costs and limit opportunistic behavior by managers and majority shareholders. As a result, advancement in the international rankings on regulatory frameworks, such as the Global Competitiveness Indicators and the Economic Freedom Index, is expected.	The impacts are qualitatively similar to those discussed in Option 2. However, the magnitude of the impacts can be expected to be slightly smaller, because of the lower number of affected companies. Exclusion of LLCs, which constitute a significant share of the business population, will moderate, albeit only slightly, the impacts of the Draft Law on regulatory framework.
Economic	The expected economic impact of the reform are numerous. Empirical literature studying the relationship between the legal environment and economic outcomes has established a robust	Impacts are qualitatively similar to those discussed in Option 2. However, the magnitude of the impacts can be expected

	link between the two, namely, that stronger legal and judicial system can lead to: Increased access to external financing: better legal protection is shown to help with capital market development, while stronger creditor and shareholder rights also contribute to better developed banking and capital markets. These in turn can lead to greater investment, higher economic growth, and employment. Lowering the cost of capital, both for equity and debt financing, and a consequent increase in firm valuation: improvements in judicial efficiency and enforcement of contracts lower risks for financial intermediaries, and therefore decrease the cost of borrowing for private enterprises. Lower costs make more investments attractive to investors, also leading to growth and more employment. Better operational performance through better allocation of resources and better management by increasing the efficiency of investment decisions. Reduced risk of financial crises: better legal institutions also moderate the risk of financial distress during times of adverse economy-wide developments.	to be slightly smaller, because of the lower number of affected companies
Social	The increased capital requirements for JSCs are expected to restrict access to this legal form for entrepreneurs disposing of more relevant financial resources. On the other hand, however, increasing opportunities for LLCs to attract external financing by 1) offering a more developed legal infrastructure for new financing tools and 2) strengthening regulatory efficiency, is expected to foster inclusive economic growth. Overall, the positive impacts are expected to dominate.	Impacts are qualitatively similar to those discussed in Option 2.
Environmental	No particular direct and immediate impact of the Draft Law on the environment is expected, but in the longer run, development of better corporate governance can lead to a more responsible corporate culture, which can benefit environmental sustainability.	Impacts are qualitatively similar to those discussed in Option 2.
Public financing	Public financing is expected to be affected in the short to medium run through programs to institutionalize new systems:	Impacts are qualitatively similar to those discussed in Option 2. However, the magnitude of the

	- Training costs for Public Registry employees - Training costs for judges - Training costs of other public sector employees that directly or indirectly contribute to the implementation of the law. - Costs of adjusting the legal infrastructure to the Draft Law by amending related laws, and by-laws, administrative orders, etc. The impact on public financing, however, is likely to be mitigated by donor support in the initial phase and to be covered by additional fees paid by companies later on.	impacts can be expected to be slightly smaller, because of the lower number of affected companies
SMEs	An increase in registration and compliance costs for enterprises established with limited liability are expected to significantly and disproportionately affect SMEs; therefore, our assessment of potential impact on SMEs is high, especially in the short-term: Unnecessary and disproportionate administrative costs can hamper economic activity. As a response to these difficulties, some companies might choose legal forms with lower compliance costs and limited access to benefits offered by limited liability. This might further reduce their capacity to access capital to finance their growth and have a negative effect on overall growth.	Impacts are qualitatively similar to those discussed in Option 2. However, the magnitude of the impacts can be expected to be significantly smaller, because of the lower number of affected companies

D. Sustainable Development Goals

The proposed changes to the Law on Entrepreneurs is expected to have number of direct and indirect impacts on Sustainable Development Goals. Key goals that the initiative will help advance include Goal 8: Decent Work and Economic Growth, particularly global target 8.2[31] and 8.3,[32] and Goal 9: Industry, Innovation and Infrastructure (target 9.3[33]). Most immediately, the proposed Draft Law will help build strong institutions and thereby advance UN 2030 Agenda with respect to Goal 16: Peace, Justice and Strong Institutions (target 16.6[34]).

Figure 12 below illustrates our assessment of the relative magnitude of impact the Draft Law is expected to have on each of the 17 Goals and set of Global targets it will help achieve in the coming years.[35] The numbers next to the 17 Goals identify targets which are expected to be affected most significantly. While no direct attribution can be made to most other Goals, indirect benefits in the longer run will help fight inequality, poverty and hunger through stronger and more inclusive economic growth and institutions. It is of utmost importance closely track targets for environmental and social sustainability to achieve maximum positive impact of economic diversification and industrialization.

Possible impacts on environmental sustainability is not straightforward and are mostly indirect. While increased economic activity and industrialization could potentially increase companies' ecological footprint (Global Footprint Network, 2007), a better legal and regulatory framework will contribute to more environmentally and socially responsible corporate governance. Addressing trade-offs and promoting synergies between the goals by looking beyond economic factors to measure progress towards sustainable development is therefore critical.

[31] Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors

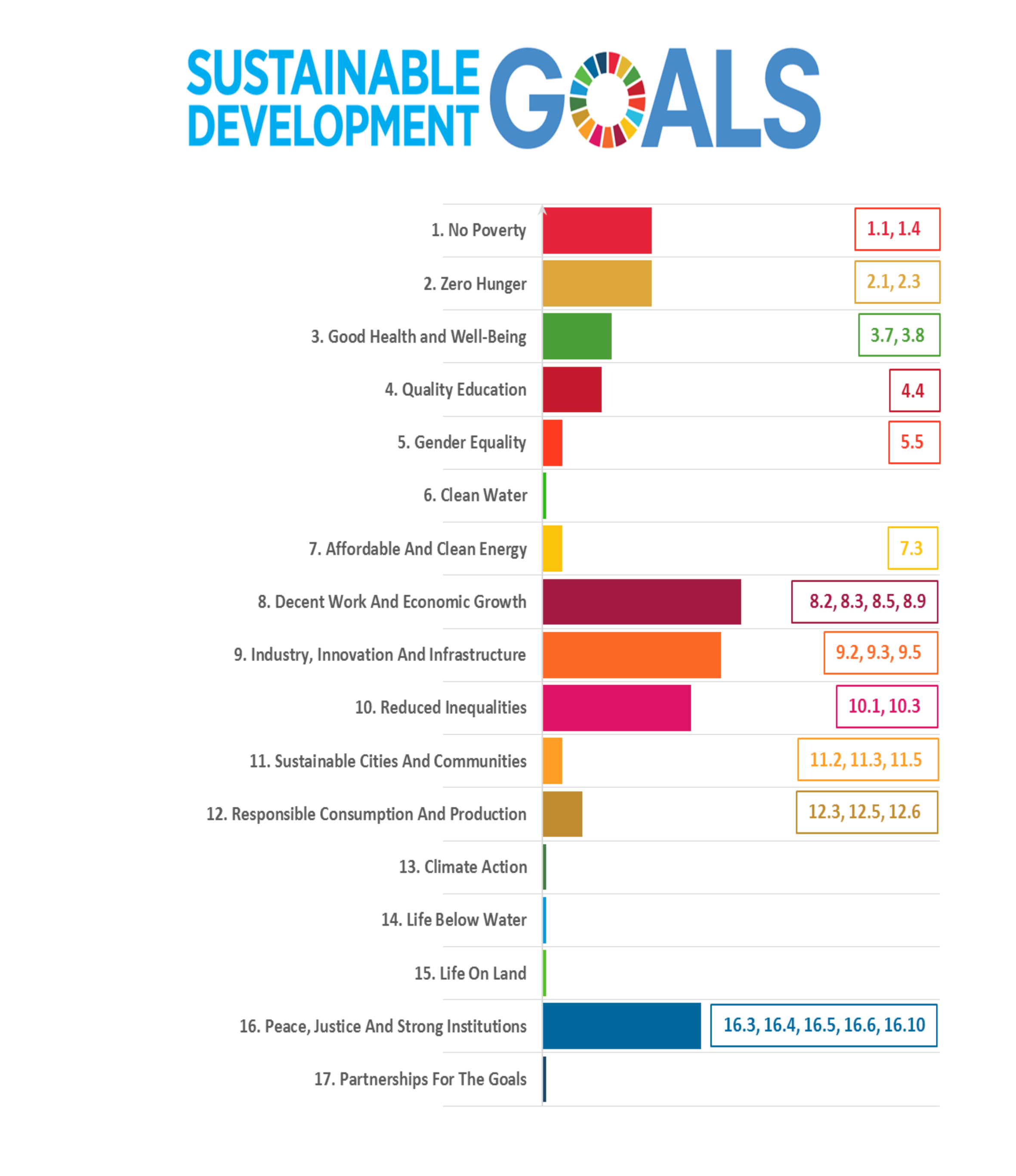
[32] Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

[33] Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

[34] Develop effective, accountable and transparent institutions at all levels.

