FISCAL POLICY OF GEORGIA'S MINERAL RESOURCES

WEALTH OR LOST OPPORTUNITIES?

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Fiscal Policy of Georgia’s Mineral Resources: Wealth or Lost Opportunities?

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Objective and Scope of the Research

The objective of this research is to evaluate Georgia's fiscal policy regarding mineral resources, assess its impact on local municipalities, and determine whether the existing policy is consistent with the public interest and international standards.

In general, mineral resource policy integrates several directions across political, social, and economic segments, while fiscal policy represents one specific direction within the broader resource policy framework.

The policy related to mineral extraction can be divided into several components, namely:

- Development of strategies and institutions related to mineral resources.
- Implementation of accountability and transparency standards.
- Establishment of a licensing system.
- **Development of taxation and royalty/fee policies.**
- Management of local negative effects caused by mineral resource extraction.
- The role and involvement of state-owned companies in the use of mineral resources.
- Policy for the distribution of generated revenues.
- Management of revenue volatility (actual and expected).
- Policy for the expenditure of revenues derived from mineral resources.
- Development of the private sector.
- Involvement of international companies in mineral extraction.
- Policy on the engagement of international organizations.[1]

For the development of a sound and well-functioning mineral resources policy, it is important to address all of the above-mentioned areas in an integrated manner. However, within the scope of this study, only the analysis of taxation and fee policy (fiscal policy) will be undertaken. Fiscal policy represents a central element, as without ensuring that the country receives an adequate and fair share of revenues derived from mineral resources, the effectiveness of other areas cannot guarantee sustainable economic development.

Introduction

Mineral resources can play an exceptionally positive role in a country's economy, yet they can also become the cause of its economic decline. Paradoxical as it may sound, if a country rich in mineral resources does not have a properly regulated policy related to its subsoil resources, that very mineral wealth may lead to economic or political decline.

There is a phenomenon that scholars refer to as the "Resource Curse". Its essence lies in the fact that a number of countries rich in valuable mineral resources are characterized by unstable economic and political conditions, while their populations are significantly poorer than expected. In such countries, mineral wealth does not translate into public prosperity; instead, it often becomes a source of corruption and other political and economic problems. Naturally, there are

[1] Natural Resource Charter, 2nd Edition, Natural Resource Governance Institute, link.

also countries that, through the development and effective implementation of appropriate policies regarding mineral resources, have managed to promote economic growth and improve the well-being of their populations.

For example, according to the United Nations Human Development Index,[2] Norway - one of the world's leading oil-producing countries, ranks second globally. In contrast, Venezuela, which possesses the largest oil reserves in the world, ranks 119th[3], with approximately 87% of its population living in poverty.[4] Similarly, Nigeria, the largest oil producer in Africa (ranking 10th in the world in terms of oil reserves), holds the 161st position in the same ranking, while about 31% of its population lives below the extreme poverty line.[5] Additionally, the Democratic Republic of the Congo, considered one of the richest countries in terms of mineral resources, ranks 180th out of 193 countries in terms of income, healthcare, and education levels.[6]

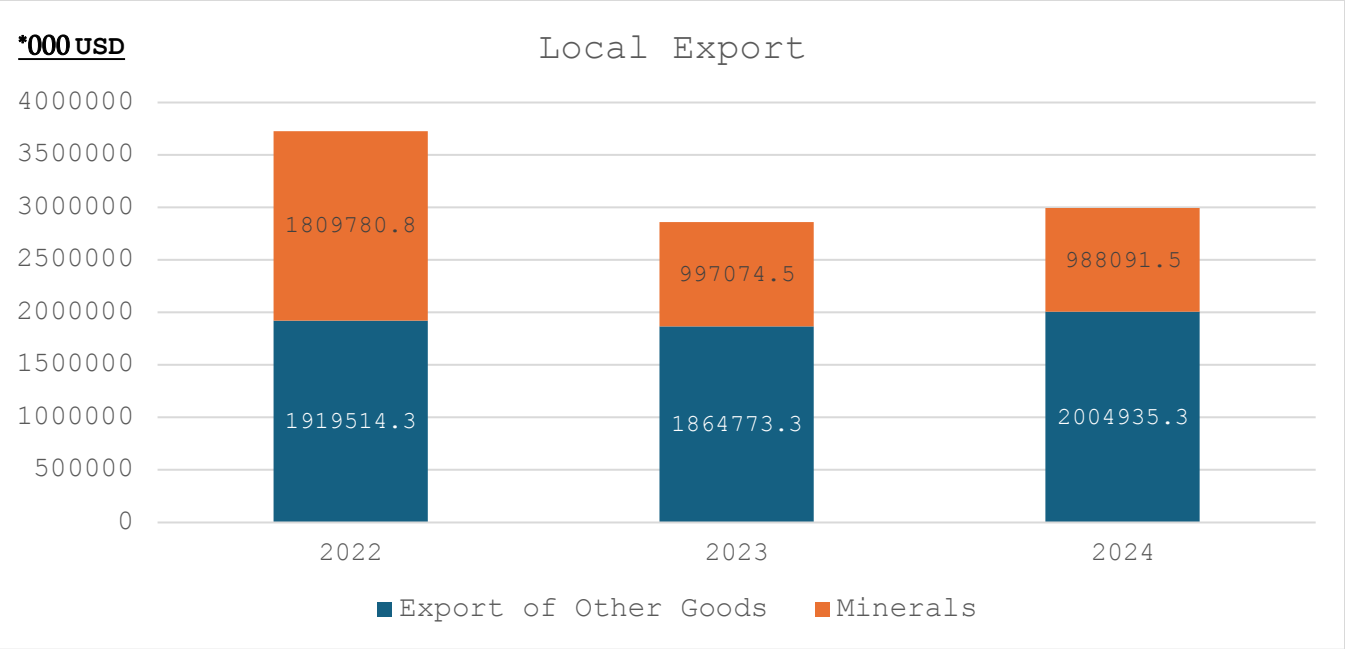
Thus, although in theory mineral wealth can be a crucial factor in a country's development, there are numerous examples worldwide where natural resources have brought not prosperity, but political and economic instability. This is often the result of external interference, as well as corruption, inadequate resource governance policies, and similar factors.

