An Amendment made to the Decree №1757 of the Government of Georgia dated as of October 3, 2023 on Approval of Risks Assessment Report of Money Laundering and the Financing of Terrorism in Georgia

1. As per the Article 63 of the General Administrative Code of Georgia, Article 5 and Article 6 of the Law of Georgia on the *Structure, Powers and Rules of Operation of the Government of Georgia*, Article 5 of the Law of Georgia on *Facilitating the Prevention of Money Laundering and the Financing of Terrorism*, the amendment shall be made to the Decree №1757 of the Government of Georgia dated as of October 3, 2023 on *Approval of Risk Assessment Report of Money Laundering and the Financing of Terrorism in Georgia* and the *Addition to Money Laundering and Terrorism Financing Risks Assessment Report* attached to this Decree shall be added as an annex to the Decree.
2. This Decree comes into force from June 3, 2024.

Prime Minister **Irakli Kobakhidze**

Annex

Addition to Money Laundering and Terrorism Financing National Risks Assessment

Money Laundering and Terrorism Financing Risks Assessment (hereinafter referred to as *Risk Assessment)* made by Georgia was approved by the Government of Georgia in 2019. Later on, in 2023 the Risk Assessment was updated as per the Legislation of Georgia.

In 2020, Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (hereinafter referred to as *MONEYVAL*) assessed Georgia's compliance with international standards in the field of tackling money laundering and terrorism financing.

As a result of assessment, MONEYVAL prepared a report highlighting Georgia's significant efforts to conduct an in-depth analysis of the threats and vulnerabilities of a country.

MONEYVAL also identified some shortcomings in specific contextual factors (informal economy, politically active individuals) as well as current risks in free industrial zones, real estate and virtual asset service sectors and terrorism financing. Thus, the present analysis aims to improve the aforementioned shortcomings.

Contextual Risk-Factors

1. Informal Economy

An informal economy is a broad term and generally refers to such paid economic activities (production, trading in goods and services) that is neither recorded nor monitored by the government for tax, labor or other purposes, but is otherwise legal and unrelated to criminal activity (e.g. illegal drug trade).

National Statistics Office of Georgia, LEPL (hereinafter refer to as GEOSTAT) studies the size/scale of non-observed economy according to separate fields of the economy. Definition of non-observed economy is considered analogous to informal economy. GEOSTAT surveys activities, production, income, consumption and other economic operations having no cover by standard sources of statistical information using a special methodology for the purpose of assessing non-observed economy.

According to preliminary data 2023 by GEOSTAT, the share of non-observed economy in the gross domestic product of Georgia was 12.74%, which is 0.4% smaller than in 2022. In recent years the share of non-observed economy has been steadily falling and in 2023 this data was at its lowest point. In terms of value, the major share of non-observed economy is derived from trade, hotels and restaurants, manufacturing and agriculture sectors.

The decline of non-observed economy is mainly due to the tax reforms ongoing in Georgia over the years. As the International Monetary Fund (hereinafter referred to as IMF) reports Georgia is an example of one of the most successful tax revenue reforms in the world[1]. The principle of reform included drastic reduction in tax complexity, number and rates as well as improvement of tax administration which led to the growth of formal economy. The Revenue Service of the Ministry of Finance of Georgia (hereinafter referred to as the *Revenue Service*) does not estimate the scale of tax avoidance in the country. However, in recent years, the tax collection rate has been growing faster than the country's economy, indicating a gradual reduction in tax losses.

Despite the downward trend, the current scale of non-observed economy is considered as substantial. Non-observed economy is supported by a wide circulation of cash in Georgia. Accurate data on using cash and its ratio to non-cash payments for purchasing services and goods is not applicable. However, according to the study by the National Bank of Georgia (hereinafter referred to as *NBG*), compared to 2022, the value of transactions performed with payment cards issued by the Georgian banks in trade and service facilities doubled in 2023 and exceeded 72 billion GEL (approx. 27 billion US dollars). In addition, the number of populations with bank accounts is constantly increasing in Georgia. The aforementioned information serves as indirect indicator that the share of cash circulation in Georgia is decreasing.

According to the Law of Georgia on *Facilitating the Prevention of Money Laundering and the Financing* of *Terrorism.* individuals moving and/or sending/receiving cash or securities at the customs border of Georgia are subject to identification by the Revenue Service, a legal entity of public law within the Ministry of Finance of Georgia, if the cash or other securities, the amount of which exceeds 30,000 GEL or its equivalent in foreign currency. For the purpose of supporting the abovementioned preventive measures, moving cash (national and/or foreign currency), checks and/or other securities, the total amount of which exceeds GEL 30,000 or its equivalent in another currency, is subject to mandatory declaration at the border of Georgia.

If transfer of cash, checks and/or other securities is carried out by natural persons and/or organizations it is mandatory to additionally submit a certificate of origin and purpose when moving cash (national and/or foreign currency), checks and/or other securities across the border (the total amount of which exceeds GEL 30 000 or its equivalent in other currency). And if transfer of cash, checks and/or other securities across the border of Georgia is conducted by a natural person (regardless of his/her citizenship), the information on the amount of money, the owner/receiver of the goods, the type of currency/security as well as origin and purpose must be shown in the special columns of the individual's customs declaration.

[1] 2019 Fiscal Monitor and 2018 State Fund Management.

Cash equivalent of 2,216,202,767.51 GEL (national and foreign currency) was moved across the customs border of Georgia, which is given in the table according to customs formalities (export/import) and years.

Cash moved in top 6 currencies							
Customs formality	Currency	2020		2021		2022	
		Amount in moving currency	Equivalent amount in GEL	Amount in moving currency	Equivalent amount in GEL	Amount in moving currency	Equivalent amount in GEL
Import	USD	29,111,011	86,308,074	142,451,872	453,542,278	161,622,288	479,593,691
	EUR	9,577,344	31,310,824	8,569,969	32,549,057	19,372,857	59,820,437
	TRY	31,743,945	14,000,790	111,980,095	38,980,196	414,462,310	73,128,551
	RUB	78,593,090	3,492,857	417,828,644	18,243,476	2,208,465,830	98,118,885
	AZN	739,642	1,314,079	2,356,355	4,438,272	2,016,083	3,497,304
	AED	246,425.00	193,438.07	714,995.00	612,422.16	1,211,125.00	948,780.49
Total		**150,011,457.00**	**136,620,064.89**	**683,901,930.58**	**548,365,703.60**	**2,807,150,496.05**	**715,107,648.84**
Export	USD	25,904,768	75,199,859	50,330,754	159,921,912	139,703,841	403,459,204
	EUR	8,949,953	29,239,087	4,908,708	18,236,231	18,061,769	53,274,213
	GEL	3,682,278	3,682,278	7,724,154	7,724,154	9,262,23	9,262,230
	RUB	23,390,414	1,032,555	17,248,986	764,305	312,361,125	14,428,050
	AED	3,387,289	2,644,892	3,918,788	3,370,418	7,794,428	6,093,953
	AZN	1,020,978	1,730,572	52,839	97,931	514,183	906,363
Total		**66,335,681.03**	**113,529,246.07**	**84,184,230.35**	**190,114,953.71**	**487,697,576.93**	**487,424,016.19**