[35] To arrive at the impact measurement of the Draft Law on the SDGs, we have scored each 166 targets on a scale from 0 to 10 and attributed maximum value of the targets to their respective goals. For example, target 8.3 has been scored 10 which is the maximum out of all the Goal 8 targets, therefore Goal 8 has been attributed score 10 even if other targets were scored less than 10.

Figure 11. Sustainable Development Goals and Targets



V. Comparison of Options using multi-criteria analysis

While comparing the alternatives to identify the preferred one, we considered a number of criteria in addition to NPV. These criteria are:

Effectiveness: the capability to produce the desired results. In our case, the capability to:

1. Increase the effectiveness of the set of rules and practices in the areas of company law for fostering better access to finance; and
2. Harmonize efficiently with EU company law.

Feasibility: This criterion assesses how easy it is to realize an Option. This includes compliance rates, the possible scarcity of resources, and adequate capacity to cope with complex regulatory changes.

Minimization of risks: This criterion evaluates the capacity of an Option to minimize the undesired negative impacts of the reform not monetized in the CBA.

- Reduced effectiveness and flexibility in the governance of JSCs and LLCs;
- An increase in management costs for JSCs and LLCs;
- Increased difficulty in opening a JSC;
- Distorted incentives leading to the choice of LLC or other legal forms to avoid additional burdens, partially offsetting the potentially positive effects of the reform; and
- Friction in implementation and enforcement of the Law on Entrepreneurs further deteriorating efficiency of public institutions.

Maximization of collateral benefits: This criterion evaluates the capacity of an Option to maximize the positive externalities generated by the reform, as well as the positive impacts not monetized in the CBA, including:

- Increased attractiveness of the country to foreign investors;
- Diversification of financial investment tools available in the country;
- Facilitation of access of enterprises to domestic and local capital, with positive repercussions on economic growth;
- Fostering more socially and environmentally responsible corporate sector; and
- Delivering on commitments of Agenda 2030, including development targets and principles.

Summary of Options

Assessment of each policy Option with respect to each criterion is summarized in the Table 21 below. The judgment on each policy Option has been made based on the discussion reported above.

Table 21. Comparison of options using multi-criteria analysis

EVALUATION CRITERIA	OPTION 1	OPTION 2	OPTION 3
Incremental costs (NPV)	-	- GEL 36.7 mln	- GEL 16.1 mln
Effectiveness 1: Increase effectiveness of the set of rules and practices in the areas of company law for fostering better access to finance	+	+++	++
Effectiveness 2: Harmonize efficiently with EU company law	+	++	+++
Feasibility / Ease of compliance	+++	+	++
Minimization of Potential Risks	0	--	-
Maximization of Potential Benefits	0	+++	++

Ranking of options

According to the analysis, all options have some merits. Depending on the weight attributed to the different criteria, the rank may change in favor of one or the other.

Motivation

Option 1 (baseline scenario). Option 1 appears superior to the remaining options with respect to the Feasibility/Ease of compliance criteria. This is because the incremental requirement to implement this Option is essentially zero.

Option 2 appears to be the best way to meet the first objective of the reform. This, according to our assessment, is the option that increases the effectiveness of the set of rules and practices in the areas of company law for fostering better access to finance the most. Option 2 is also the most effective in maximizing the positive (and substantial) indirect effects of the reform. However, this Option is the most challenging to implement and performs relatively poor on criteria related to cost efficiency, such as NPV, and is associated with the highest level of risks.

Finally, Option 3 is ranked higher than all other options on the second effectiveness criteria. This option allows for full implementation of the EU Directives with the least cost. This option is also superior to Option 2 in terms of minimization of potential risks identified above. It performs relatively poorly with respect to Option 1 or Option 2 on the remaining criteria, but is most balanced, since this Option never scores the worst on any criteria.

VI. Monitoring and Evaluation Plan

To keep track of the performance of the Draft Law, it is important to evaluate how well it responds to the reform objectives set in section IV. The indicators that we suggest using to evaluate the performance of the Draft Law are the following:

- Number of entrepreneurial legal disputes regulated by the Law on Entrepreneurs – This, in our opinion, is the most important indicator to track, since the Draft Law will have direct and immediate impact on this measure. Statistics on entrepreneurial legal disputes that are currently available lack important details that could help isolate specific problems and challenges faced by companies.

Additional indicators that could be developed to track the effectiveness of the Law include:

- Duration of legal dispute case resolution - over time we should observe a decrease in the duration of time it takes to settle a dispute.
- Entrepreneurial legal disputes by topic - this would allow for pinning down areas for further improvement.

The following indicators are perceptions-based, and therefore it will take years before significant improvement in these indicators can be observed. Moreover, many other factors, including macroeconomic development, will impact progress in these areas. Therefore, attribution and isolation of the impacts of the Law on Entrepreneurship will be a challenge. Nevertheless, for achieving the objectives of the intervention it is of utmost importance to track progress in these measures of socioeconomic development:

- Efficiency of legal framework in settling disputes - Global Competitiveness Indicators, World Economic Forum;
- Financing through local equity market - Global Competitiveness Indicators, World Economic Forum;
- Ease of access to loans - Global Competitiveness Indicators, World Economic Forum;
- Efficacy of corporate boards - Global Competitiveness Indicators, World Economic Forum;
- Protection of minority shareholders' interests - Global Competitiveness Indicators, World Economic Forum;
- Strength of investor protection - World Bank/International Finance Corporation;
- Strength of auditing and reporting standards - Global Competitiveness Indicators, World Economic Forum;

Table 22. Indicators of progress towards meeting the objectives

INDICATOR	FREQUENCY OF EVALUATION	RESPONSIBILITY FOR MONITORING
Number of entrepreneurial legal disputes regulated by the Law on Entrepreneurs	Annual	MoJ
Efficiency of legal framework in settling disputes	Annual	MoJ; MoESD
Financing through local equity market	Annual	MoESD;
Ease of access to loans	Annual	MoESD;
Efficacy of corporate boards	Annual	MoESD;
Protection of minority shareholders' interests	Annual	MoESD; MoJ;
Strength of investor protection	Annual	MoESD; MoJ;
Strength of auditing and reporting standards	Annual	MoESD; MoF; MoJ