Georgia itself is characterized by a certain paradox. The country is rich in various types of mineral resources, including significant deposits of manganese, gold, and copper. Mineral resources occupy an important place in the development of the national economy.

According to data from the National Statistics Office of Georgia (hereinafter - "Geostat"), a significant share of Georgia's domestic exports (excluding re-exports) consists of mineral resources. More specifically:

- In 2022, 49% of domestic exports were mineral resources ($1.8 billion for minerals, compared to $1.9 billion for other goods).
- In 2023, 35% of domestic exports were mineral resources ($1 billion for minerals, compared to $1.8 billion for other goods).
- In 2024, 33% of domestic exports were mineral resources ($1 billion for minerals, compared to $2 billion for other goods).[7]

[2] UN's Human Development Index - the index reflects countries' rankings based on income, health, and education levels, link.
[3] For comparison, in this ranking, Georgia occupies 60th place.
[4] PROVEA, Human Rights Situation in Venezuela, 2024 Annual Report, link.
[5] The World Bank, Poverty & Equity Brief: Nigeria, 2024, link.
[6] UN's Human Development Index, link.
[7] National Statistics Office of Georgia, Domestic Exports, link.



Therefore, it is clear that mineral resources play an immense role in the Georgian economy. However, whether the subsoil creates sufficient wealth for the population of local municipalities is the subject of our research. To understand its impact on the welfare of the local population, a more detailed analysis of statistical data is required.

1. Economic Significance of Mineral Resources in Georgia

As noted above, mineral resources constitute a significant share of Georgia's domestic exports. According to 2024 data, one-third of exports (excluding re-exports) consisted of minerals or goods derived from minerals.

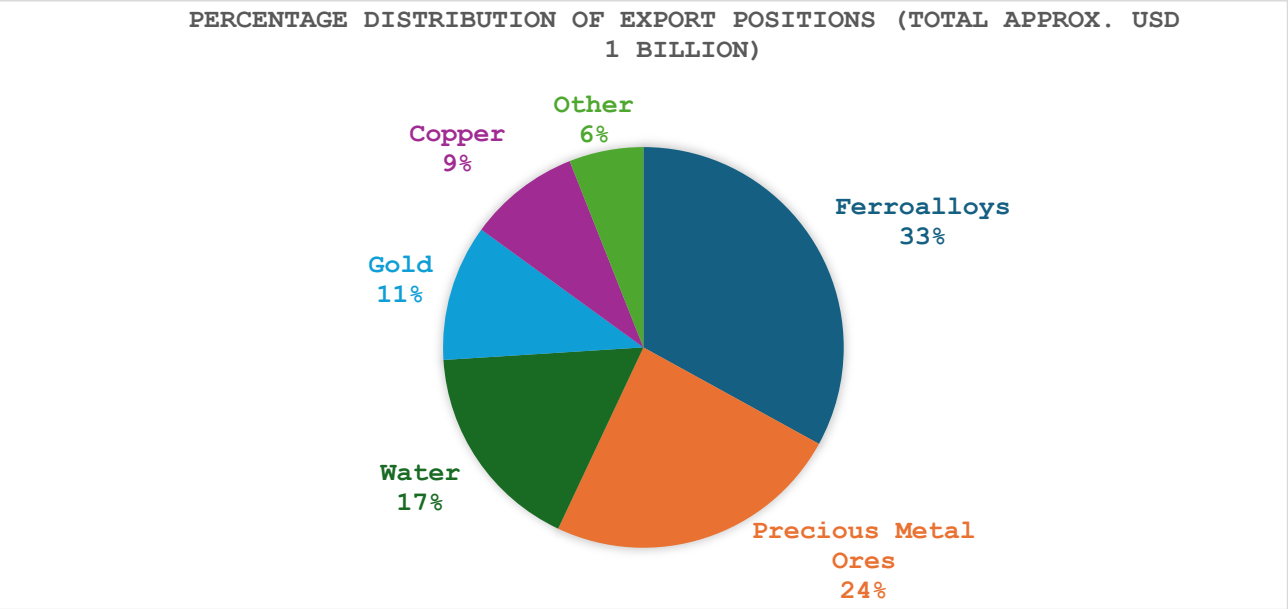
Among the mined and exported mineral resources in Georgia, the five most important categories are:

