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## INVESTMENT ENVIRONMENT: RISKS, CHALLENGES AND DEVELOPMENT OPPORTUNITIES FOR GEORGIA

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### Abstract

Investments are one of the important components of the modern economic system. It determines both the economic and social development of countries. Investment is directly related to capital accumulation, employment growth, and technological progress. The implementation of large-scale projects is a prerequisite for strengthening the economy for a small country. Due to Georgia's geopolitical location, there is a great potential for the development of sectors such as logistics, tourism, and agriculture. The attractiveness of Georgia's investment environment is confirmed by international ratings. They evaluate the flexible tax system in the country, investment promotion programs, and the investment climate in general. Therefore, the priority of the Georgian state is to create a favorable environment for investors. This article offers an analysis of risk factors that hinder investment activity in the country. Such risk factors include global economic and political instability, a need to improve the legislative framework, lack of infrastructure with international standards, bureaucratic procedures, less access to finance, rapidly growing technological progress, etc. The study is based on international ratings and confirms that despite the presence of negative risk factors, Georgia has taken significant steps to improve the business environment, however, the conclusion states that foreign investors in Georgia face systemic and institutional difficulties, which include administrative, structural and political factors. Problems with accessing foreign markets, compliance with international standards, logistical costs, and inefficiency of export promotion instruments are the risk factors analyzed in the study. The process of managing these risks requires the state to refine its policies, ensure regulatory stability, and increase institutional support. All of this will lead to a strengthening of the country's investment attractiveness in the long-term and will contribute to sustainable economic development.

**Key words:** investments, investment environment, investment risks, risk management, international rating, investor, International ranking, economic indicators;

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## INTRODUCTION

Investment environment - a set of political, economic, social and legal conditions that create equal conditions for both local and foreign investors to carry out investment activities. The investment environment is a set of factors that are characteristic of a given country and determine the investment potential of this country. The investment environment is a complex of economic, political and regulatory environments that significantly determine business decisions to invest capital and is influenced by factors such as political stability, the effectiveness of regulations and the protection of property rights.<sup>2</sup>

Georgia is one of the leading countries in the region in terms of ease of doing business, tax legislation, economic freedom index, and fight against corruption. However, there are risk factors in the country that hinder investment activity and, accordingly, the country's economic development. In order to assess the investment environment, it is necessary to determine the risks associated with investing in Georgia. First of all, foreign investors, when investing, pay special attention to political factors. As you know, Georgia does not have a favorable political situation, since 20% of the country is still occupied by Russia and its actions in the future are still unpredictable. The second important factor is economic instability. This includes such economic parameters as inflation, fluctuations in the national currency exchange rate, low income of the population, management of external debt, high trade deficit, and others. The analysis of each economic parameter better shows the state of Georgia's investment environment in relation to risks. Inflation is a general increase in the price level. It is characterized by an increase in costs, which deals a strong blow to society, especially low-income families. Also worth noting are such components as a decrease in the purchasing power of the national currency, a decrease in returns on investments, and an increase in interest rates. Inflationary processes pose a threat to any business. It is precisely because of price instability that investors avoid investing in Georgia. According to Geostat, prices in Georgia have been unstable in recent years, the reason for this is the internal economic situation and external shocks.

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<sup>2</sup>Investment climate. *Financial Dictionary*. Farlex, Inc.