In 637 cases (76 cases in 2020, 243 cases in 2021, 318 cases in 2022) the liability[i] provided as per Article 169 of the Customs Code of Georgia was imposed for the import or export of cash and securities worth more than GEL 30 000 or the equivalent thereof in another currency across the customs border of Georgia, by evading customs control or in secrecy from the customs control, or by inaccurate declaration; a monetary fine was used as a sanction in **623** cases, and free confiscation of goods in **14** cases. See detailed information in the table below:

The imposition of a monetary fine as a sanction		
Period	A number of offenses	The amount of the fine applied as a sanction
2020	76	332,515.95
2021	243	1,853,291.80
2022	318	2,330,367.57
The ratio of confiscation of goods as a sanction		
Period	A number of offenses	Total amount of money confiscated as a sanction (equivalent in national currency)
2020	1	670,441.79
2021	4	1,832,796.09
2022	9	3,520,379.87

Besides:

In **7318 cases** (1692 cases in 2020, 2593 cases in 2021, 3033 cases in 2022) the liability[ii] provided as per Article 167 of the Customs Code of Georgia was imposed for the illegal act of reducing the amount of import duty by submitting a customs declaration and/or a document accompanying the customs declaration containing incorrect information.

In 1437 cases (325 cases in 2020, 532 cases in 2021, 580 cases in 2022) the liability provided as per Article 168, paragraph 1 and 2 of the Customs Code of Georgia was imposed for the illegal act of importing or exporting of goods across the customs border of Georgia by evading customs control or in secrecy from the customs control.

Documents on signs of crime related to the incorrect information about the weight/quantity, name/description, value, commodity code and others of goods were submitted to the relevant investigative body in **641 cases** (135 cases in 2020, 291 cases in 2021, 215 case in 2022).

Goods were registered with 981,283 customs declarations/re-export declarations, the number of which according to years is given in the table below (including the cases submitted to the investigation body regarding the imposition of liability for the incorrect information about the weight/quantity, name/description, value, commodity code and others) of goods:

Period	A number of declarations	Customs violations				Submitted to the law enforcement agencies for revealing signs of crime	
		Article168		Article 167			
		Number		Number		Number	
2020	276 954	325		1 692		135	
2021	332 768	532		2 593		291	
2022	371 561	580		3 033		215	

Apart from that, customs control (for the purpose of checking customs value) except random sampling, is based on the use of automated data processing tools for risk detection, assessment and preventive measures based on risk criteria developed at the national and international levels. Risk management includes collection of data (data available in the customs office, from the generalization of practice and/or from various sources), risk analysis and assessment, determination of measures and their adoption, regular observation and review of these processes and results.

Accordingly, increasing the customs value of the goods by the declarant in the customs declaration and its accompanying document/re-export declaration (the so called over invoicing cases) does not represent a significant challenge, that is shown by the evaluations of various international partners.

For ensuring the predictability of the information indicated in the customs declaration, obtaining complete information by the customs authority and facilitating the effective implementation of control, according to the decision No. 243 of the Minister of Finance of Georgia dated as of September 21, 2021, an amendment was made to the Decision No. 257 of the Minister of Finance of Georgia dated as of August 29, 2019 on the *Approving Instructions on the Movement and Clearance of the Goods in the Customs Territory of Georgia* which states that in case of declaration of cash (national and/or foreign currency), checks and/or other securities moved across the customs border of Georgia by a natural person, in relation to filling in the table provided by the paragraph 3, part III of the *Customs Declaration of a Natural Person* (III. *Information on Goods*), the following information shall be indicated in the column *Origin and Purpose of the Goods*:
-the origin of cash (national and/or foreign currency), checks and/or other securities along with the field of activity of a natural person abroad (with a detailed description);
- the purpose of cash (national and/or foreign currency), checks and/or other securities, in particular, what the purpose is for moving the mentioned goods across the customs border of Georgia;
-when importing cash (national and/or foreign currency), checks and/or other securities into the customs territory of Georgia for economic activities - a detailed information of the economic activities of a natural person in Georgia (full identification data of business partners, individuals related to business interests, among others);
-planned duration of stay in Georgia, residential address and other contact information (in case of foreign citizen);
-in case of declaration of cash (national and/or foreign currency), checks and/or other securities by an individual in recent times - the purpose of use, in particular, for what purpose they were disposed of;

In addition, Georgia became a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes in 2011. Georgia also joined the Base Erosion and Profit Shifting (BEPS) Inclusive Framework in 2016. Within the BEPS, preferential tax regimes existing in Georgia (including Free Industrial Zones (FIZs)) have been assessed as non-harmful tax practice in 2024. This means that the probability of using FIZs for aggressive and harmful tax practices is low and therefore, the risk of tax evasion is small.

Information on performed cash transactions is also automatically provided to the Financial Monitoring Service of Georgia. Namely, accountable individuals send reports on financial transactions performed in cash exceeding a predetermined monetary limit. Declaration at the customs border is considered as an adequate mechanism for controlling cash in and out of the country. However, sending reports to the FMS is not enough for obtaining proper information and effective control over the cash circulation within the country.

Geography of Georgia also contributes to effective border control. Therefore, the possibility of monitoring the rights to enter, live and work in Georgia is a facilitating factor to the formalization of the country's economy. Legislation of Georgia ensures controlling mechanisms over the rights to live and work in the country. In particular, the Migration Department of the Ministry of Internal Affairs of Georgia (hereinafter referred to as Ministry of Internal Affairs, *MIA*) identifies individuals residing in the territory of Georgia with illegal basis or without permission. The Border Police under the MIA controls the border zone and ensures the prevention and suppression of illegal crossing of the border.

Citizens of foreign countries wishing to take up employment shall obtain a work resident permit in Georgia. It is mandatory to register in the Register of Entrepreneurs and Non-Entrepreneurial (Non-Commercial) Legal Entities (hereinafter referred to as the Entrepreneurial Register) for carrying out entrepreneurial activities in Georgia. Self-employed people who are independently engaged in economic activities and do not use the labor of hired individuals are granted the special status. It is not necessary for them to make registration; however, they submit an annual tax return. The Investigative Service under the Ministry of Finance of Georgia investigates illegal facts related to entrepreneurial activities.

The share of informal economy is decreasing in Georgia. In this regards, efficient tax administration, a reduction in the share of cash for paying for goods and services, and an increase in the number of Georgian residents with bank accounts are the contributing factors. Nevertheless, share of non-observed economy in the gross domestic product exceeds 10% and is considered as a contextual factor of increased risks.

2. Politically Active Individuals

As of 2022, banks operating in Georgia had 146 politically active individuals of foreign countries, their family members or people in close business relations among their clients. The number of such clients is insignificant among the other financial institutions.

The absolute majority of politically active individuals of foreign countries who are clients of banks are heads of the diplomatic missions of other states and international organizations. Consequently, Georgia is not a desirable place to invest in property accumulated by politically active individuals of other countries. This is partly due to the fact that the management of accumulated property does not have a significant share in the portfolio of banks and other financial institutions operating in Georgia.

