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# REVIEW OF LAW ON INNOVATION ACTIVITIES

OVERVIEW AND THE RECOMMENDATIONS ON DRAFT LAW  
ON INNOVATION ACTIVITIES

USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA

30 September 2015

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USAID GOVERNING FOR GROWTH (G4G) IN  
GEORGIA

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REPRESENTATIVE: REVAZ ORMOTSADZE

AUTHOR(S): MALKHAZ NIKOLASHVILI

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# DATA

**Reviewed by:** Nino Chokheli

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## **ABSTRACT**

Draft law on Innovation Activities was developed by Georgian Innovation and Technology Agency (GITA) in 2015 based on recommendations by World Bank. The main purpose of the Law is to create common innovative ecosystem in the country to foster innovation-based economic development and raise export potential of intellectual products, innovations and technologies.

## ACRONYMS

G4G	Governing for Growth in Georgia
USAID	United States Agency for International Development
GITA	Georgian Innovation and Technology Agency
WB	World Bank
MoESD	Ministry of Economy and Sustainable Development

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# 1. EXECUTIVE SUMMARY

Draft Law on Innovation Activities was developed by Georgian Innovation and Technology Agency (GITA) in 2015 based on World Bank (WB) recommendations. The main purpose of the Law is to create common innovative ecosystem in the country to foster innovation-based economic development and raise export potential of intellectual products, innovations and technologies.

Law was drafted by GITA staff and presented to Legislative Working Group established under GoG's Research and Innovation Council for review and recommendations. G4G as a member of the Working Group provided the comments on the draft law. The brief overview of the Law and summary of G4G recommendations are presented below.

## 2. BACKGROUND

G4G supports the Government of Georgia (GoG) to create a better enabling environment in which legal and regulatory reforms are fairly and transparently conceived, implemented and enforced. G4G also builds the capacity of private sector to effectively cooperate with the government on policy and legislation through an inclusive consultative dialogue.

Promotion of innovations and technology is one of the priority policy areas declared by Georgia's Socio-Economic Development Strategy 2020. To support the government in pursuing this policy objective, G4G actively cooperates with newly formed agency of innovation and technology – GITA.

Since 2014 GITA has been working on the draft Law on Innovations and a package of amendments to the existing laws, which has to be submitted to the Parliament by the end of 2015. The legal drafting is being conducted in the framework of Legislative Working Group established under GoG's Research and Innovation Council. G4G is represented in the Working Group by Malkhaz Nikolaishvili, G4G Performance Data Advisor. G4G as a member of Legislative Working Group closely collaborates with GITA legal team by providing comments and recommendations on the draft law.

### **3. METHODOLOGY**

As a member of the Legislative Working Group, Malkhaz Nikolashvili, has reviewed the draft Law on Innovation Activities (here and after referred as the “Law”) and amendments to the Law on Grants, version realized by GITA on June 30, 2015 to the working group members, and provided his comments and feedback at several working group sessions and public-private discussions, as well as in writing. The recommendations were based on international best practice in innovation and technology promotion.

## 4. FINDINGS

### OVERVIEW OF THE DRAFT LAW ON INNOVATION ACTIVITIES

The Law consists of 5 chapters and 26 articles. Chapter I defines the scope of the Law. The main purpose of the Law is to create common innovative ecosystem of the country to foster innovation-based economic development and raise export potential of intellectual products, innovations and technologies.

The Article 2 defines the basic terms used in the law such as: state innovation system, innovation activity, invention, innovation, development project etc.

The Articles 3 determines the process of innovation policy endorsement. The five-year innovation policy plans have to be developed by the Ministry of Economy and Sustainable Development (MoESD) and approved by the Government. The policy implementing body is Georgian Innovation and Technology Agency (GITA).

The Articles 4 and 5 set out the responsibilities of MoESD and GITA in the field of innovation. The ministry develops the policy, cooperates with other ministries and agencies to stimulate innovation-friendly environment across the government, allocates the budget for relevant activities and supervises their implementation. GITA's responsibilities include designing and implementing the projects, programs and infrastructure aimed at commercialization of knowledge and innovation; establishing techno-parks, innovation centers, innovation laboratories, accelerators and business incubators; stimulating research and development in private sector; financing innovative projects and products; attracting investments in the field of innovation and technology; etc.