- Ferroalloys, produced from manganese (Commodity Code: 7202);[8]
- Precious metals, including gold ores and concentrates (2616);
- Mineral and drinking waters (2201);
- Gold, unprocessed, semi-processed, or in powder form (7108);
- Copper ores and concentrates (2603).

[8] Naturally, ferroalloys are not minerals themselves, but industrial products. At the same time, ferroalloy production heavily depends on manganese. It is through manganese that ferroalloys are produced. The majority of manganese mined from the mine is not exported in primary form but is used in ferroalloy production, while the final product is exported. Therefore, ferroalloy exports are an important statistical indicator in the mining sector. For example, see the statistics published by the National Agency of Mineral Resources, Georgia's Local Exports by Mining Commodity Positions, which also emphasizes ferroalloy exports, link.

More specifically, according to 2024 data, the total volume of local exports amounted to $2,993,026,800.[9] Of this, 33% was attributed to exported minerals. Within that category, 93% of the exported minerals and mineral-derived goods[10] were comprised of:

1. Ferroalloys (containing manganese) - $321,960,000 (33%).
2. Precious metals, including gold ores and concentrates - $237,506,400 (24%).
3. Mineral and drinking waters - $163,741,800 (17%).
4. Gold (unprocessed, semi-processed, or powder form) - $104,699,400 (11%).
5. Copper ores and concentrates - $93,860,700 (9%).[11]



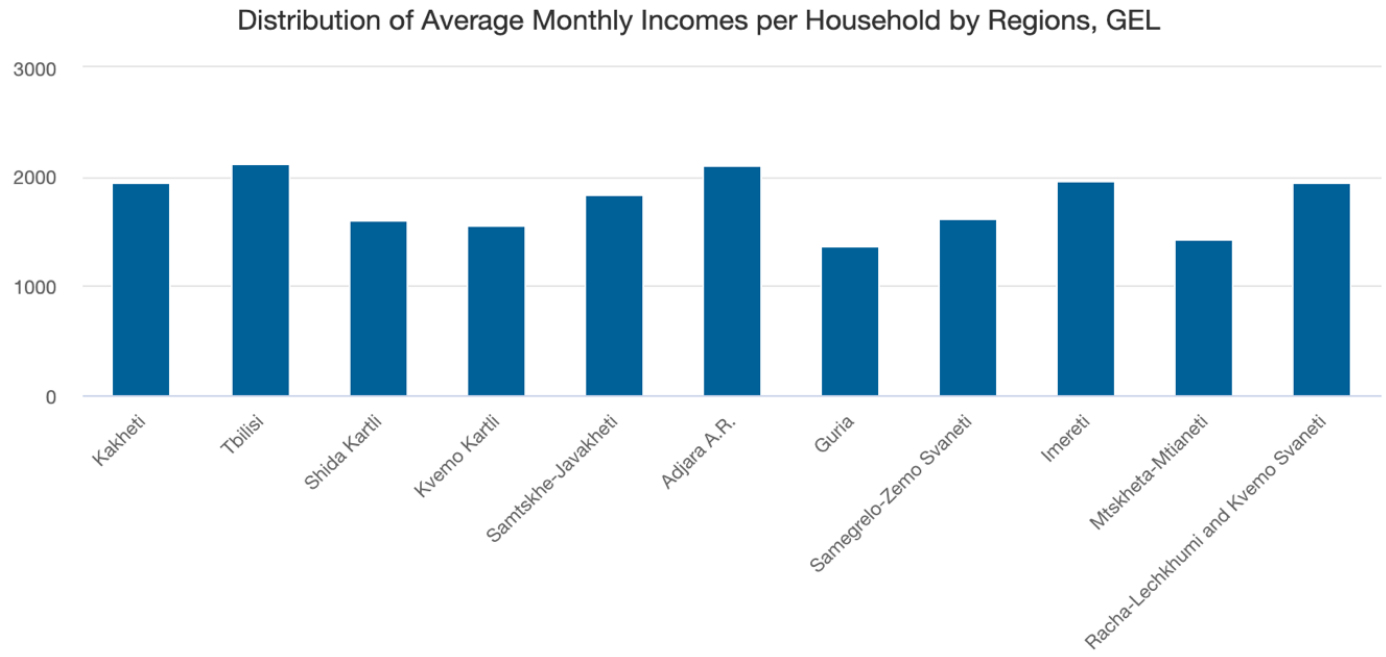
Manganese, which is used in ferroalloys, is mostly mined in the Imereti region, specifically in the Chiatura municipality. Manganese extracted from the mines is mainly delivered to the Zestafoni Ferroalloy Plant, which uses the mineral in the production of ferroalloys, while the final product is exported. The manganese miner in Chiatura is the company „Georgian Manganese“ LLC, which also owns the Zestafoni Ferroalloy Plant.[12]