The following economic parameters are important for assessing the investment environment: fluctuations in the national currency exchange rate, the level of income of the population, excessive debt, foreign trade deficit, etc. In recent years, the exchange rate of the GEL, both against the US dollar and the euro, has been characterized by frequent fluctuations,<sup>3</sup> which indicates the influence of the international currency environment and the increased sensitivity of the GEL to external economic factors. The instability of the GEL exchange rate increases currency risks and emphasizes the importance of effective monetary policy and macroeconomic stability. The next economic indicator is the relatively low level of income of the population compared to international standards, which is due to the structural features of the labor market, regional economic inequality, and limited rates of economic development. Over-indebtedness is a significant socio-economic problem in Georgia, which is associated with the relatively low level of incomes of the population, the growth of consumer lending and the insufficient level of financial education. The debt service burden of low- and middle-income households often exceeds their solvency capabilities. Over-indebtedness has a negative impact on the financial stability of households and the economic environment as a whole, as it increases solvency risks, reduces consumption and hampers economic activity. This problem emphasizes the importance of responsible lending policies, effective regulations and raising the financial awareness of the population. The export and import indicators in Georgia are increasing every year, although according to the National Statistics Service, the growth rate of imports is higher, which leads to a foreign trade deficit in the country. From this we can conclude that Georgia is dependent on foreign consumer goods and is sensitive to changes in global demand. Based on this data, significant problems are identified that cannot be addressed by investors alone. This requires government involvement to enable local and foreign investors to export as many products as possible to international markets, which will provide an incentive for investors to launch new, substantially important projects in Georgia or develop existing ones.

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<sup>3</sup> National Statistical Service of Georgia, Monetary Statistics 2025.

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## MAIN PART

Investors in Georgia face bureaucratic procedures such as: **Business registration.** Investors must register their business entity with the National Agency for Public Registry (NAPR). This involves submitting the necessary documentation, such as the company's charter, identification documents of the founders, and proof of legal address. **Tax Registration:** After registering a business, investors must obtain a Tax Identification Number (TIN) from the Georgian Revenue Service. This is necessary to fulfill tax obligations. **Permits and Licenses:** Depending on the nature of the business, investors may need specific permits or licenses to operate legally. This may vary depending on the company's industry and activities. **Land and Property Registration:** If the business involves owning or leasing property, investors may need to register the property rights with NAPR or the relevant local authority. **Employment Regulations:** Hiring employees requires compliance with labor laws and regulations. This includes registering employees with the Social Service Agency and complying with the requirements of the employment contract. **Environmental Permits:** Some industries may require an environmental permit from the Ministry of Environment and Agriculture to ensure compliance with environmental standards. **Import/Export Regulations:** It is crucial for businesses involved in international trade to understand and comply with import/export regulations administered by the Internal Revenue Service and other relevant agencies. **Intellectual Property Protection:** Registering trademarks, patents, and copyrights with the National Intellectual Property Center (Sakpatenti) can protect intellectual property rights. **Financial Reporting and Auditing:** Companies may be required to file financial statements and undergo an audit annually, depending on their size and type of business entity. **Compliance and Monitoring:** Ongoing compliance with various regulatory authorities and monitoring changes in legislation that may impact business operations.

Investments will be made in the country where there are better conditions for receiving benefits. Accordingly, countries compete with each other to see who will offer more favorable conditions to potential investors. International ratings serve to compare countries

with each other according to favorable conditions, which, at the same time, are a good way to assess the effectiveness of government work.

We will begin the analysis of the international rankings for 2025 with per capita income. In addition to the fact that the size of the population's income shows the level of economic development of the country, it is also an indicator of the solvency and economic sustainability of the population, which is an interesting circumstance for potential investors. The average per capita income of a country is determined by the ratio of the size of the economy (gross domestic product - GDP) to the number of population. In order to compare data from different countries, income is calculated in so-called PPP dollars, which takes into account differences in the purchasing power of money between countries. In one Per capita Medium Annual Income In the ranking Georgia 70th in the world Ranked 188th among countries Between . The average income per capita in a country is calculated using different methodologies, and each has its own purpose. When the goal is to compare the income per capita of different countries, the most appropriate is to use GDP calculated according to purchasing power parity (PPP). The PPP methodology considers a country's income in terms of its purchasing power. Since, in general, prices are lower in low-income countries than in high-income countries, the purchasing power of income in poor countries is always higher. PPP in dollars Depicted One Per capita Income Growth No is Dependent Only Country Economic on growth, as well Depends Country Population Number On change, inflation In Georgia , in the USA And Lari Dollar Towards Exchange On the course. The level of economic freedom is determined by observing 12 criteria divided into 4 groups, these are: 1. Rule of law (property rights, court efficiency, level of corruption), 2. Size of government (tax burden, government spending, fiscal stability), 3. Effectiveness of regulations (business freedom, labor freedom, monetary freedom), 4. Open markets (freedom of foreign trade, freedom of investment, financial freedom). **If we consider the Heritage** Index of Economic Freedom,<sup>4</sup> according to it, Georgia is ranked 35th in the world ranking (out of 176