VII. Procedural Issues and Consultation of Interested Parties

A. Organization and Timing

1. The project was officially launched on 20th of March 2017.
2. The RIA team received the final version of the Draft Law on Entrepreneurs (the **"Draft Law"**) on the 30th of March 2017.
3. On the 7th of April, a preliminary meeting with the clients was held. At the meeting, the team defined a detailed RIA action plan and discussed expectations. To acquire the necessary information to start the RIA process and explore the potential objective of the RIA, the ISET-PI team elaborated a short methodology description and tentative objectives, and shared it with the clients.
4. The summary of the Draft Law was discussed by the team together with the partner organization, Dechert Georgia LLP (March 24th, March 31st, and April 4th). As a result of the meetings, the main changes with respect to the Current Law were identified and filtered according to the methodology. The Draft Law review with Dechert LLP was finalized by May 31st.
5. On the 20th of April, we started contacting a number of relevant stakeholders and conducting interviews with them. The questionnaire and the list of stakeholders we have interviewed can be found in the Appendix (Appendix I- Questionnaire for Stakeholders, Appendix II- List of Stakeholders Interviewed).
6. On the 20th of March, the secondary data collection started.
7. On the 18th of May, the RIA team met with the key stakeholders (GIZ/EU Project and PROLoG) to discuss and respond to the comments made on the draft report, submitted on May the 5th.
8. On the 19th of May, a meeting with the authors of the Draft Law took place. The aim of the meeting was to agree on problem definition and objectives, defined by the RIA team, and to discuss alternative policy options.
9. Additional consultative meeting with one of the Draft Law authors, Giorgi Jugheli, took place on the 2nd of June. The goal of the meeting was to get final confirmation on the provisions identified by the team for RIA analysis and to discuss possible policy alternatives. The mid-term report was sent to the GIZ/EU Project on the 12th of June. GIZ/EU Project provided their feedback on the mid-term report on the 15th of June. The revised draft and interim reports were sent to stakeholders on the 19th of June 2017.
10. Additional data collection took place after the methodology for the RIA cost-benefit analysis was finalized in the beginning of July 2017.
11. On the 27th of July, two members of the RIA team attended a Workshop "RIA in Light of Agenda 2030" organized by the GIZ Programme "Legal Approximation towards European Standards in the South Caucasus." Comments and feedback received on the Interim Report were incorporated in the draft Final Report.
12. The draft Final Report was sent to the GIZ/EU Project and PROLoG stakeholders on the 15th of August.
13. The workshops for discussing the draft Final Report were held on 8th and 18th of September, after receiving final written feedback from the project stakeholders (GIZ/EU Project and PROLoG).
14. The final RIA report, which incorporates project stakeholder feedback as well as the comments of the workshop participants, was sent on the 5th of October.

Table 23: Milestones

Milestone Name	Milestone Verification	Expected/Actual Time of Completion
1. RIA Detailed Action Plan and Stakeholder Survey prepared	Documented action plan and stakeholder survey report sent to PROLoG.	Monday the 12th, June 2017
2. Mid-Term Report prepared	Presentation of the Mid-Term Report at the first Stakeholder Workshop. Physical delivery of the Mid-Term Report.	Monday the 12th, June 2017
3. Final RIA Report prepared and submitted	Final Report. All raw data in excel format utilized and collected during the RIA implementation.	Thursday the 5th, October 2017

B. Consultation and Expertise

In order to develop a comprehensive overview about the Current Law and possible solutions to the problems identified and described above, the RIA team opted for a multiplicity of methods, including but not limited to: desk research, literature review, requests for official data, telephone interviews, and in-depth interviews of the identified stakeholders, both formal and informal.

The goal of the first phase of the consultation and data gathering phase was to define the problem, objective(s), and possible policy options. The second, complementary phase of the consultations and data gathering, phase had the main purpose of helping the team gather any missing information / data necessary to compare the different policy alternatives to the status quo and select the best one.

Legal guidance to the RIA team was provided by Dechert LLP (“Dechert”). This included analysis of the Draft Law and identification of the most important amendments and additions, in terms of their impact on the law’s objectives and outcomes. Dechert was in charge of reviewing the proposed Draft Law and:

- Identifying the provisions whose implementation might have significant socio-economic effects on entrepreneurs and entrepreneurship in general;
- Identifying provisions not required by the relevant EU directive; and
- Helping the team formulate the alternative policy options to be considered in the RIA.

Dechert also helped organize meetings with practitioners and legal experts who have a practical understanding of the problems of the Current Law and understand the necessity of amendments.

Moreover, Dechert also worked on existing Georgian case law regarding the current regulations that may be amended by the Draft Law. Inquiring into the practice of the courts helped to analyze the shortcomings of the Current Law and assess the potential impact of the proposed one.

As a part of the RIA exercise, Dechert conducted an analysis of compliance with the EU Directives to make sure the amendments suggested in the Draft Law comply with the Directives. The conclusion of the analysis is that most of the provisions foreseen under EU directives that are included in the Draft Law are compliant with those provisions, with slight or no amendments at all. Additionally, several issues that still need to be settled and may change according to legal and economic needs and the environment of Georgia were identified. The issue of penalties is not yet decided within the Draft Law. For an effective implementation of EU provisions, adequate penalties are required. A full report of the compliance analysis can be found in the Appendix V.

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APPENDIX I - Questionnaire for Stakeholders

1. How would you assess current regulatory framework, specifically the Law on Entrepreneurs with respect to:
   1.1. Transparency requirements
   1.2. Capital requirements and prudential regulations
   1.3. The way to deal with corporate governance issues
   From the perspective of national and international investors and creditors, or minority (third party) investors?
2. What are the key institutional gaps in implementation and enforcement with respect to above issues?
3. How would you assess (i) the Current Law, (ii) gaps in policy and implementation/enforcement and (iii) proposed modifications/additions (to be spelled out) on:
   3.1. Additional Corporate Consents and Approvals
      - Conflict of Interest
      - Large transactions
      - Directors
   3.2. Prudential requirements
      - Reserved capital
      - Material loss of capital
   3.3. Transparency rules
      - On publishing annually placed capital
      - On publishing balance sheets and other financial documents
      - IFRS Compliance
   3.4. Share capital, its requirements, formation and capital contribution
      - Minimum capital requirements for JSC and LLCs
      - What are the consequences of not having minimum capital requirements?
      - What are the advantages of JSC and LLC?
      - How feasible/easy is to reorganize from JSC to LLC and vice versa?
      - Possibility for LLCs to issue different classes of shares.
   3.5. What is the current policy on distribution of dividends?
   3.6. Reorganization/Liquidation
      - Why are there so many companies that do not liquidate? How resource intensive is the process?
   3.7. Exit
      - How does one get out of an LLC?
4. Are you informed of the EU Directives that Georgia needs to approximate? What are the key constraints/risks? Flexibilities? Benefits?

APPENDIX II - List of interviewed stakeholders

	Stakeholder Group	Organization	Contact Person/Position	Meeting Schedule
1	Legal Consulting/Experts	VBAT Law Firm	Nana Amisulashvili/Partner VBAT Law Firm	26/04/2017 11:00
2		CFS Legal Guledani & Partners	Marina Guledani/Founding Partner	17/05/2017 14:00
3		Georgian Solicitors LLC	Ketevan Banishuridze	04/05/2017 16:00
4		CHARGEISHVILI LAW INN	Akaki Chargaleishvili/Expert of Business and Tax Law	4/5/2017 10:00
5		USAID/G4G	Giorgi Amzashvili/ Access to finance policy adviser	2/5/2017 12:30
6		BLC law Office	Tamta Ivanishvili	03/05/2017 15:00
7		Georgia's Innovation and Technology Agency	Nona Zubitashvili/Lawyer	2017-05-21 10:00
8	Business Association	Georgian Small and Medium Enterprises Association	Mikheil Chelidze/President	25/05/2017 10:00
9		Business Association of Georgia	Nikoloz Nanuashvili/Lawyer analyst	24/05/2017 16:00
10		EU Georgia Business Council	Giorgi Kacharava/Executive Director	28/04/2017 16:00
11		Association of Distributors	Iva Chkonia/Head	4/5/2017 15:00
12		Association of Producers	Levan Silagava/Head	01/06/2017 17:00