Precious metals (in ore, concentrate, and unprocessed forms), including gold and copper, are primarily extracted in the Kvemo Kartli region, specifically in the Bolnisi municipality. In Georgia, the largest operator involved in the exploration and extraction of precious metals, including gold and copper, is the RMG Group (RMG Gold, RMG Copper), which actively conducts prospecting and mining operations.

[9] The data includes the following positions: 2201 - Mineral and drinking waters; 2508 - Other clays; 2522 - Unfired bricks; 2602 - Manganese ores and concentrates; 2603 - Copper ores and concentrates; 2616 - Precious metal ores and concentrates; 2710 - Oil and petroleum products; 2820 - Manganese oxides; 2837 - Cyanides, oxi-cyanides, complex cyanides; 7108 - Gold unprocessed or semi-processed, or in powder form; 7202 – Ferroalloys.
[10] It refers to ferroalloy.
[11] National Statistics Office of Georgia, Domestic Exports, link.
[12] BPN, Who owns the company “Georgian Manganese”, 2023, link.

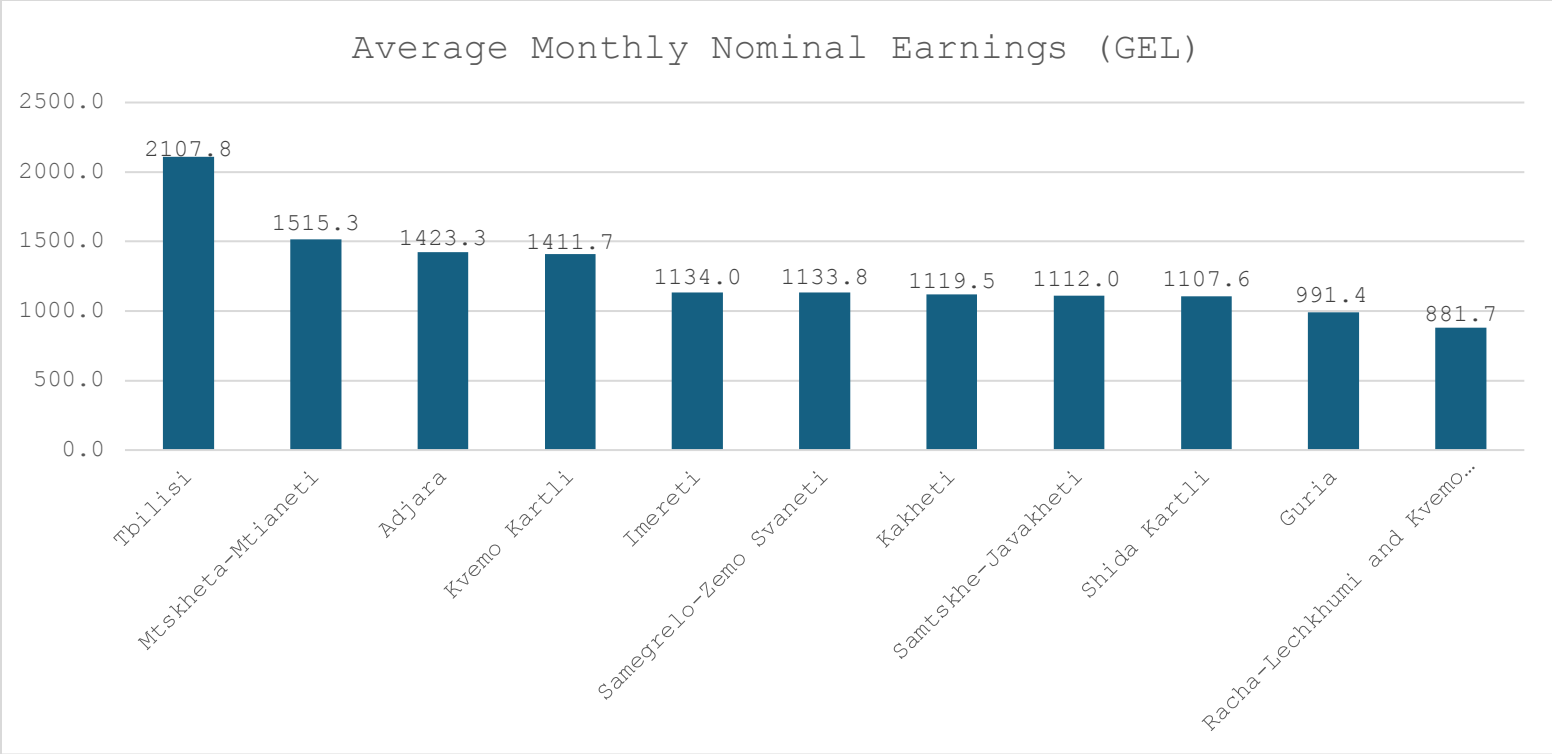
As for mineral and drinking waters, this segment is primarily dominated by the Borjomi municipality (IDS Borjomi Georgia) and the Chokhatauri municipality (Nabeghlavi - JSC “Water Margebeli”).