The Legislation of Georgia requires the implementation of strict measures on the standards of the Financial Action Task Force (hereinafter referred to as the *FATF)* in relation to local politically active individuals, their family members and those in close business relations. In particular, accountable individuals are required to take strong preventive measures against such individuals including the investigation of their assets and sources of funds.

In addition, in 2023 Georgia is ranked 49th in the International Transparency Corruption Perception Index dealing with the measurement of corruption in the countries. This indicator is the best result in the Eastern Europe and Central Asia region. Georgia also has a system of submitting and monitoring property declarations of officials and their family members. The effectiveness of the system is periodically inspected by the United Nations Office on Drugs and Crime (hereinafter referred to as *UNODC*).

Formation of an independent agency - the Anti-Corruption Bureau based on the recommendations of the European Commission in 2022 played an important role in strengthening institutional capacities to fight and prevent corruption. The main goal of the Bureau is to ensure preventive measures against corruption. The Anti-Corruption Bureau started its full operation from September 1, 2023. From that period the Bureau's functions included two main responsibilities: monitoring political finances and asset declarations and improvement of protection of whistle-blowers and conflict of interest standards.

Some important steps have been taken in the field of **international assessment missions**; the Anti-Corruption Bureau, as a national coordinator, hosted the visit of GRECO evaluation experts in June 2023. As a result of effective coordination, GRECO made its Fourth and Fifth Evaluation Rounds Second Compliance Reports in Strasburg in March, 2024. In addition, only one of the 16 recommendations set out by the 4th Round remained unfulfilled.

The aforementioned circumstances show a relatively low level of corruption and high level of transparency.

Assessment of Sectoral Risks

1. Free Industrial Zones

1.1 Key Findings

Inherent risks associated with enterprises operating in Free Industrial Zones (FIZs) are not much different compared to other companies registered in Georgia. However, the level of risks is reduced through restrictions set out by the Revenue Service under the Minister of Finance of Georgia (hereinafter referred to as the *Revenue Service*) and strong preventive measures of the financial sector. Apart from that, the turnover of enterprises operating in FIZs is quite small; the practice of the Financial Monitoring Service of Georgia and investigative bodies shows that the use of such enterprises in money laundering and terrorism financing schemes did not occur on a large scale in 2020-2022; such enterprise was not found in none of the inquiries received from foreign colleagues in the Financial Monitoring Service; the Prosecutor's Office of Georgia had received only a few cases with the MLA where the enterprise were registered in such zone.

That being so, risks related to enterprises operating in FIZs have been assessed as low. Notwithstanding, for better managing the risks, it is recommended to consider the following additional measures:

- conducting accurate statistics regarding the physical location of the enterprises operating in FIZs;
- systematic exchange of information between the FIZs organizing companies and the Revenue Service for the purpose of monitoring activities and operations of FIZs enterprises and analyzing trends;
- implementing a screening system when issuing the licenses by FIZs organizing companies which ensures the verification of the directors and beneficial owners of enterprises in international databases for the detection of money laundering and terrorism financing risks;
- determining increased risks of money laundering and terrorism financing as one of the grounds for refusal to issue a license.

1.2 Sector Overview

In view of FIZs, relevant statistics and other information were requested from the following structures in order to implement the analysis below:

- the Revenue Service;
- the Financial Monitoring Service of Georgia;
- the National Statistics Office of Georgia (hereinafter referred to as GEOSTAT);
- the National Bank of Georgia.

The present analysis is also based on studies and assessments made by international organizations. Besides, a study of the approaches of FIZs organizing companies operating in Georgia and the process of issuing licenses to enterprises was carried out.

The Government of Geogia makes decision on forming FIZs and controls their operation. However, direct supervision of FIZs is carried out by the FIZs organizing companies or administrators hired by them.

The purpose of creating FIZs is to encourage investments in the economy and support technological progress in the country. Thus, the special tax preferences are applied to the enterprises operating in FIZs:

- income received by an FIZ enterprise is exempted from profit tax;
- import of foreign goods into FIZ territory is exempted from value added tax;
- operations carried out in FIZs are exempted from value added tax;
- property in FIZs is exempted from property taxes;
- import of foreign goods into FIZs territory is exempted from import taxes;

- no import tax applies to goods produced in FIZs which are imported in other territory of Georgia.

Currently, there are four Free Industrial Zones operating in Georgia:

- Poti Free Industrial Zone;
- Kutaisi Free Industrial Zone;
- Kutaisi Hualing Free Industrial Zone;
- Tbilisi Technology Park Free Industrial Zone.

There are totally 533 enterprises operating in FIZs. A number of enterprises operating in FIZs has increased slightly in recent years. The vast majority of such enterprises are limited liability companies registered in Georgia (hereinafter referred to as *LLC*).

Enterprises operating in FIZs:

Name	2020	2021	2022	2023
Tbilisi Technology Park FIZ	195	195	195	193
Poti FIZ	138	125	135	132
Kutaisi FIZ	140	147	160	173
Kutaisi Hualing FIZ	22	26	33	35
Total	**495**	**493**	**523**	**533**

Enterprises operating in FIZs do not have a complex structure of ownership and control[2]. FIZ founders are mostly citizens of Georgia or other countries and legal entities having close trade relations with Georgia.

Founders of enterprises operating in FIZs:

Country	Natural Person	Legal Entity
Georgia	190	29
Azerbaijan	92	3
Ukraine	83	--
The Russia	54	--
Turkey	36	--

[2] Complex structure of ownership and control includes trust relationships, nominal ownership, bearer securities, or more than two levels of ownership/control.

Different licenses are issued by FIZs organizing companies in the fields of trade, industry and services, among the others. Most of the enterprises operating in FIZs are involved in trading goods.

Import of goods produced in Georgia in the FIZ territory as well as export of goods from FIZ to another country, is considered as export of goods. Also, import of goods produced in FIZ, irrespective of their amount, is subject to value added tax only, which makes trade licenses attractive.

It is allowed to produce, process and trade of any goods within FIZ except the following products:

- weapons and combat materials;
- nuclear and radioactive substances;
- narcotic and psychotropic drugs;
- tobacco products and/or tobacco raw materials.

Activities carried out by the enterprises operating in FIZs:

Activity	Number
Trading	225
Service	94
Processing-production	62
Others	234
Total	**615**

1.3 Inherent Risks

FIZ is building several opportunities for running a legitimate business; however, it can also be the source of vulnerability at the same time that can be misused for money laundering and terrorism financing. FIZs related inherent risks assessment was carried out on the basis of risk factors as follows:

- turnover of the enterprises operating in FIZs;
- degree of regulation/supervision of FIZs;
- customs control over the goods turnover in FIZs;
- monitoring of operations carried out in FIZs;
- threat of using FIZ for TBML schemes;
- physical location of enterprises operating in FIZs.