Chapter II of the draft Law defines the innovation activity registry. In order to participate in state support programs and benefit from innovation-related incentives, all parties involved in innovation activities have to be registered with innovation registry. The registry is set up and administered by GITA. The companies and individuals registered with innovation registry report to GITA on their activities, conditions of the equipment and future plans on annual basis.

Chapter III sets the rules of establishing the infrastructure for innovation support. The law defines five types of organizations, which provide innovation support infrastructure:

1. Technology Park;
2. Business and Technology Incubator;
3. Fabrication Laboratory and Innovation Laboratory;
4. Accelerators;
5. Technology Transfer Center.

These organizations are established either by GITA or independently but registered with GITA. The law defines the main functions of each organization.

Technology Park provides infrastructural and professional services to – amongst others – higher educational institutions, science and research and innovation organizations etc.

Business and Technology Incubator's main activities include transfer of business capital and administrative, technical and other services to newly established companies for up to 5 years.

Fabrication Laboratory and Innovation Laboratory provide infrastructure services to any interested party for prototype development, testing and production; as well as capacity building and training.

Technology Transfer Center is defined as a company created solely for the technological innovations that entail searching for ideas and partners in order to transfer technologies, evaluation of commercial potential of such transfer, and realization of technological transfers.

The same chapter defines the intellectual property rights on inventions, industrial designs and integrated circuit topologies.

Chapter IV determines the funding of innovation activities. Innovation Activity Fund is created under GITA and is financed from the following sources:

- State and local budgets;
- Donations, contributions, gifts and support;
- Income received from innovation projects sponsored by the Fund;
- Income from the sale of shares in companies and other organizations sponsored by the Fund.

Chapter V defines the transitional and conclusive provisions of the Law.

## 5. RECOMMENDATIONS

The Law provides the sound general framework for promotion of innovations, sets the basic terms and principles, and defines the responsibilities of main governmental institutions. Overall, the Law meets its purpose and follows international best practice in setting the legal framework for innovation promotion. The adoption of the Law will be a big step forward in creating the innovation ecosystem in Georgia. However, the following recommendations were developed and provided to GITA for further consideration:

- It is recommended to pre-define the area of activities and projects which will benefit from incentives without registering with innovations activities registry, e.g. free economic, technology and industrial zones, members/tenants of the technology parks and etc;
- The investment in innovative activities (domestic and international) should also be subject to incentives provided by the Law. Such investments should also be eligible to be registered with innovation activities registry;
- At a later stage it is also possible to define the priority industries and sectors eligible for incentives, such as information technologies, renewable energy, aviation, biotechnology, pharmacy, tourism and etc.;
- The legislation should provide pre-defined list of activities which could be considered as innovations and become eligible for financing through the Innovation Activity Fund;
- The Law should more clearly define that grants and projects for innovative activities financed by organizations other than Innovation Activity Fund are subject to same incentives as the grants and projects financed by Innovation Activity Fund.

In addition, it is recommended to introduce changes to other legislation (e.g. Tax Code, Labour Code, Law on State Procurement, etc.) to define other incentives for innovation activities. In particular:

- It is advisable to define specific rules and areas for tax incentives in the Tax Code based on best practices of other economies. The tax incentives may include:
  - Exemptions from certain types of taxes (VAT, Income, Profit, Property, Customs duties, etc.);
  - Accelerated amortization possibilities and deduction as a cost from income;
  - Loss deferral for prolonged period;
  - Deduction of training costs from the income, etc.
- It is advisable to subsidy the costs and fees related to registration of domestic patents and inventions;
- The Labour Code should allow for entrepreneurial vacation for scientists and inventors employed in educational institutions to start their own business and secure the risk of losing the job in case of business failure (2-3 years);
- The Law on State Procurement should set incentives to stimulate innovative products and services in state procurements.

**USAID Governing for Growth (G4G) in Georgia**

**Deloitte Consulting Overseas Projects LLP**

**Address: 85 Z. Paliashvili Street, Tbilisi**

**Phone: +995 322 240115 / 16**

**E-mail: [info@g4g.ge](mailto:info@g4g.ge)**