However, despite the fact that some municipalities in Georgia, such as Chiatura, Bolnisi, Borjomi, and Chokhatauri, are rich in mineral resources, this wealth often does not translate into improved economic conditions for the local population. For comparison, according to Geostat data, in 2024 the average monthly income per household in the Kvemo Kartli region (where the Bolnisi municipality is located, a major source of precious metals) was 1,487.6 GEL. In contrast, in the Shida Kartli region (which is not rich in valuable mineral resources), the same figure was 1,525.8 GEL. In the Imereti region (home to Chiatura and Zestafoni municipalities), it was 1,834.4 GEL, while in the Racha-Lechkhumi and Kvemo Svaneti region (which lacks significant mineral resources), the figure was almost identical at 1,814.2 GEL.[13]



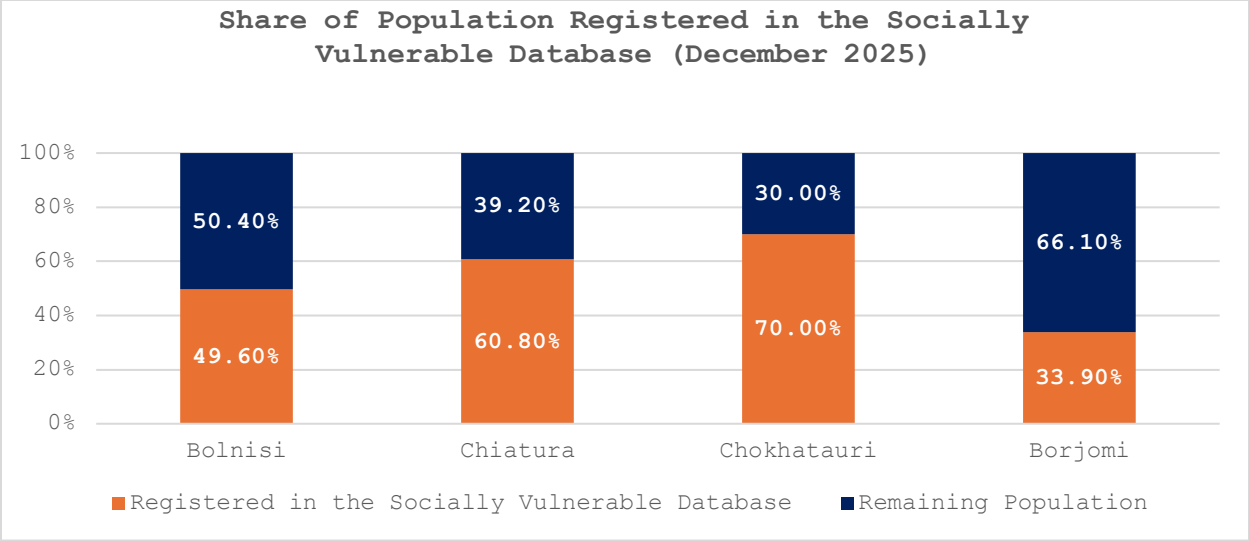
Wealth from mineral resources has relatively little impact on the average wages of employees in municipalities. While international companies invest heavily to extract exhaustible resources from Georgia’s subsoil and generate substantial revenue, one would theoretically expect higher average salaries in resource-rich regions compared to regions lacking such resources. Paradoxically, in Georgia, average wages in mineral-rich regions are almost identical to those in other regions.[14] For example, in Imereti (manganese) and Kvemo Kartli (copper and gold), average salaries are practically no higher than in regions such as Shida Kartli or Mtskheta-Mtianeti, where there are no significant mineral resources. This indicates that the high revenues generated from the export of mineral resources do not directly translate into higher wages for the local population.