Low level of supervision is one of the sources of vulnerability exercised over enterprises operating in FIZs. Enterprises operating in FIZs do not provide services/activities that fall within the definitions under *Financial Institutions* and *Non-Financial Businesses and Professions* set out by the Financial Action Task Force standards (FATF).

Therefore, FATF standards do not apply to the FIZs organizers and enterprises operating in FIZs in the field of licensing, regulation and supervision. For example, FIZs organizing companies do not carry out preventive measures as per the Law of Georgia on *Facilitating the Prevention of Money Laundering and the Financing* of *Terrorism.* at the time of issuing licenses to enterprises.

Based on FIZs objectives, the goods entering the territory of FIZ undergo standard customs control. That being so, risk of misusing FIZ for the purpose of commercial fraud, is not considered as excessive. Information about operations conducted in FIZs is submitted for FIZs organizing companies, which later on, is sent to the Revenue Service. However, the data recording systems of FIZs organizing companies and the Revenue Service differ and are not integrated. This may affect the coordination between the FIZs organizing companies and the Revenue Service and the monitoring of the operations of enterprises operating in the FIZs.

In regard with large scale free industrial zones, it is difficult to monitor incoming/outgoing shipments, processing, repacking and re-labeling of goods. Accordingly, the risk of trade-based money laundering and terrorism financing (hereinafter referred to as - *TBML*) may be created in FIZs. Generally, TBML schemes mean falsification of the price and quantity of goods/cargo (e.g. misrepresenting invoice price, inflated invoice, deflated invoice, multiple invoices) in order to create a legitimate basis for the movement of funds from one country to another. However, TBML schemes require the use of various instruments such as cash, a network of shell companies, currency exchange, and the purchase and transportation of goods through illegal incomes.

The Legislation also does not require FIZs enterprises to have a physical location in the territory of FIZs. This contradicts the main goal of creating FIZs that focuses on international companies transferring their operations to Georgia without entering into competition with local businesses. A company operating in FIZ may use a license to access financial services in Georgia or abroad without conducting commodity operations into FIZ territory. This position can become attractive for various money laundering and terrorism financing schemes.

1.4 Risk Reduction

Enterprises wishing to get a FIZ license have to be registered in the Register of Entrepreneurial and Non-Entrepreneurial Legal Entities (hereinafter referred to as *Entrepreneurial Register*) in exactly the same manner as other companies. Accordingly, the simplified regime of registration does not apply to the enterprises operating in FIZ. In

particular, FIZ organizer is not authorized to register companies; licenses are issued after the registration of a legal entity in the business register. It means that ownership of enterprises operating in FIZ is transparent like other companies registered in Georgia, which significantly helps investigative bodies to investigate cases related to money laundering, tax evasion and other crimes.

According to the regulations of the National Bank of Georgia, banks and other financial institutions consider companies operating in FIZ as high-risk clients and therefore, implement strong preventive measures against them. In view of high-risk enterprises (including FIZ companies), banks typically require the existence of a physical location in Georgia; while performing international transactions, they obtain relevant customs clearance/transportation and other documents that allow verification of the contents, volume and value of the cargo.

Besides, within the scope of remote supervision, the National Bank of Georgia receives information from financial institutions about the number of individuals registered in the Free Industrial Zone and the scale of performed operations. This information, together with other relevant data, will be taken into account in planning and implementing the relevant supervisory policy.

Legislation does not allow enterprises operating in FIZ to provide services to a person registered in Georgia. Meanwhile, the Revenue Service of the Ministry of Finance of Georgia published a special explanation in 2020 stating that the provision of services to a non-resident by FIZ enterprises will not be considered as permitted activity. Accordingly, Tax preferences provided by the Legislation have not been applied any longer to the enterprises with a service license since 2020. So, activity of such enterprises is currently restricted, and the new licenses in the field of services by FIZ organizers are not issued any longer (back to 2018, meeting was held between the Ministry of Finance of Georgia and the Financial Monitoring Service; later on, FMS made a contact with bank institutions to inform them about the need for increased attention to entities registered in FIZ).

There is no an exact statistic on how many enterprises have a physical location in FIZ. Even so, as a result of both the Revenue Service's explanation and the financial sector's approach described above, the enterprises actually need a physical location in FIZ in order to obtain a license and access financial services; for example, construction of an enterprise in the FIZ territory for the production and processing of goods or construction/renting of a warehouse in order to store/repack cargo brought into the FIZ territory for the purpose of further import. This set of conditions significantly reduces the risks of using businesses operating within FIZ for different schemes of money laundering and terrorism financing.

The turnover of FIZ enterprises is quite small. Georgia is a small economy. In 2023, the gross domestic product of the country reached 80 billion GEL (approx. 30 billion US dollars), and the total turnover of enterprises exceeded 200 billion GEL (according to preliminary data). In that context, the turnover of FIZ enterprises in 2023 amounted to 287

million GEL (approx. 106 million USD), which is only 0.15% of the total turnover of enterprises.

Turnover of the enterprises operating in FIZs:

Year	Turnover (GEL)
2023	286,854,966
2022	150,303,099
2021	142,460,715
2020	103,380,682
Total	**682,999,462**

In 2020-2023 there are no FIZ enterprises fixed in the requests for submission of information by the FMS from the financial intelligence services of the other countries. These facts plus rather small FIZ turnover mentioned above indicate that the risks of using FIZ for TBML purposes are not significant.

2. Real Estate Sector

2.1 Key Findings

The real estate sector has a high inherent vulnerability to money laundering and terrorism financing crimes. However, there are some factors causing the risks reduction. Although, real estate is a significant sector of the Georgian economy, its scale and foreign investments are not considered voluminous. The ability to pay in cash is the major source of risks in the sector. However, a large part of the deals is completed with non-cash payments, which is confirmed by the statistics of mortgage loans issued by the banks. Real estate business in not regulated in Georgia, but it is not considered as a major source of vulnerability for the sector, as its role in real estate transactions is limited (any transaction is registered at the National Bureau of Public Registry).

Hence, risks in the real estate sector are considered as medium. It is recommended to consider the following additional measures for better managing the risks:

- conducting accurate statistics on the real estate transactions by cash;
- conducting accurate statistics on the number, value and participating parties of the real estate transactions through banks and notaries;
- recording information on the activities of real estate agents and the number, value and participating parties of real estate transactions performed with their participation;
- implementing real estate transactions only through a banking sector (some kind of threshold can be determined).

2.2 Sector Overview

In respect to real estate sector, relevant statistics and other information were requested from the following structures for carrying out the below analysis:

- The Financial Monitoring Service of Georgia;
- The National Statistics Office of Georgia (hereinafter referred to as *GEOSTAT*);
- The National Agency of Public Registry (hereinafter referred to as *Public Registry*);
- The National Bank of Georgia.

Real estate market of Georgia is growing. In recent years, the number of registration transactions of real estate property rights has been increasing. However, in 2023, this data decreased slightly.

Number of real estate registration transactions

Year	2021	2022	2023
Transactions	206,584	217,657	206,367

Brokerage activity is not regulated in real estate sector. One of the reasons is a limited role of real estate agents in real estate deals/transactions. To be specific, agents do not dispose of clients' funds and, therefore, do not participate in the settlement process.