13		Georgian Employers Association	Otar Khutsishvili/Legal Consultant	
14		Georgian Employers Association	Lasha Labadze/Executive Director	
15		KAR.GE Movement	Tariel Zivzivadze	
16		Amcham Georgia	Lina Jikia/Senior Legal and Public Policy Analyst	3/6/2017 13:00
17	Business	Gulf	Nika Shekiladze/Lawyer	2017-05-24 17:30
18		Georgian Stock Exchange	Girogi Paresishvili/ Chairman	02/06/2017 18:00
19			Eka Gazadze/ Chief Financial Officer	
20		GALT & TAGGART	Otari Sharikadze/Managing Director	6/6/2017 16:00
21			Irakli Kirtava/ General Director	
22		Georgian Wine and Spirits (GWS), Chateau Mukhrani, Frixx	Jean Frederic Paulsen/Investor	16/05/2017 19:00
23		Deloitte	Giorgi Khurodze/Head of Legal	7/6/2017 10:00
24			Nata Kapanadze/lawyer	
25	Judiciary	Supreme Court	Nino Bakakuri/Judge	1/6/2017 13:00

26	Government	Service for Accounting, reporting and audit supervision	Iuri Dolodze/Head of Service	24/04/2017 10:30
27		Ministry of Economy	Tsisnami Sabadze/Head of Economic Policy Department	08/06/2017 16:00
28			Tea Loladze/Head of Regulatory Impact and Competition Research Division	08/06/2017 16:00
29		Data Exchange Agency	Irakli Gvenetadze/ Head of DEA	04/05/2017 11:00
30			Nikoloz Gagnidze/Head of Data Exchange Infrastructure Division	
31		Revenue Service	Giorgi Tabuashvili/Director General	6/6/2017 12:00
32			Mamuka Terashvili/ Deputy Director General	
33			Levan Tsitelashvili/ Head of Legal Department	
34			Giorgi Pataridze/ Head of Administrative Department	
35			Roman Bughadze/ Head of Dispute Resolution	
36		National Bank of Georgia	Archil Mestvirishvili	1/5/2017 11:00
37			Giorgi Barbakadze/Head of Macroeconomics and Statistics Department	03/05/2017 12:00
38			Maia Tsotskolauri, Head of Securities Market supervision Division	24/05/2017 11:00
39			Lasha Jugheli, President’s Adviser	
40			Mamuka Lortkipanidze, lead specialist	

APPENDIX III - Brief summaries of the Directives[36]

Directive 2009/101/EC

The European Commission considers that it is necessary to protect the interests of third parties and members through coordination between national provisions relating to disclosure, and the validity of obligations entered into by companies limited by shares or otherwise having limited liability. This Directive meets this need by enabling third parties and members to **have access to information concerning the basic documents of companies.**

The directive provides a list of all required information that should be recorded in a file opened in a central register, commercial register, or company register. It sets maximum allowable dates for the register to make all changes to the file available for disclosure in electronic format or on paper.

The same directive orders that all Member States shall publish the above information in the national gazette or other means, and makes them responsible for any discrepancy between the information provided and ensuring that the information is kept up-to-date.

Directive 2012/30/EU

This directive aims to protect shareholders and creditors of public limited liability companies by coordinating national rules for creating and running companies and increasing or reducing their capital. In particular, the directive seeks to ensure national laws guarantee equal treatment to all shareholders who are in the same position and protection of creditors whose claims existed prior to a decision on reduction of capital; this directive also limits the opportunity for a PLC to acquire its own shares.

Standard rules under the directive

- Minimum information requirements: The statutes or the instrument of incorporation of a PLC should contain the following information: — the type and name of the company; — the objectives of the company; the amount of capital; — the rules governing appointing members responsible for managing, running and supervising the company; — the duration of the company;
- Further information must be published in the statutes, the instrument of incorporation or in a separate document, including: — the registered office; — the value, number and form of the subscribed (company-issued) shares; — the amount of subscribed (company-issued) capital; — the identity of those who sign the instrument of incorporation or the statutes; — the total amount of all the costs payable by the company or chargeable to it.

Other EU-wide standards, covering:

- The minimum capital required to register a PLC - EUR 25,000. This minimum sum will be examined and possibly revised every 5 years in light of EU economic and monetary trends;
- Issuing and acquiring shares;
- Distributing dividends;
- Financial aid given by companies for acquiring their shares;
- Increasing and reducing capital; and
- Dissolving a PLC.

Directive 2011/35/EU

This directive sets out the rules governing mergers between PLCs within a single member state, i.e. domestic mergers. It covers protection for shareholders, creditors and employees.

The draft terms of a merger drawn up by the administrative or management board must contain specific information including: the type, name and registered office of the companies, the share exchange ratio,

[36] Adopted from EU directive summaries available at http://eur-lex.europa.eu/browse/summaries.html

terms relating to the allotment of shares in the acquiring company, and the rights granted by the acquiring company.

Such information must be made public at least one month before the date fixed for the general meeting that will make a decision on the merger.

All mergers require the approval of the general meeting of each of the merging companies.

Directive 82/891/EEC

This directive deals with the division of PLCs in a single member state. It covers protection for shareholders, creditors and employees.

The directive addresses the different ways companies can be divided up.

Regarding division by acquisition and division by the formation of a new company, the directive outlines a list of specific details that should be included in the draft terms of division drawn up by the administrative or management board. These include the type, name and registered office of the companies, the share exchange ratio, terms relating to the allocation of shares, the rights conferred by the acquiring company, and the date from which shareholders can participate in profits.

A division requires at least the approval of a general meeting of each company involved in the division.

The administration or management bodies of each of the companies involved in the division shall draw up a detailed written report explaining the draft terms of division, including the legal and economic grounds for the division.

Independent experts are required to examine the draft terms of division and draw up a written report for the shareholders. Shareholders are entitled to inspect relevant documents, including the draft terms of division and the annual accounts of the companies involved, and to obtain copies of the documents upon request.

EU member states are required to protect creditors of the companies involved. For example, they may provide that recipient companies are jointly and severally liable for the obligations of the company being divided.

The division of companies may also be supervised by a judicial authority (e.g. a court). Provided that no prejudice is caused to shareholders or creditors, that judicial authority may exempt the companies involved from applying certain rules normally applicable to divisions by acquisition or by the formation of new companies.

Directive 89/666/EEC

This directive defines which disclosure requirements apply to branches opened in a Member State by limited liability companies from another Member State or non-EU countries. It aims to eliminate disparities in the protection of shareholders and third parties, and to safeguard the exercise of the right of establishment.

Directive 2009/102/EC

The purpose of this directive is to create a legal instrument allowing the limitation of liability of the individual entrepreneur within the EU. This directive establishes the legal framework applicable to private limited companies.