[13] National Statistics Office of Georgia, Households Incomes, link.
[14] National Statistics Office of Georgia, Wages, link.



The population of regions rich in natural resources also does not stand out in other economic indicators. The diagram below illustrates the number and share of residents registered in the socially vulnerable database in resource-rich municipalities (Bolnisi, Chiatura, Borjomi, and Chokhatauri) relative to their total populations. The figures point to alarming outcomes: in two out of the four municipalities (Chiatura and Chokhatauri), more than half of the total population is registered in the socially vulnerable database. In Bolnisi, nearly half of the population is part of this database. The case of Borjomi is also concerning, with more than one-third of its population included in the database.[15]

[15] LEPL Social Service, Statistics: Targeted Social Assistance Program Database, link.



Moreover, according to December 2025 data, the number of people receiving targeted social assistance in these municipalities is as follows:

- Bolnisi - 19,111 people (33.3% of the total population).
- Chiatura - 12,400 people (34.1% of the total population).
- Chokhatauri - 5,193 people (31% of the total population).
- Borjomi - 3,259 people (13% of the total population).[16]

For the sake of fairness, it should be noted that the presence of mineral resources does have a positive impact on municipal budgets. Companies engaged in mineral extraction pay fees for the use of natural resources to the municipalities, which naturally increases the budgets of those municipalities that possess such resources. The table below presents the fees collected from the use of natural resources by the four resource-rich municipalities mentioned above over the years:

	Collected Fees for the Use of Natural Resources (GEL)[17]			
	2022	**2023**	**2024**	**2025**
Bolnisi	17,382,000	9,615,700	15,794,600	10,239,900
Chiatura	3,823,605	1,747,656	4,300,743	4,520,000
Chokhatauri	1,527,700	1,583,200	1,502,800	1,400,000
Borjomi	8,365,700	11,130,600	11,262,700	11,335,600

However, it should also be noted that all of these municipalities still face the additional need to supplement a significant portion of their budgets through transfers from the central government.

[16] LEPL Social Service, Statistics: Social Allowance, link.

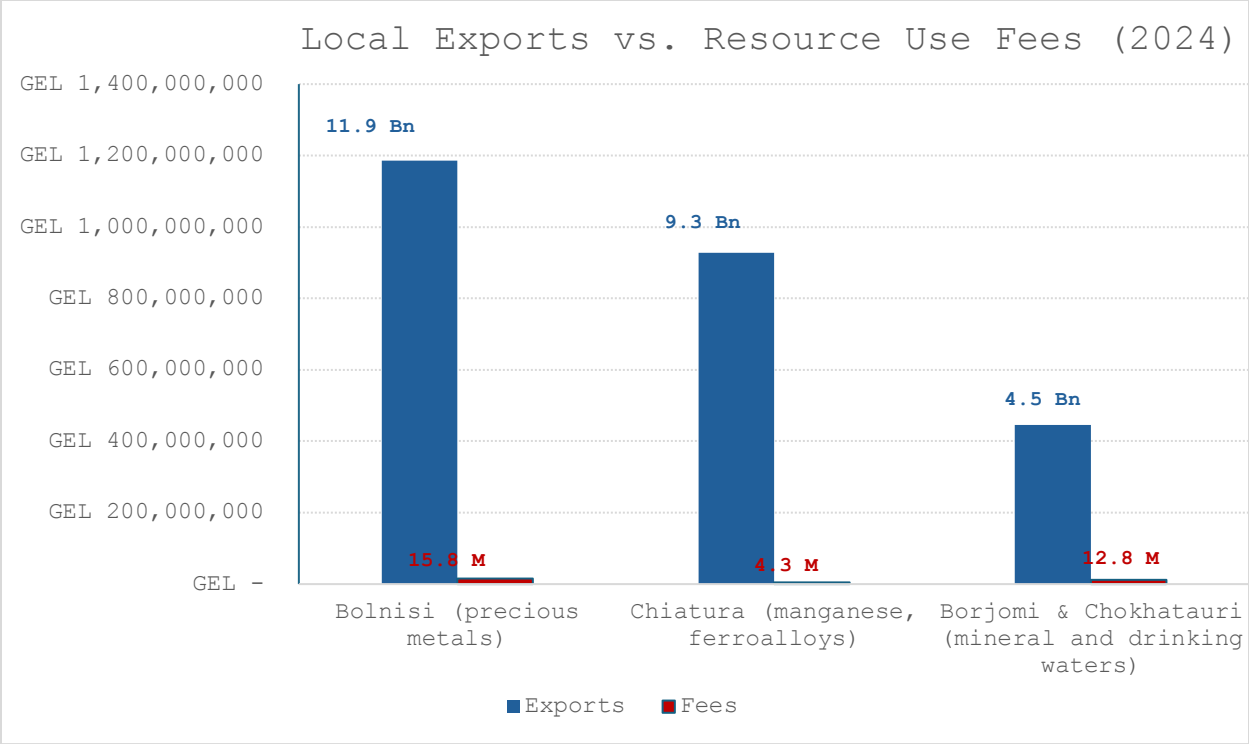
[17] Information on the annual budget revenues of each municipality is available on the Legislative Herald website and in municipal council resolutions approving each municipality's annual budget. At the same time, Chiatura and Borjomi municipalities reflect natural resource fees under "rent".