Only some several large international real estate companies provide the preparation of documents necessary for real estate transactions and transfer of ownership along with relatively extensive consulting services. The vast majority of other entities (real estate agents) operating at market is small entrepreneurs, and despite several hundreds of such entities, their turnover and scale of activity is small.

Real estate agencies

Years	**2021**	**2022**	**2023**
Number	471	646	676

It is not mandatory to have a notary in the process of registering property rights in real estate sector. The ownership title to immovable property is legally created only upon a registration with the Public Registry (buying and selling, gifting, etc.). Information on real estate owners and all past transactions (e.g. sales, mortgages, freezing) is kept in the real estate registry, which is publicly available through an online portal.

Foreigners are able to obtain an investment residence permit in Georgia if they are going to buy a real estate worth of 300,000 US $. However, it is not possible to obtain citizenship in lieu of a large investment (the so-called golden passport). One of the grounds for refusing a residence permit is a conviction or a search warrant for a serious criminal offense within the last 5 years, including money laundering or terrorism financing.

2.3 Inherent Risks

Purchase of real estate is a common method of integrating illegal income into formal economy. A high price of real estate allows laundering of large amounts in only one transaction. Assessment of inherent risks related to real estate sector was carried out on the basis of risk factors such as:

- volume of real estate market;
- foreign investments on real estate market;
- using cash in real estate transactions;
- participation of regulated persons/organizations in real estate transactions and the strength of their compliance control function;
- investment of illegal income in real estate.

Market of real estate is an important sector of economy. The turnover of real estate-related activities of business entities operating in Georgia made up 1.7 billion Lari in 2022 (about 630 million USD)[3] making up a 36.3% increase compared to 2020.

The real estate sector also attracts foreign investments. However, in 2023 the direct foreign investments in this sector totally made up 59,7 million USD, which is the only 3.7% of total investment volume in Georgia. Moreover, in 2023, an investment residence permit based on the ownership of real estate, was issued to only 157 persons, and 68 were rejected such residence permit.[4] Accordingly, the interest of foreign capital against the local real estate sector is small.

Real estate may be purchased in cash and through evasion of financial system. Cash payments allow price manipulation and disguise the source of money origin. Precise information about the quantity and volume of real estate transactions carried out in cash is not available that is one of the key sources of current risks in this sector.

Activity of real estate agents is not subject to regulation and supervision in accordance with the legislation applicable the field of money laundering and terrorism financing. Though, the aforementioned is not considered as an important source of vulnerability in this sector. Information about the quantity and total value of real estate transactions, in which agents

[3] Data of National Statistics Office of Georgia. It does not include the turnover of development companies too.
[4] Data of LEPL Public Service Development Agency.

are involved, is not available. However, the legislation does not allow agents to offer their clients the financial instruments (for example, escrow account) of payment and property registration risk insurance in the process of real estate purchasing-selling. Consequently, the role of agents in real estate transactions is limited to connection of buyer and seller. Clients do not give them money. In addition, in recent years the agents of real estate were not identified in investigations carried out by investigative bodies on the facts of money laundering and other predicate crimes and in the reports presented to the Financial Monitoring Service of Georgia.

Residential houses/apartments are more vulnerable against the investment of illegal income than commercial premises. The owner of the house changes often and it is easy to resell it. It is proved by the reports on suspicious transactions sent to the Financial Monitoring Service of Georgia. Furthermore, in recent years, within the cases of money laundering most of real estate units subject to judicial seizure were residential houses/apartments.

2.4 Risk Reduction

The information on real estate transactions is public. In the process of investigating money laundering and other crimes, high quality of transparency of real estate registry promotes investigative bodies to find illegally obtained property or/and property purchased through illegal income.

Public Registry conducting registration of real estate-related transactions is an accountable entity in accordance with the Law of Georgia *on Facilitating the Prevention on Money Laundering and the Financing* of *Terrorism.*

Public Registry is obliged to identify parties involved in real estate transaction and reveal suspicious transactions of purchasing-selling and gifting real estate. In addition, Public Registry verifies the parties of transaction in the lists of UN sanctioned persons and rejects the registration of transaction, if such a person participates in the mentioned transaction.

Although real estate may be purchased by cash, the important number of real estate purchasing-selling transactions are carried out through commercial banks and consequently, by cashless payments reducing the overall level of vulnerability. In 2023, the share of real estate purchase with a mortgage loan made up 47% of the total number of real estate transactions. Hence, a large number of real estate-related transactions are examined by the strong compliance control function of banks.

Number of real estate transactions and mortgage loans

Year	2021	2022	2023
Transactions	206,584	217,657	206,367

Mortgage	84,118	90,519	97,225

The table above indicates that a rather significant percentage (40 - 47%) of transactions comes on mortgage loans automatically implying a necessary control from the banking institutions.

Real estate purchasing-selling and gifting transactions are also approved by notaries. The value of real estate transactions verified by notaries is unknown. However, the notaries are fully subject to the requirements of the law of Georgia *on Facilitating the Prevention on Money Laundering and the Financing* of *Terrorism.* It means that completed preventive measures are being carried out against real estate transactions approved by notaries. Activities of notaries are strictly regulated and subject to the supervision of the Ministry of Justice of Georgia. Notaries' compliance control function is considered adequate.

The number of real estate transactions verified by notaries is small, since the parties prefer registration directly in the Public Registry (mainly aimed at saving expenses). In addition, registration of all transactions verified by notaries are also finally conducted in the Public Registry (indicating practically a complete minimization of the role of any player other than the Public Registry in real estate market).

Number of real estate transactions approved by notaries

Year	2021	2022	2023
Purchase	3,291	2,805	2,523
Gift	585	454	358

3. Virtual Asset Service Providers[5]

3.1 Main findings

Virtual asset sector is increasing and has a high inherent vulnerability against money laundering and terrorism financing crime. It is conditioned by the nature of virtual asset, related nonuniform regulation of service at international level, the lack of a unique solution for implementing the so-called *Travel Rule* and the abundance of new products and delivery channels on the market.

However, compared to other countries, in Georgia the virtual asset service sector is quite small considering the volume of transactions and number of users. As well as, since 2023

[5] Due to novelty of sector regulation, this chapter includes data of 2024.

the framework for regulating virtual asset service providers and supervising their activities has entered into force.

Hence, the risks of money laundering and terrorism financing in the virtual asset service sector were assessed as medium-high.

3.2 General Review

The use of virtual assets is growing globally and in Georgia. Despite of increasing tendency, the ecosystem of current virtual asset service providers (hereinafter referred to as – *VASP*) in Georgia is small, considering the volume of virtual assets trading and user base. This is proved by the report of Financial Actions Task Force (hereinafter referred to as – *FATF*) of 2024 according to which Georgia is not considered a jurisdiction with a material VASP sector[6].