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<sup>4</sup> The Heritage Foundation. <https://www.heritage.org/>, (Accessed 08.12.25)

countries) with 69 points. In the European region, Georgia is among the top 20 countries, which increases its competitiveness in the regional market in terms of investment attractiveness. Georgia is in the group of "moderately free" countries. This is a higher score than the average in the world and the European region. Factors such as a relatively low tax burden, open market policies, and reforms to improve regulatory efficiency play an important role in this assessment, although increasing public spending remains a challenge.

**The Fraser Economic Freedom** Index assesses a country's economic freedom based on the size of government and budget expenditures, the legal system and protection of property rights, the quality of money, freedom of international trade, and various regulatory burdens. Georgia's position in the index has improved recently. Georgia has a strong position in terms of monetary stability. It receives high marks in terms of tax policy, freedom of banking transactions in foreign currency, and financial openness. All of this is a positive factor for foreign investment.<sup>5</sup>

**Georgia According to** the international property protection rating,<sup>6</sup> it is in 49th place out of 126 countries. The level of property protection is assessed by indicators of the rule of law, physical and intellectual property protection. Georgia is in a relatively stable position in this regard. This refers to the quality of physical and intellectual property protection, legal and political environment. In the economic globalization rating, Georgia is represented in a fairly high position worldwide and is in 22nd place in the world. The assessment is based on various international globalization indices that assess international trade, financial integration and other economic indicators. The level of economic globalization is determined by international trade, foreign capital movement and migration. More globalization means more development potential. Georgia has relatively low scores in financial globalization. This position indicates that Georgia has high international economic integration and the country creates significant structural

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<sup>5</sup> Cato Institute and Fraser Institute. *Economic Freedom of the World: 2025 Annual Report*. Washington, DC: Cato Institute, September 25, 2025.

<sup>6</sup> Gygli, Savina, Florian Haelg, Niklas Potrafke, and Jan-Egbert Sturm. 2019. *The KOF Globalization Index – Revisited*. Review of International Organizations 14 (3): 543–574.

connections. **Corruption Perceptions Index**<sup>7</sup> The German-based organization Transparency International publishes the ranking. The results are based on more than a dozen different studies. Georgia has the lowest scores in issues related to high-level corruption and concentration of power.

**Global Freedom Rankings.** <sup>8</sup> Georgia has strengthened its position and moved up three places. The global freedom rating is published by the American organization Freedom House. The rating includes 195 countries. In this rating, Georgia is rated with 55 points, with the status of "partly free" and ranks 110th. The assessment is based on political rights, civil liberties, fair elections and media independence.

**Human Development Index.**<sup>9</sup> The Human Development Index is published annually by the United Nations Development Program (UNDP). The latest report of the index covers 190 countries and ranks 57th worldwide. The reports use data on various components of human development - life expectancy, education and income. Georgia's status reflects the country's progress in the areas of quality of life, education and economic opportunities.

These ratings represent a map for any investor, guiding them when implementing investment projects.

A country's investment risk is measured by several variables and takes into account issues such as:

- ✓ Political risk: form of government/state structure, corruption, level of conflicts.
- ✓ Legal risk: degree of property rights protection, contractual rights.
- ✓ Economic risk: Diversification of the economy.
- ✓ Default risk

were identified by Aswath Damodaran, <sup>10</sup> a professor at New York University's Stern School of Business and one of the leading experts on investment management. The

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<sup>7</sup> Transparency International Georgia. *Corruption Perceptions Index 2024: Georgia's Score Remains Unchanged*.