APPENDIX IV - Incremental Analysis

Capital Movement (Directive 2012/30/EC unless otherwise noted)	**DRAFT Law**	**Active Law**	**Affected to in the Draft Law**	**Incremental Change included in Option 2**	**Modifications in Option 3**
Any increase in capital must be decided upon by the general meeting (article 29).	In JSCs, unless a charter prescribes otherwise, a decision regarding increase of capital by issuing additional shares shall be adopted by at least 3/4 of votes of general meeting (dispositional- Article 171). As regards change of capital in LLCs, such decision shall be made by the general meeting unless otherwise prescribed in the charter. Regularly, general meeting approves decisions by more than 50% of the casted votes (dispositional - Article 131 and Article 144.2).	Decision regarding increase of capital by additional contributions to the charter capital shall be made by the general meeting. This provision applies to all types of companies.	JSCs	The Draft Law envisages different thresholds of votes for different types of companies.	No change
Both that decision and the increase in the subscribed capital shall be published in the manner laid down by the laws of each Member State, in accordance with Article 3 of Directive 2009/101/EC (article 29).	In JSCs, decision regarding change of a subscribed capital must be reflected in share registrar and must be published. A board of directors of a joint stock company is responsible for meeting this requirement (imperative- article 170.4).	The Current Law does not include similar provision.	JSCs	The whole provision is incremental change.	No change
Member States shall take the measures required to ensure compulsory disclosure by companies: at least once a year, the amount of the capital subscribed, where the instrument of constitution or the statutes mention an authorized capital, unless any increase in the capital subscribed necessitates an amendment of the statutes; (directive 2009/101, article 2).	Article 14(5)(b) of the Draft Law states that, among others, the following data must be disclosed: annual amount of subscribed capital, where the charter envisages an authorized capital and any increase in the subscribed capital doesn't necessitate an amendment of the charter. Presumably, this means that companies are free to decide whether they have to amend the Charter due to increase in capital or not. Under Article 176, in JSCs, a decision regarding change of subscribed capital must be reflected in share registrar and must be published. A board of directors of a joint stock company is responsible for meeting this requirement.	The Current Law does not include similar provision.	JSCs (and those LLCs that will register the placed capital).	Additional annual publication of placed capital and registration of changes publication obligations.	No change
Where shares are issued for a consideration other than cash, the consideration shall be the subject of a written report prepared by independent expert (article 31).	Somewhat similar provision is foreseen under Article 158(9) of the Draft Law, providing that a report on any contribution other than in cash shall be drawn up before the company is incorporated, by one or more independent experts appointed by a court. (imperative) Article 158 (10) sets the criteria for the report shall be produced by the independent expert.	The Current Law does not include similar provision.	JSCs.	Independent expert assessment appointed by the court; additional publication obligations.	No change

The experts' report shall be published in the manner laid down by the laws of each Member State, in accordance with Article 3 of Directive 2009/101/EC (article 31).	Under above-mentioned Article the companies are required to publish such report. Article 158(9)-imperative	The Current Law does not include similar provision.	JSCs.	Additional publication obligations.	No change
If shares are issued for a consideration of securities and financial instruments, without a written report prepared by independent expert, a statement by management shall be published (article 31)	The Draft Law does not directly refer to shares issued for a consideration of securities and financial instruments. Consequently, there is no such exact regulation.	The Current Law does not include similar provision.		N/A	
The experts' report shall be published in the manner laid down by the laws of each Member State, in accordance with Article 3 of Directive 2009/101/EC. (article13 (art 10 (3)).	Under Article 230(9) of the Draft Law, the acquisition shall be examined by an expert as provided for in paragraphs 9 and 10 of Article 153 and it shall be approved by the general meeting, expect for acquisitions in normal course of business to acquisitions effected in the or for stock exchange acquisitions.	The Current Law does not include similar provision.	JSCs.	The whole provision is incremental change	No change
If, before the expiry of a time-limit laid down by national law of at least two years from the time the company is incorporated or is authorized to commence business, the company acquires any asset belonging to a person or company or firm referred to in point (i) of Article 3 for a consideration of not less than one-tenth of the subscribed capital, the acquisition shall be examined and details of it published in the manner provided for in Article 10(1), (2) and (3) and it shall be submitted for the approval of the general meeting (article13).	If before the expiry of two years from the time a joint stock company is incorporated, the company acquires from the shareholder any asset not less than one-tenth of the subscribed capital, the acquisition shall be examined by an expert as provided for in paragraphs 9 and 10 of Article 153 and it shall be approved by the general meeting, except for acquisitions in normal course of business to acquisitions effected in the or for stock exchange acquisitions (Article 230 (9)).	The Current Law does not include similar provision.	JSCs.	The whole provision is incremental change	No change
Authorization for approval of the company's acquisition of its own shares shall be given by the general meeting, which shall determine the terms and conditions of such acquisitions and, in particular, the maximum number of shares to be acquired, the duration of the period for which the authorization is given, the maximum length of which shall be determined by national law without, however, exceeding five years, and, in the case of acquisition for value, the maximum and minimum consideration (Article 21(1)(a)).	Article 168(3)(a): acquisition of its own shares by a joint stock company is subject to authorization given by the general meeting shall indicate the maximum number of shares to be acquired, the duration of the period for which the authorization is given, not exceeding five years, and, in the case of acquisition for value, the maximum and minimum consideration.	The Current Law does not include similar provision.	JSCs.	The whole provision is incremental change. The Current Law does not envisage right of the company to acquire its owns shares at its discretion. Such possibility under the Current Law is only envisaged	No change

				in case of request by the shareholder.	
Any reduction in the subscribed capital, except under a court order, must be subject at least to a decision of the general meeting acting in accordance with the rules for a quorum and a majority laid down in Article 44 without prejudice to Articles 40 and 41 (Article 34 (1st sentence)).	In JSCs, any reduction in the subscribed capital shall be approved by majority of the votes of the general meeting (Article 176.5).	The Current Law contains no provisions on the rules on reduction of subscribed capital.	JSCs.	The whole provision is incremental change. The Draft Law introduces the notion of reduction of the subscribed capital specifically. However, missing specific regulation, we consider that reduction of subscribed capital is allowed under the Draft Law.	No change
Decision shall be published in the manner laid down by the laws of each Member State in accordance with Article 3 of Directive 2009/101/EC (Article 34 (2nd sentence)).	In JSCs, decision regarding decrease of subscribed capital shall be published and reflected in the share registrar. Respective amendments shall be applied to the charter (article 176.3).	The Current Law contains no provisions on the rules on reduction of subscribed capital.	JSCs.	The whole provision is incremental change. Compared to the Current Law, the Draft Law envisages additional publication obligations.	No change
In the event of a reduction in the subscribed capital, at least the creditors whose claims antedate the publication of the decision on the reduction shall at least have the right to obtain security for claims which have not fallen due by the date of that publication. Member States may not set aside such a right unless the creditor has adequate safeguards, or unless such safeguards are not necessary having regard to the assets of the company (Article 36).	In case of a reduction of the subscribed capital, shareholders may be paid or be released from making their contributions into a subscribed capital only after at least six months have passed after information about a decision to reduce a charter capital was publicized, provided that a joint stock company satisfied creditors' claims that emerged before the decision about the capital reduction was publicized or if a joint stock company secured such claims or the claim was not upheld by a court. A joint stock company can satisfy or secure such claims if the creditors have declared	The Current Law contains no provisions on the rules on reduction of subscribed capital.	JSCs.	The whole provision is incremental change. Different from the Draft Law, the Current Law does not include any guarantees for the protection of the creditors in	No change

	these claims to the company within six months after the decision about reduction of subscribed capital was publicized, or unless such a security is not necessary having regard to the assets of the company. Creditors have the right to demand securing their claims only if they cannot demand satisfaction of their claims by a joint stock company. Publicized decision about the reduction of a subscribed capital shall contain an indication of these rights of creditors (article 176.8).			case of reduction of capital	
Where the statutes or instrument of incorporation provide for redemption, the latter shall be decided on by the general meeting voting at least under the usual conditions of quorum and majority (Article 39).	General meeting of a joint stock company shall approve redemption of shares by majority of votes. Such decision is not necessary, if all shareholders whose shares are redeemed, agrees with such decision (article 177).	The Current Law does not include similar provision.	JSCs.	The Draft Law introduces the notion of reduction of the subscribed capital specifically. However, missing specific regulation, we consider that reduction of subscribed capital is allowed under the Draft Law.	No change
The Directive foresees the rule of compulsory withdrawal of shares. This rule is subject to several conditions: (i) it must be prescribed or authorized by the statutes or instrument of incorporation before the shares which are to be withdrawn are subscribed for; (ii) it also shall be decided upon the general meeting unless it has been unanimously approved by the shareholders concerned; (iii) the company body deciding on the compulsory withdrawal shall fix the terms and manner thereof; (iv) the decision on compulsory withdrawal shall be published in the manner laid down by the law (Article 40).	General meeting of a joint stock company may for the purpose of reduction of its capital redeem its own repurchased shares, or shares held by a third person acting in its own name but on behalf of the company or compulsorily withdraw its outstanding shares. A compulsory withdrawal of an outstanding stock is only permitted if required or allowed by a charter before subscription of the stock. A charter or a decision of a general meeting shall determine conditions and the procedure of the withdrawal. Compulsory withdrawal does not require a decision of a general meeting it shall be if it has been unanimously approved by the shareholders concerned (article 177).	The decision of the General Meeting may determine to cancel shares that are not placed under its defined conditions. This shall mean that the quantity of authorized shares is reduced by the quantity of cancelled shares. The company Director shall be obliged to make a respective change to the Charter of the company without consent of the General Meeting (article 59).	JSCs.	It should be noted that such action does not have a compulsory nature under the Draft Law.	No change