For example, during 2024, Bolnisi Municipality received an additional 15,794,600 GEL in the form of natural resource use fees. However, despite this, the same municipality received an additional transfer of 23,312,400 GEL as a grant from the central budget during 2024, which accounted for 42.4% of the annual income of Bolnisi.[18] For contrast, as already mentioned, during 2024, Bolnisi Municipality received 15,794,600 GEL in revenue from natural resource use fees, while the total value of exported precious metals, copper, as well as their ores and concentrates, amounted to $ 436,066,500 during 2024. It is noteworthy that the deposits located in Bolnisi Municipality have a significant share in the country's copper and gold exports, but despite this, the municipality's budget revenues are still dependent on transfers from the central budget.

Dependence on the central budget also manifests in other municipalities rich in mineral resources. For example, the total income of Chiatura Municipality's 2024 budget amounted to 54,338,933 GEL, of which 19,863,048 GEL (36.6%) was a transfer from the central budget in the form of a grant.[19] Also, the total income of Borjomi Municipality's 2024 budget amounted to 47,848,800 GEL, of which 11,431,200 GEL (23.9%) was a transfer from the central budget in the form of a grant.[20]

Additionally, it is interesting to compare the fees collected from the use of natural resources by municipalities with the volumes of local exports of these resources or products derived from them. For example, the diagram below compares exported goods (domestic exports) with the fees collected by resource-rich municipalities.[21]

[18] Bolnisi Municipal Council Resolution N 20, "Approval of Bolnisi Municipality 2025 Local Budget", 16.12.2024, link.
[19] Chiatura Municipal Council Resolution N18, "Approval of Chiatura Municipality 2025 Budget", 25.12.2024, link.
[20] Borjomi Municipal Council Resolution N21, "Approval of Borjomi Municipality 2025 Budget", 24.12.2024, link.
[21] For data comparison, the following local export positions were grouped: Group N1: Copper ores and concentrates (2603), precious metal ores and concentrates (2616), gold unprocessed or semi-processed, or in powder form (7108); Group N2: Ferroalloys (7202), manganese oxides (2820), manganese ores and concentrates (2602); Group N3: Mineral and drinking waters (2201). Subsequently, Group N1 was compared with the royalties collected by Bolnisi (mainly because precious metals are mined in Bolnisi), Group N2 with the royalties collected by Chiatura (mainly because manganese is mined in Chiatura), and Group N3 with the royalties collected in total by Borjomi and Chokhatauri (mainly because the main mineral and drinking water exported is produced there). These data were compiled solely based on publicly available sources published by Geostat. We acknowledge that this may not provide a complete and fully precise picture, but we still consider it important to publish these data because even after significant corrections, the difference between the compared data will still be radically large.



To sum up, the problem is clear: regions rich in mineral resources are not economically distinguished compared to other regions, and, more importantly, they are not financially self-sufficient. Municipalities rich in minerals remain heavily dependent on central government funding, even though the volume of minerals extracted from their territories and exported, for instance, during 2022-2024, amounted to several billion USD. This paradox demonstrates that Georgia's fiscal policy related to mineral resources is not functioning effectively. The following chapters will provide a detailed review of this policy.