Legislative changes related to virtual asset service has entered into force since January 1, 2023. In particular, according to the noted changes, registration as a VASP in the National Bank of Georgia became mandatory for providing the following services to other persons:

- exchange a convertible virtual asset for national or foreign currency, another virtual asset or financial instrument;
- transfer a convertible virtual asset;
- keep/administer a convertible virtual asset or an instrument needed for its use, which allows to control virtual asset;
- manage a portfolio consisting of convertible virtual assets (except collective portfolio management);
- administer convertible virtual assets trading platform;
- issue a convertible virtual asset as a loan;
- make an initial offer of a convertible virtual asset or/and service related to an initial offer.

Other representatives of the financial sector as commercial banks, microfinance organizations and brokerage companies were also authorized to provide the above-mentioned services regarding virtual assets. Though, no other sectors provide service related to virtual assets.

In the process of registering as a VASP, the National Bank of Georgia, together with other issues, verifies the applicant's organizational risk assessment and compliance of its procedures with the requirements of anti-money laundering and anti-terrorism financing

[6] Status of Implementation of Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity, FATF, March 2024.

legislation. One of the main conditions for registration as a VASP is an introduction of Distributed Ledger Technology (DLT) and banning the so-called *privacy coins* in order to detect noteworthy transactions. Reputation, education and professional qualification of the persons and administrators owning the applicant's significant share is also verified in the process of registration.

The table below provides information on applications and their relevant status submitted to the National Bank of Georgia from entering the registration rule into effect (July 1, 2023) as of the date[7] of the noted document preparation:

Number of presented applications	Number of registered VASPs	Number of rejected applications	Current applications
43	12 (≈28%)	18 (≈42%)	13 (≈30%)

The following circumstances should be considered for data analysis:

- out of twelve registered VASPs only one was registered as of December 31, 2023, and the registration of the rest VASPs was done during 2024;
- out of twelve registered VASPs ten were operating until January 1, 2023, and the rest two VASPs will start operating after registration.

During the AML/CFT evaluation of documentation submitted by the interested parties for registration as virtual asset service providers at the National Bank of Georgia, significant shortcomings were identified in terms of correctness, perfection of AML/CFT internal instructions and their compliance with legislative requirements. For example, in some cases, the processes of implementing preventive measures, assigning/reassessing risks to the clients, detecting suspicious/unusual transactions were presented imperfectly/with gaps.

The table below describes the types of virtual asset service offered by twelve VASPs registered in the National Bank of Georgia:

Registered service types[8] offered by VASPs	Number of VASPs

[7]According to the data of May 21, 2024. See the registry of virtual asset service providers (VASPs) - https://nbg.gov.ge/page/Virtual Asset Service Providers).

[8] Source: data are provided according to the registration applications.

	(one and the same VASP may provide more than one virtual asset service)
Transfer	12
Keep/administer	4
Administer trade platform	4
Exchange ***(including self-service kiosks):***	-
National or foreign currency	12
Another virtual asset	5
Financial instrument	0
Initial offer	2
Service related to initial offer	0
Management of portfolio (except collective portfolio management)	0
Issue a virtual asset as a loan	0

Service types offered by both already registered and applicant entities are quite limited and mainly cover exchange/transfer of virtual assets. Considering registration applications and business plans submitted to the National Bank of Georgia, virtual asset service may be assessed as growing sector. However, the volume of transactions of the large VASPs operating on the market totally made up 1,070,043,486 Lari in 2023 that is less by 57% compared to 2022. One of the supposed reasons for reduction is restrictions determined on the transactions related to virtual assets by the commercial banks in 2023 conditioned by their reduced risk-appetite. Also, as of 2023, large VASPs operating on the market totally had about 75,000 clients including 95% residents of Georgia. Compared to the data of 2022, this indicator is increased by 13%.



It is noteworthy to mention that in 2023 large VASPs receive/disburse money through the following channels:

- payment cards;
- bank transfers;
- electronic wallets;
- self-service kiosks (cash);
- cash desks (cash).

A significant part of large VASPs provides virtual asset service by cash (for example, self-service kiosks) carrying an increased risk. Though, the share of cash payments in the total turnover is only 12%.

3.3 Inherent Risks

However, VASPs are subject to regulation and supervision of the National Bank of Georgia, the risks in the sector are considered as essential. These risks are mainly conditioned by the nature and characteristics of virtual assets, including international dimension of blockchain technology and pseudo-anonymity, speed of implementation of operations and decentralized character.

Vulnerability of VASPs sector is also conditioned by the lack of uniform standards of regulation at international level, including the absence of technology necessary for the implementation of the so-called *Travel Rule*[9] ensuring availability of information on parties of virtual asset transactions. In addition, it is of noting that there are constant innovations in the field of virtual asset service, including introduction of innovative products and delivery channels, new technologies promoting anonymity and preventing traceability of parties involved in transactions.

In addition, important factor is the so called *Unhosted* addresses that allow storage of virtual asset on the blockchain outside the regulative or/and centralized platform. The aforementioned complicates identifying participator parties and carrying out supervision measures and investigative activities.

In accordance with FATF[10], service of decentralized finances (hereinafter referred as of *DeFi*) is growing and leads to the increased risks. Particularly, DeFi uses the so-called *smart contracts* and unlike to traditional financial service the users may receive services including exchange of virtual asset (*decentralized exchange*) through the so-called *Peer-to-Peer* (P2P) method. Since such operations are conducted not through any regulated intermediary, but with the help of *smart contracts*, traceability of the parties involved in virtual asset operations becomes difficult.

As it was said above, main activity of large VASPs operating in Georgia is related to the exchange of virtual asset in national or foreign currency. However, the share of using cash in the total volume of cash usage is small (12%), the demand on performing operations in cash is increasing. It is proved by the analysis of the data of companies operating on the market, which provide service through self-service kiosks. In particular, in 2023 the volume of transactions performed in cash through self-service kiosks increased by 28% compared to 2022 indicating growing risks.

3.4 Risk Reduction

Privacy Coin - virtual asset, technological design of which prevents identification of information about parties involved in the transaction carried out through the mentioned virtual asset and traceability based on distributed ledger technology (DLT). The risks connected to the mentioned service were considered in relation to the virtual asset

[9]Rules of information exchange accompanying virtual asset transfer or/and receipt by virtual asset service providers.
[10] Targeted Update On Implementation of the FATF Standards On Virtual Assets and Virtual Asset Service Providers, FATF, June 2023

ecosystem of Georgia. Namely, according to the regulation of the National Bank of Georgia the usage of similar virtual assets by VASPs was banned. Despite this restriction, the receipt of virtual asset, origin of which is related to the so-called *Privacy Coins*, remains a challenge for VASPs operating in Georgia.

Virtual asset mixing service (the so-called Mixers/Tumblers) - is a service through which different flows of virtual assets are mixed aimed at covering the trace of virtual asset origin. The risks connected to the noted service were considered in relation to virtual asset ecosystem of Georgia. Namely, according to the regulation of the National Bank of Georgia the usage of similar technologies by VASPs was banned. However, prevention and monitoring of virtual asset receipt/transfer (both direct and indirect - by using several the so-called *hops*) from such services/in such services, remains a challenge for VASPs operating in Georgia.