Merger (Directive 2011/35/EU)	DRAFT Law	Active Law	Affected to in the Draft Law	Incremental Change included in Option 2	Modifications in Option 3
Notification (publication) to relevant authority of decision for merger (article 6)	Under Article 73 of the Draft Law, managing bodies of each of the entrepreneurial entities participating in a merger shall at least 30 days before convening a general meeting to approve plan of a merger, ending not earlier than the conclusion of that meeting, publicize a draft of the merger plan or make the draft available on its website. Part 2 gives the detailed list of the information should be published prior to the general meeting.	Under Part 6^1 of Article 14^4 of the Current Law, if the commencement of reorganization of an entity is requested, the registration document shall indicate the type of reorganization and information on the results of reorganization.	all	All the provision is incremental change	LLCs Excluded
Terms of merger in writing (article 5)	Under the Draft Law, merger plan is equivalent of draft terms of merger. Article 71 of the Draft Law sets out minimum requirements of the merger plan as well as attachments to the merger plan which constitute an integral part the document.	The Current Law does not include similar provision.	all	All the provision is incremental change	LLCs Excluded
Written report by management (article 9)	Under Article 72 of the Draft Law, managers of an entrepreneurial entity participating in a merger shall produce a report on merger, which shall provide an explanation of: (a) the provisions of merger plan and the legal and economic grounds which they are based on; and (b) criteria and methods of determining a ratio for share exchange as well as any difficulties, if any, arisen in evaluating a ratio of shares. No report is necessary if all the partners of the entrepreneurial entity waive submission of a report in writing.	The Current Law does not include similar provision.	JSCs	All the provision is incremental change	No change
Written report by independent expert (article 10)	Under Article 74 of the Draft Law, if any of the entrepreneurial entities participating in merger is a joint stock company, a plan of merger shall be examined by one or more independent experts who shall be appointed by a court at the request of each of the entrepreneurial entities involved. At the joint request of all entities involved in the merger one or more shared experts may be appointed by the court for all the entrepreneurial entities involved. No examination by an independent expert is required if all partners of an entrepreneurial entity involved in merger so agree. Mandatory requirements of expert report are set out in Part 2 of Article 74 of the Draft Law.	The Current Law does not include similar provision.	If in merger participates JSC, then the independent expert examines the merger plan.	All the provision is incremental change	No Change
Inspection of documents by shareholders (article 11)	Under Part 2 of Article 73 of the Draft Law, managing bodies of each of the entrepreneurial entities participating in a merger shall make the following documents available	The Current Law does not include similar provision.	If in merger participates JSC, then JSC should	All the provision is incremental change	No change

	to the shareholders at the entity's legal address or webpage during at least 30 days before a general meeting on merger plan approval: (a) a plan of merger; (b) financial reports of last three years of entrepreneurial entities participating in the merger, considering the comparability principle; (c) if more than 6 months have passed after the end of last reporting period by the time a plan of merger is made available to an entrepreneurial entity's partners, a financial report drafted no earlier than the last day of the third month before the plan of merger was made available; (d) a report on merger if any; and (e) an independent expert's report, if any.		ensure the free access to the merger documents for shareholders (plan, accounts.)		
General meeting (article 7)	Under Part 3 of Article 70 of the Draft Law, decision concerning merger shall be approved by the general meeting of an entrepreneurial entity. In a limited liability company, joint-stock company or cooperative the decision shall require 3/4 of the votes present. In all other cases, the decision shall be unanimous. Where there is more than one class of shares, the decision of a joint stock company concerning a merger shall be subject to a separate vote each class of shareholders whose rights are affected by the transaction. (Imperative)	Under Part 4 of Article 14^4 of the Current Law, unless otherwise provided for by the Charter, deciding to merge with a limited liability company, joint-stock company or cooperative shall require 75% of the votes of the voting partner(s) present. In all other cases, the decision shall be unanimous. The decision to merge shall specify whether one enterprise is joining another one (takeover) or both enterprises are merging into one new enterprise (combination).	all	Vote shares become imperative by the draft (3/4 of votes for LLC, JCS, and Cooperative. Otherwise, it should be 100%.)	No change
An adequate system of protection of the interests of creditors of the merging companies (article 13)	Article 78 of the Draft Law provides that within 3 months from the registration of reorganization the creditors may demand from the company a guaranteeing of claims they have against the company. The creditors may exercise this right if they prove that such reorganization threatens their claims. (Imperative)	Under Part 8 of Article 14^4 of the Current Law, creditors may request the company fulfil its obligations ahead of schedule from the moment of receipt of notice on reorganization. Part 6 of the same article limits such right of the creditor in case: (a) reorganization does not decrease capacity of the company to satisfy its creditors; and (b) the company takes over its 100% owned subsidiary.	all	1. Creditors should prove that the reorganization threatens their claim. 2. Creditors can demand their credit back in any case of reorganization (including cases in cell D10).	No change
Certification of documents by the notary or administrative body (article 16)	The Draft Law does not envisage obligation of certification of merger documents by the notary.	The Current Law does not envisage obligation of certification of merger documents by the notary.	all	No change.	No change
Notification to relevant authority of final decision for merger (article 18)	Under Part 3 of Article 77 of the Draft Law, a merger shall become effective since the moment it is registered. Reference to invalidity of a merger decision shall be impermissible, once it has been registered. Under Part 4 of	Under Part 9 of Article 14^4 of the Current Law, registration of mergers shall be carried out according to the registration rules provided for by this Law, the Law of	all	1 month term from the decision of the board to the registration.	LLCs Excluded

	the same provision, an application for merger must be lodged with the Register not earlier than a month after a decision about merger has been published. This term does not apply if all the persons entitled to bring an action against the decision waive this right in writing. (Imperative)	Georgia on Public Registry and Instructions covering service charges relevant to the number of entities created as the result of such merger.			
Duty of information to third party regarding the merger (article 18)	Obligation under Part 3 of Article 77 of the Draft Law covers obligation to distribute information regarding merger to third parties, since information submitted to the registry is considered to be public.	Obligation under Part 9 of Article 14^4 of the Current Law covers obligation to distribute information regarding merger to third parties, since information submitted to the registry is considered to be public.	all	No change.	No Change