<sup>8</sup>Freedom House. *Freedom in the World 2025: Georgia Profile*. Freedom House, 2025.

<sup>9</sup>United Nations Development Programme. *Georgia's Very High Human Development Challenged by Inequality*. Press release, May 6, 2025. United Nations Development Programme.

<sup>10</sup>Damodaran, Aswath. *Investment Risk and Valuation*. New York: NYU Stern School of Business, 2025.

investment risk rating is based on research published by. Damodaran's methods use tools such as CAPM (Capital Asset Pricing Model), Beta and Discounted Cash Flow Models (DCF), which allow for the assessment of key investment risks and expected returns. The Beta number, which he has studied, determines the market risk of an asset, while (DCF) analysis is used to assess the value of a company, which includes immediate risks under different conditions. The investment risk rating is the main tool for assessing the capabilities of financial assets, companies and countries, which reflects the stability, security and expected risks of investment. This rating is based on components such as sensitivity to market changes, financial transparency and political and economic stability. The 2025 Global Investment Risk and Resilience Index - a rating of <sup>11</sup> investment risk and resilience developed by Henley & Partners and AlfaGeo - determines the position of countries according to investment risk factors. Switzerland takes first place, followed by Denmark, Norway and Sweden - countries with very low risk and high economic resilience. Georgia's situation has not yet been assessed in this rating. This rating combines the risks of inflation, political instability, exchange rate changes, climate change, social progress, and state governance.

UNCTAD 's World Investment Report - 2025, <sup>12</sup> we can highlight several key findings. The dynamics of foreign direct investment in the world have sharply decreased, both in developed and developing countries. Investment circulation is slowing down, especially in developed countries, which indicates that political and economic risks and inequality have increased. Investment capital is not flowing to those sectors and regions where it is needed most. Investments are concentrated in market segments that are already developed. The report highlights the process of digitalization of the economy, where the volume of investments varies but still occupies a large place. Managing artificial intelligence, strengthening the environment for the development of innovations, strategic partnerships,

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<sup>11</sup> Henley & Partners and AlphaGeo. *Global Investment Risk and Resilience Index 2025*. Henley & Partners press release, October 21, 2025.

<sup>12</sup> United Nations Conference on Trade and Development. *World Investment Report 2025: International Investment in the Digital Economy*. Geneva: United Nations, June 19, 2025.

a high level of data management - are necessary for countries to be able to better absorb investments in the field of digitalization and achieve sustainable economic development. The report warns that political and global instability risks, trade tensions, and changes in financial flows are significantly reducing investment prospects in the future, as a result of which investors are preferring a more cautious approach. Finally, the research report confirms that global foreign direct investment is not at the level needed to implement the Sustainable Development Goals (SDGs) and support economic growth. This is especially felt in developing countries such as Georgia. The report recommends reorienting investments towards more effective, inclusive, and sustainable development.

## CONCLUSION

### **Investment risks and opportunities in Georgia**

When making any investment decisions, an investor faces certain types of risks. That is why it is necessary to assess and define these risks in advance. Although it is impossible to fully manage risks, it is more or less possible to manage predetermined risks through proper risk management. Knowledge of predetermined risks makes it easier for an investor to take steps to implement investment activities. Based on the research and study-analysis of investment risk management and related issues, the following conclusions can be drawn: In order to reduce investment risks, it is first necessary to eliminate problems at the institutional level, which can be achieved by developing financial and capital markets, developing effective management mechanisms for external shocks, and ensuring the stability of the national currency. At the institutional level, the lever for solving the problem is, of course, in the hands of the government, which can work together to reduce risk factors, especially in such issues as currency and price stability, overindebtedness, inflation, trade deficit, and per capita income. However, Georgia still has a relatively attractive investment environment for both local and foreign investors, as confirmed by international ratings. A flexible tax system, investment promotion programs, a general

investment climate, and geopolitical location are precisely these conditions that encourage investors to implement investment projects in the country.

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