Cross Chain Bridge - apart from virtual asset mixing service (Mixers/Tumblers), recently a new typology of coverage the source of illegal virtual asset was detected - the so-called *Chain Hopping*. This typology uses the so-called *Cross Chain Bridge* through which the value is quickly and smoothly moved from one blockchain to another[11]. According to the survey[12] conducted by the supplier of blockchain analysis software operating on the international market, one of the most extended methods of money laundering until the August, 2022 was the usage of virtual asset mixing service (Mixers/Tumblers). Although, later applying *Cross Chain Bridge* became the alternative method of money laundering. This trend was conditioned by various circumstances including restrictions determined by the international sanctions and the lack of technical solution in regard with traceability of transactions conducted through the mentioned method.

International collaboration and coordination - the National Bank of Georgia collaborates with the Organization for Security and Co-operation in Europe (OSCE) since 2022. Cooperation aims to support the National Bank of Georgia in the process of refining virtual asset supervisory framework. Support received from OSCE covers consultations of international experts, working meetings, trainings and other activities aimed at strengthening capabilities of the employees. Moreover, the National Bank of Georgia joined a number of virtual asset international regulators unions including within the format of working groups.

[11] Typologies in Focus: the threat of cross-chain crime, Elliptic (23 October 2023). Accessible at: https://www.elliptic.co/blog/typologies-in-focus-the-threat-of-cross-chain-crime#:~:text=A%20criminal%20uses%20a%20cross,known%20as%20%E2%80%9Cchain%20hopping%E2%80%9D.
[12] The State of Cross-chain Crime, Elliptic Report, 2023

Registration/regulation of VASPs – the National Bank of Georgia made significant steps in prevention, management and reduction of risks in VASP ecosystem. VASP registration process covers verification of VASP policy-procedures and organizational risk assessment. In addition, before starting activities VASP is obliged to introduce program system for operations monitoring and detecting suspicious transactions, performing other requirements including restrictions related to the so-called *Privacy Coins* and Mixers/Tumblers. The aforementioned limits the entry of VASPs on the market, which did not have introduced relevant control mechanisms.

Legal acts and guidelines - aimed at managing the risks related to virtual asset and specifications of virtual asset service, the National Bank of Georgia developed a guideline about significant signs, which will help VASPs in identification of suspicious transactions and consequently, risk management. The National Bank of Georgia with the involvement of the sector additionally continues working on other guidelines.

Distance supervision framework and risk assessment - distance supervision framework enables the National Bank of Georgia to evaluate the risks of both individual VASPs and whole sector and in accordance with the detected risks, carry out supervision measures covering in-situ inspection, determination of additional requirements and restrictions. Namely, distance supervision framework implies submission of special reports to the National Bank of Georgia on a regular basis, which consists of information about VASP products, clients and operations.

Current Situation

In 2023 suspicious reports were not presented by VASPs and in 2024 16 suspicious reports are submitted to the Financial Monitoring Service.

14 out of 16 suspicious reports submitted by virtual asset service providers refer to the supposed purchase of narcotic drugs for personal use or presumably, illicit trade. Actors transfer a small amount of cryptocurrency (mostly *Litecoin*) to different accounts, which are flagged by analytical tools as high risk due to transactions with *Darknet* and other compromised trading platforms. Trade in narcotic drugs is conducted in both *specialized* platforms and Telegram channels. The age of actors varies between 20-28 years. Some of them are convicted for various (non-narcotic) crimes.

As well as the reason for submitting suspicious reports was a connection with the opening of an account by a non-resident person remotely from Central Asian country followed by

an access to the account from IP addresses of 3 different countries. This raised a reasonable suspicion that an account was used by other person or group of persons.

Development of capabilities and resources - trainings and workshops were held both for virtual asset service providers and financial institutions providing VASPs service. The noted trainings and workshops were aimed at raising awareness on virtual assets and their service-related risks and relevant controls.

Virtual asset sector is increasing both globally and in Georgia. Though, compared to other countries, virtual asset ecosystem of Georgia is still small in regard with volume of transactions and users' base.

Moreover, both global and local circumstances remain challenging including virtual asset nature, nonuniform regulation at the international level, the absence of unique solution for introduction of the so-called *Travel Rule*, rapid change of the market, the lack of resources and capabilities. As well as, however, the regulatory/supervisory framework has been established, the registered VASPs have already introduced the AML/CFT control mechanisms, their effectiveness has not been evaluated at this stage.

4. Terrorism Financing

4.1 Cash

One of the most widespread methods for mobilizing necessary financial resources by terrorist groups or individual terrorists is the use of cash. Financing terrorism in this way is an experienced method of terrorist organizations over the years. In this regard, the risks are both in the whole civilized world and in Georgia too.

It is of noting that the use of cash is favorable for terrorists, among other things, for the possibility to preserve anonymity. Regarding the risk of terrorism financing using cash, the challenge is the factor that while money transfer by natural persons, the identity of final money recipient is often unknown and it becomes difficult to detect the possible use of monetary resources for financing terrorist activities.

A significant challenge is a cross-border movement of undeclared funds in regard of terrorism financing using cash. In this context, it is impossible to exclude the danger of possible movement of funds less than a threshold amount subject to declaration across the border for criminal purposes.

4.2 Risk Reduction

In order to reduce the risks in this regard, legislation of Georgia provides a number of preventive and effective control mechanisms properly carried out by relevant financial institutions, monitoring and other bodies.

It is important to conduct the control of cross-border movement of cash. Transfer of cash over 30,000 Lari (or its equivalent in other currency) at the customs border of Georgia is subject to declaration. In addition, declaration rule applies to companies and cash transfers by post. It is worthy to note that the declaration in addition to cash amount, indicates also the origin, purpose, senders/receivers. Declaration shall include the detailed description of the activity of the individual transferring cash across the border, and in case of the citizen of other country - planned duration of presence to Georgia and residential address. Revenue Service bypassing the customs control or covertly conducts detection of cross-border transfer of cash through the risk management automated system. Financial Monitoring Service is informed about such facts, which in turn, in case of possible signs of crime as a result of studying the materials, sends the information to the relevant law enforcement bodies. There were no facts of cash movement with the purpose of terrorism financing at the customs border of Georgia.

Furthermore, adequate control mechanisms have been implemented in the service of fast payment machines (pay boxes) and cash operations are allowed only after the identification of the payer (despite the amount) and other preventive measures needed for one-off operations.

Financial institutions are informed about the indicators of terrorism financing on a regular basis and considering terrorism threats, the focus is made on conflict zone (where terrorist groups act) surrounding areas.

Within the reporting period facts of terrorism financing using cash have not been observed in Georgia.

4.3 Other Threats of Terrorism Financing (drugs trafficking, transportation/smuggling of migrants, arms trafficking)

Terrorist groups apart of terrorism often are involved in different criminal activities. One of the main sources of terrorism financing is an income received from illegal activities including drug and arms trafficking, illegal transportation of migrants. Terrorist groups are themselves involved in the mentioned crime, or they *cooperate* with the organized

criminal groups, whose income received due to criminal activities is the source of financing terrorist activities.