Demerger (Directive 82/891/EEC)	DRAFT Law	Active Law	Affected to in the Draft Law	Incremental Change included in Option 2	Modifications in Option 3
Notification (publication) to relevant authority of decision for de-merger (article 4)	Under Article 73 of the Draft Law, managing body of the dividing entrepreneurial entity shall at least 30 days before convening a general meeting to approve plan of a division ending not earlier than the conclusion of that meeting, publicize a draft of the division plan or make the draft available on its website.	Under Part 6[1] of Article 14[4] of the Current Law, if the commencement of reorganization of an entity is requested, the registration document shall indicate the type of reorganization and information on the results of reorganization.	all	All the provision is incremental change	LLCs excluded
Terms of de-merger in writing (article 3)	Under the Draft Law, division plan is equivalent of draft terms of division. Article 71 of the Draft Law sets out minimum requirements of the division plan as well as attachments to the division plan which constitute an integral part the document.	The Current Law does not include similar provision.	all	All the provision is incremental change	LLCs excluded
Written report by management (article 7)	Under Article 72 of the Draft Law, managers of a dividing entrepreneurial entity shall produce a report on division, which shall provide an explanation of: (a) the provisions of division plan and the legal and economic grounds which they are based on; and (b) criteria and methods of determining a ratio for share exchange as well as any difficulties, if any, arisen in evaluating a ratio of shares. No report is necessary if all the partners of the entrepreneurial entity waive submission of a report in writing.	The Current Law does not include similar provision.	JSCs	All the provision is incremental change	No change
Written report by independent expert (article 8)	Under Article 74 of the Draft Law, if the dividing entrepreneurial entity is a joint stock company, a plan of division shall be examined by one or more independent experts who shall be appointed by a court at the request of the entrepreneurial entity involved. At the request dividing entity one or more experts may be appointed by the court. No examination by an independent expert is required if all partners of dividing entity so agree. Mandatory requirements of expert report are set out in Part 2 of Article 74 of the Draft Law.	The Current Law does not include similar provision.	If in de-merger participates JSC, then the independent expert examines the merger plan.	All the provision is incremental change	No change
Inspection of documents by shareholders (article 9)	Under Part 2 of Article 73 of the Draft Law, managing body of a dividing entrepreneurial entity shall make the following	The Current Law does not include similar provision.	If in de-merger participates JSC,	All the provision is incremental change	No change

	documents available to the shareholders at the entity's legal address or webpage during at least 30 days before a general meeting on division plan approval: (a) a plan of division (b) financial reports of last three years of dividing entrepreneurial entity; (c) if more than 6 months have passed after the end of last reporting period by the time a plan of division is made available to an entrepreneurial entity's partners, a financial report drafted no earlier than the last day of the third month before the plan of division was made available; (d) a report on division if any; and (e) an independent expert's report, if any.		then JSC should ensure the free access to the de-merger documents for shareholders (plan, accounts.)		
General meeting (article 6)	Under Part 3 of Article 70 of the Draft Law, decision concerning division shall be approved by the general meeting of an entrepreneurial entity. In a limited liability company, joint-stock company or cooperative the decision shall require 2/3 of the votes present. In all other cases, the decision shall be unanimous. Where there is more than one class of shares, the decision of a joint stock company concerning a division shall be subject to a separate vote each class of shareholders whose rights are affected by the transaction.	Under Part 5 of Article 14^4 of the Current Law, an enterprise may split into two or more enterprises and those enterprises may continue business as independent enterprises in their own legal forms. The decision regarding the division may show that former partners participate with different share percentages in the new enterprise. The enterprises created as the result of a division shall be jointly responsible for the obligations that existed before the division of the former enterprise, and the enterprise that becomes an assignee of the original enterprise shall be identified in the decision regarding the split.	all	Vote shares become imperative by the draft (3/4 of votes for LLC, JCS, and Cooperative. Otherwise, it should be 100%.)	No change
An adequate system of protection of the interests of creditors of the demerging companies (article 12)	Article 78 of the Draft Law provides that within 3 months from the registration of reorganization the creditors may demand from the company a guaranteeing of claims they have against the company. The creditors may exercise this right if they prove that such reorganization threatens their claims.	Under Part 8 of Article 14^4 of the Current Law, creditors may request the company fulfil its obligations ahead of schedule from the moment of receipt of notice on reorganization. The Current Law limits such right of the creditor in case: (a) reorganization does not decrease capacity of the company to satisfy its creditors; and (b) the company takes over its 100% owned subsidiary.	all	1. Creditors should prove that the reorganization threatens their claim. 2. Creditors can demand their credit back in any case of reorganization (including cases in cell D10).	No change
Notification to relevant authority of final decision for de-merger (article 16)	Under Part 3 of Article 77 of the Draft Law, a division shall become effective since the moment it is registered. Reference to invalidity of a division decision shall be impermissible, once it has been registered. Under Part 4 of	Under Part 9 of Article 14^4 of the Current Law, registration of divisions shall be carried out according to the registration rules provided for by this	all	1 month term from the decision of the board to the registration.	LLCs excluded

	the same provision, an application for division must be lodged with the Register not earlier than a month after a decision about division has been published. This term does not apply if all the persons entitled to bring an action against the decision waive this right in writing.	Law, the Law of Georgia on Public Registry and Instructions covering service charges relevant to the number of entities created as the result of such division.			
Duty of information to third party regarding the de-merger (article 16)	Obligation under Part 3 of Article 77 of the Draft Law covers obligation to distribute information regarding merger to third parties, since information submitted to the registry is considered to be public.	Obligation under Part 9 of Article 14[4] of the Current Law covers obligation to distribute information regarding merger to third parties, since information submitted to the registry is considered to be public.	all	No change.	No change

Registration (Directive 2009/101/EC unless otherwise noted)	**DRAFT Law**	**Active Law**	**Affected to in the Draft Law**	**Incremental Change included in Option 2**	**Modifications in Option 3**
Member States shall take the measures required to ensure compulsory disclosure by companies of at least the following documents and particulars: (a) the instrument of constitution, and the statutes if they are contained in a separate instrument; any amendments to the instruments mentioned in point (a), including any extension of the duration of the company; (b) after every amendment of the instrument of constitution or of the statutes, the complete text of the instrument or statutes as amended to date; (c) the appointment, termination of office and particulars of the persons who either as a body constituted pursuant to law or as members of any such body: (i) are authorized to represent the company in dealings with third parties and in legal proceedings; it must be apparent from the disclosure whether the persons authorized to represent the company may do so alone or must act jointly; (ii) take part in the administration,	The Draft Law envisages the requirement of companies to register all the information enlisted in Article 2 from point (a) to (i) of the First Directive at the Public Registry which means that the information is available for any third party.	Under Article 5 of the Current Law, if registration of an enterprise is sought, the registration authority shall be furnished with a duly certified registration application signed by all partners of the enterprise, which also serves as part of the partners' agreement and which shall state: a) the enterprise name/company name; b) the legal form of the enterprise; c) the legal address of the enterprise; d) the name, surname, residential address, and personal number of the partner(s) of the enterprise, and if the partner is a legal person – its company name, legal form, legal address, registration date, identification number, and details of its representatives; e) the management body and decision-making procedure of the enterprise, and in case of a limited liability company or a limited partnership – the	All	More detailed information about particulars of the enterprise, such as the appointment, and termination of management, representation, information about charter capital	No change

supervision or control of the company; (d) at least once a year, the amount of the capital subscribed, where the instrument of constitution or the statutes mention an authorized capital, unless any increase in the capital subscribed necessitates an amendment of the statutes; (e) any change of the registered office of the company; (f) the winding-up of the company; (g) any declaration of nullity of the company by the courts; (h) the appointment of liquidators, particulars concerning them, and their respective powers, unless such powers are expressly and exclusively derived from law or from the statutes of the company; (i) the termination of the liquidation and, in Member States where striking off the register entails legal consequences, the fact of any such striking off. (Article 2)		details of shareholdings of partners; the shares of the partners of a limited liability company or a limited partnership shall be fractional/percentage and their sum shall be equal to 1; e1) the name and surname, residential address and personal number of the manager (if any) of the shares of the partners of a limited liability company or a limited partnership; f) in case of a limited partnership – which partners are limited and which partners are general; g) in case of a limited liability company or a limited partnership – the obligations related to the limitation of title of the shares of partners; h) the name and surname, residential address and personal number of the person(s) authorized to manage and represent the enterprise, and their term in office; i) the name and surname, residential address and personal number of the authorized signatory, prokurist (if any); j) if the enterprise has several authorized representatives – whether they represent the company jointly or severally; k) in case of a natural person authorized to register a change in the registration application – the name and surname, residential address and personal number, and, in case of a legal person authorized to register a change in the registration application – its company name,			

		legal form, legal address, registration date, identification number and data on its representatives.			
Member States shall prescribe that letters and order forms, whether they are in paper form or use any other medium, are to state the following particulars: (a) the information necessary in order to identify the register in which the file mentioned in Article 3 is kept, together with the number of the company in that register; (b) the legal form of the company, the location of its registered office and, where appropriate, the fact that the company is being wound up. Where, in those documents, mention is made of the capital of the company, the reference shall be to the capital subscribed and paid up. Member States shall prescribe that company websites are to contain at least the particulars mentioned in the first paragraph and, if applicable, a reference to the capital subscribed and paid up. (Article 5)	Under Article 18 of the Draft Law, each business letter of a Limited Liability Company and Joint Stock Company shall contain: a. entrepreneur's company name, b. legal address; c. Relevant register and registration number; d. full names of all the directors, and e. full name of the chairman of a supervisory council, if any. 1. Where, in a business letter, mention is made of the capital of the company, the reference shall be to the capital subscribed and paid up. 2. If an entrepreneurial entity is in the process of liquidation, a business letter shall contain a reference to the fact of liquidation and full names of liquidators. 3. The information pursuant paragraphs 1 to 3 need not be given in communications which are made in the course of an existing business relationship with the addressee and for which standard forms are customarily used in which only the particulars of the specific transaction need be inserted. 4. Each business letter of a branch of a foreign entrepreneurial entity or of an individual entrepreneur shall refer to the registering authority of the branch and registration number as well as a registering authority of the entrepreneurial entity and its registration number. 5. All the data that referred to in a business letter shall also be stated in order forms and published on an entrepreneurial entity's website, if any. 6. The requirements of this article shall apply to business letters in both paper and electronic form.	The Current Law is silent about the letters and order forms.	All	All the provision is incremental change	No change

Information must be published when a company is incorporated on its name, objects, and capital subscription and governance rules. This shall include the nominal value of the shares subscribed, at least once a year, the special conditions if any limiting the transfer of shares; the amount of the subscribed capital paid up at the time the company is incorporated or is authorized to commence business; the number of shares issues in consideration other than in cash; the total amount, or at least an estimate of all the costs payable by the company or chargeable to it because of its formation; any special advantage granted at the time the company is formed or the time it receives authorization to commence business. (Directive 2012/30/EC, Articles 2-3)	Articles 6 and 7 of the Draft Law deal with the information that must be published when the company is incorporated. These Articles concern the agreement of incorporation and the Charter of the company. Both documents shall have minimum information about include information about the partners; in JSCs, information about subscribed shares and partners' shares in the capital. In JSCs, the total amount or an estimate of all the costs to be borne by the company by the reason of its formation, as well as, for getting authorization/license to commence business. A charter of a company, despite its legal form must contain legal form, company name, any obligations limiting a partner's title to a share; An incorporation agreement of a joint stock company shall include description of the entity's activities; amount of charter capital; number of directors and administrative body. Authorized capital and if any, par value shares, as well as the amount of the subscribed capital at the time of incorporation. The nominal value of the shares subscribed and the number thereof. When the subscribed shares have no nominal value, the number of the shares, nominal value, the number of shares issued for a contribution in kind, together with the nature of the contribution and the name of the person providing that consideration.	The Current Law does not foresee the requirement of publishing additional information except those provided in Article 5 that shall contain company name, legal form, legal address, contact information of partners, form of limited liability partnership, etc. The Current Law does not require capital information of the company.	JSC	An incorporation agreement of a joint stock company shall include description of the entity's activities; amount of charter capital; Authorized capital and if any, par value shares, as well as the amount of the subscribed capital at the time of incorporation. The nominal value of the shares subscribed and the number thereof. When the subscribed shares have no nominal value, the number of the shares, nominal value, the number of shares issued for a contribution in kind, together with the nature of the contribution and the name of the person providing that consideration. the total amount, or at least an estimate of all the costs payable by the company or chargeable to it because of its formation; any special advantage granted at the time the company is formed or the time it receives authorization to commence business.	No change

Miscellaneous Provisions	Draft Law	Current Law	Directive and Article (text)	Affected to in the Draft Law	Incremental Change included in Option 2	Modifications in Option 3
GEL 60 000 minimum capital requirement	Article 161 (imperative) of the Draft Law sets out minimum capital requirements for the incorporation of a JSC. According to the Draft Law, the minimum amount of a JSC's capital shall be at least GEL 60,000. Additionally, in case of in-kind contribution, the value of such contribution shall be assessed by a respective expert, appointed by the court. At the same time, in JSC contribution cannot be made through the provision of services or works.	No minimum capital requirement.	Directive 2010/30/EC, Article 6	JSCs	The whole provision is incremental change.	No change
Capital Loss: A meeting must be called if there is a serious subscribed capital loss. The amount of a lost amount is set out to be a figure higher than half of the subscribed capital.	If according to the last annual financial report, the company's asset value is less than one-half of the company's subscribed capital, an annual general meeting of shareholders shall then make one of the following decisions: (a) to reduce a subscribed capital; (b) to increase asset value by shareholders making additional contributions, according to rules prescribed by a charter; to dissolve a joint stock company; (c)to take other necessary measures (article 172).	The Current Law does not include similar provision.	Directive 2010/30/EC, Article 19	JSCs	The whole provision is incremental change. The Current Law is not familiar with the notion of "serious loss" of the capital. Further, the Current Law does not foresee the requirement of such meeting or regulation of such loss.	No change
Extraordinary Dividends: When the laws of a Member State allow the payment of interim dividends, the following conditions at least shall apply: (a) interim accounts shall be drawn up showing that the funds	The Draft Law does not envisage different rules for interim and annual dividends.	The Current Law does not envisage different rules for interim and	Directive 2010/30/EC, article 17.5	JSCs	N/A	No change

available for distribution are sufficient; (b) the amount to be distributed may not exceed the total profits made since the end of the last financial year for which the annual accounts have been drawn up, plus any profits brought forward and sums drawn from reserves available for that purpose, less losses brought forward and sums to be placed to reserve pursuant to the requirements of the law or the statutes		annual dividends.				
Conflict of Interest: Approval of a supervisory board or shareholders' meeting for transactions which involve an interested person for JSCs	Article 53 (imperative) sets out detailed rules concerning potential conflicts of interest and requires approval of a supervisory board or shareholders' meeting for transactions which involve an interested person.	The Current Law does not include similar provision. Should be noted the that Law on Securities Market include the provision (article 16-1) and gives the same definition and restrictions for the accountable companies only.	Presumably, this regulation does not derive from the Directives.	JSCs	The whole provision is incremental change. Not quantified, included in the case law analysis	
Partner Expulsion from LLC	Based on a shareholders' decision, a court may, should a limited liability company request so, hand down a decision excluding a shareholder from the limited liability company, if there is an important ground.	Current Law is silent about this issue unless the shareholder fails on his/her contribution.	Presumably, this regulation does not derive from the Directives	LLCs	The whole provision is incremental change. Not quantified, included in the case law analysis	
Partner Exit from LLC	Under Article 141 of the Draft Law, the partner may exit the LLC in several cases, such as: (i) the company lost significant part of its property; (ii) change of activities of LLC; (iii) non-distribution of dividends within 3 years; (iv) decision on additional contribution. The partner may exit the LLC if any such ground exists	Article 31 of the Current Law foresees the possibility of exit from the company by a partner, however, in limited cases.	This regulation derives from the European Model Corporate Act and the U.S Model. Such provisions are not foreseen under EU Directives.	LLC	The whole provision is incremental change. Not quantified, included in the case law analysis	

APPENDIX V - EU Directive Compliance Analysis (Provided upon request)

APPENDIX VI - Case Law Analysis (Provided upon request)