It should be noted that in case of drug and arms trafficking, one of the challenges in regard to detection of crime and identification of individuals, is a trade on the so called online black market and using cashless/digital payment method aimed at maintaining anonymity by criminals.

In order to raise funds for financing terrorist activities, terrorist organizations also carry out migrants' illegal smuggling in exchange for financial benefits. Directly terrorists or related persons may conduct the said activity. The risk for committing the aforementioned crime for the purpose of terrorism financing is particularly high in conflict zones. In addition, control of a certain territory by terrorist organization, where the route of migrants' movement passes, is the facilitating factor of the above mentioned (or when a territory is under the so-called influence of the terrorist group).

4.4 Risk Reduction

In order to prevent terrorism financing using the incomes received due to the above-mentioned illegal activities, relevant state structures of Georgia carry out the measures stipulated by the law covering both fighting directly against the crime and detection and prevention of cases related to terrorism financing using incomes received from similar criminal activities.

In accordance with the legislation of Georgia the crimes related to illegal circulation of drugs are criminalized and severely punished, and in the presence of aggravating circumstances, an individual may be sentenced to life imprisonment. In 2021 the significant changes were made to the Criminal Code of Georgia and punishments for illegal trade of drugs, its analogue, precursor and new psychoactive substances were tightened.

Geographic location of Georgia is a risk factor in regard with drugs international transit. Drug transit prevention group has been operating since 2014, which carries out monitoring of cargos and transport companies entered in the country. All main routes of drug transit passing Georgia is investigated and documented.

Container Control Program has been implementing since 2012. Namely, the United Nations Office on Drugs and Crime and the World Customs Organization (WCO)

established container control three groups aimed at examining high risk contraband cargos transported through air, sea and land.

In February 2023, the Interagency Coordinating Council for Combating Drug Abuse approved the National Strategy for 2023-2030 of Drug Policy along with its Action Plan for 2023-2024.

In recent years as a result of activities carried out by the investigative bodies, crime related to drugs has been decreased. Geographic location of Georgia regarding drug transit is a risk factor. Though, detection of facts related to illicit circulation of drugs and in parallel financial investigation are being conducted effectively that is conditioned by the effective mechanisms of interagency coordination, monitoring of current situation and international cooperation in the field of fighting against drug-related crimes.

Likewise, the state pays specific attention to fighting against the illicit trade of firearms and detection of cases related to illegal transportation of migrants that may also include trafficking facts. It should be noted that in the report of 2022 on human trafficking of the US State Department, Georgia keeps the place in the so called first basket indicating high effectiveness of combating against trafficking. In order to improve fighting against trafficking, an Interagency Coordinating Council is functioning in Georgia implementing measures against human trafficking.

It should be noted that as a result of criminal activities - the facts of terrorism financing through income received due to drug trafficking, migrants' movement or trade of firearms have not been detected in Georgia.

4.5. Trade-based Terrorism Financing (entrepreneurial entities)

Apart from illegal trade, legal trade system is also to some extent vulnerable against the risks of terrorism financing. In this regard, challenge is that, in the frames of trade activities, illegal actions and transactions do not take place, though there is a risk of financing terrorist activities through the income received from the aforementioned.

There is a risk that entrepreneurial entities operating in the trade sector may be used for terrorism financing, though in Georgia the level of the mentioned risk is evaluated as low. It is proved by the fact that in the cases of terrorism financing investigated so far, the method of terrorism financing based on trade has not been detected; also the law

enforcement bodies in other countries did not share information about similar facts to Georgian investigation bodies.

The form of individual entrepreneur may be particularly favorable in regard with terrorism financing, since the mentioned type enterprise has different benefits. However, since the great number of individual entrepreneurs belong to the category of small-scale entrepreneurs, the amount of possible financing of criminal actions by their individual representatives will be limited/small sized as well.

There is a risk that legal entities operating in the wholesale and retail trade sector may also be the source of terrorism financing.

4.6 Risk Reduction

Units responsible for counter-terrorist activities permanently carry out the monitoring of the situation and work to identify private business entities operating in the trade sector that may be involved in terrorism financing in some form, or there is a risk of their involvement in the said crime in the future.

In case of detection the similar facts, the appropriate unit carries out terrorism financing prevention measures stipulated by the law (here we remind you that Georgia is one of the countries with the convictions in this regard).

It should be noted that within the reporting period the cases of terrorism financing by business entities operating in the trade sector have not been detected in Georgia.

4.7 Charity Organizations

The use of a non-entrepreneurial legal entity in the form of charity organization is one of the methods of terrorism financing, though it should be considered that the said practice has not been detected in Georgia.

In this regard the main risk is related to collecting financial resources from citizens by charity organization with the aim of philanthropy and then the use of the said funds in terrorism financing.

In the noted context, transparency of transactions conducted by the charity organization is particularly important. It may be said that one of the main challenges during the transfer/giving money to the final addressee by the charity organization, especially in case

of sending money in another country, is a difficulty related to determining the beneficiary's identification data.

In addition, one of the significant challenges is operating of a charity organization in the terrorist activity/conflict zone or in the geographic proximity of it, since in similar cases the determination of final addressee of charity organization is very complicated. However, the charity organizations registered in Georgia do not operate in the countries, where there are terrorist groups activities or where now is a military conflict.

4.8 Risk Reduction

In regard with non-entrepreneurial organizations (including charity organizations) there are not terrorism financing risk reduction mechanisms in Georgia which on the one hand, exclude the unproportional involvement in the activities of non-entrepreneurial organizations, but on the other hand provides prevention of their criminal use. The said mechanisms include risk-based monitoring, searching relevant information and effective investigation.

During the registration of a legal entity, the Public Registry verifies the presence of its founder (partner), director and representative in the list of people associated with the international terrorism through the appropriate resolution of the United Nations Security Council.

Non-entrepreneurial legal entity with a status of charity organization annually submits program and financial reports to Revenue Service. The purpose of the procedure is to control to what extent does an activity of a legal entity correspond to the charity purposes. Each charity organization also publishes the description of its activities and financial reports.

The current legislation against the money laundering and terrorism financing demands from banks to send notifications in the FMS about the certain transactions consisting of an increased risk. In addition to other transactions, FMS should be reported about the transfers of international transactions conducted on the bank account, the amount of which exceed 50,000 Lari in case of non-entrepreneurial legal entities and 10,000 Lari - in case of organizations with a charity status. Furthermore, according to regulation of the National Bank of Georgia, financial institutions are required to carry out enhanced preventive measures against non-entrepreneurial including charity organizations in the process of both establishing business relations and monitoring transactions.

FMS and investigation bodies have never detected a possible connection of non-entrepreneurial organizations with terrorism financing or other type of terrorism-related crime.

[i] *The illegal import or export across the customs border of Georgia of cash and securities shall be subject to a fine as per the Article 169, the Customs Code of Georgia.*

[ii] *Reducing the amount of import duty by submitting a customs declaration and/or a document accompanying the customs declaration containing incorrect data shall be subject to a fine as per the Article 167, the Customs Code of Georgia.*