2. Fiscal Policy of Georgia's Mineral Resources

As previously noted, the subject of the research focuses on underground mineral resources (manganese, copper, gold, etc.), which constitute a significant portion of the country's economy and local exports. The oil and gas sector is not given special attention in this study, as Georgia does not possess significant reserves of these resources. Consequently, the main emphasis is placed on the mineral resources that are actually utilized in Georgia and occupy a substantial share of the national economy.

Georgia's fiscal policy on mineral resources consists of several key components: the license fee, fixed fees per unit of extracted resources, corporate profit/personal income tax, regulatory fees, and revenue administration mechanisms. Furthermore, the issue of revenue distribution between the central and local budgets is of critical importance. Each of these elements will be discussed in more detail below.

Licensing and License Fees

The issuance of licenses related to mineral extraction is carried out on the basis of the Law of Georgia "on Licenses and Permits", which grants the licenses for the use of natural resources for extraction purposes. The licensing authority is the LEPL National Agency of Mineral Resources, which organizes a public auction for issuing licenses, and the license is awarded to the auction winner.

The initial (starting) license fee is determined by a specific formula set out in the applicable legislation.[22] This formula takes into account factors such as the expected volume of extraction, the statutory fee per unit for the given mineral, the duration of the license, and a discount coefficient that adjusts revenues over time. As a result, the starting price reflects in advance both the quantity and type of the resource, as well as the duration and economic value of its use.

The license fee is fully allocated to the central budget.[23]

Fee for the Use of Natural Resources

The extraction of mineral resources is associated with the payment of a fee for the use of natural resources, the rates and administration of which are defined by the Law of Georgia „on Fees for the Use of Natural Resources".

According to the law, the fee is calculated based on the volume (quantity) of resources extracted from the subsoil, in line with the rates established in the legislation. For example:

- 1 ton of Manganese (with 1% content): The fee is 0.18 GEL.
- 1 ton of copper: 255.31 GEL.
- 1 gram of Gold: 3 GEL.
- 1 gram of Silver: 0.03 GEL.
- 1 m^3 (1000 liters) of "Borjomi" mineral water: 30 GEL.
- 1 m^3 (1000 liters) of "Nabeghlavi" mineral water: 18 GEL.
- 1 m^3 (1000 liters) of underground fresh water used for bottling: 4 GEL.

Thus, the amount of the fee is fully linked to the volume of extracted resources.

Importantly, the fee for the use of natural resources is the component that is entirely allocated to the budget of the local municipality where the extraction takes place.

The administration of this fee is carried out by the LEPL Revenue Service. Businesses report the volume of extracted resources every six months (quarterly in the case of mineral and fresh water) and pay the fee in accordance with the licensed volume or the actual extracted amount, if it exceeds the licensed limit.

Profit/Income Tax

[22] See National Agency of Mineral Resources, Director's Order N12, 7 July 2025, Article 6.
[23] For the purpose of this research, the central budget also includes the budgets of regulatory authorities.

There is no special tax regime for companies extracting mineral resources (except for oil and gas). Companies engaged in mineral extraction pay corporate profit tax under the standard regime (upon profit distribution), while individual entrepreneurs pay personal income tax annually on the difference between total income and deductible expenses. Revenues collected from these taxes are directed to the central budget.

Regulatory Fee

The extraction of mineral resources is also associated with the payment of a regulatory fee, governed by the Law of Georgia on "Regulatory Fees".

The purpose of the regulatory fee is to ensure that businesses operating in regulated sectors, specifically those utilizing natural resources, finance the activities (i.e., budgets) of state regulatory authorities. The fee is determined based on the volume of extracted mineral resources. For example:

- 1 ton of Manganese: 0.10 GEL.
- 1 ton of copper: 127.5 GEL.
- 1 gram of Gold: 1.5 GEL.
- 1 gram of Silver: 0.02 GEL.
- 1 m^3 (1000 liters) of "Borjomi" mineral water: 3 GEL.
- 1 m^3 (1000 liters) of "Nabeghlavi" mineral water: 3 GEL.
- 1 m^3 (1000 liters) of fresh water for bottling: 2 GEL.

The law establishes a cap on the regulatory fee: it must not exceed 0.75% of the value (excluding VAT) of the supplied regulated goods.

As noted, the regulatory fee is used to finance the budgets of central regulatory authorities, including the National Environmental Agency, the National Agency of Mineral Resources, and the State Oil and Gas Agency.

Distribution of Revenue Between Central and Local Budgets

License fees, regulatory fees, and profit tax revenues are directed to the central budget (including the budgets of agencies considered part of the central government). In contrast, only the fee for the use of natural resources is retained in the budget of the local municipality where extraction takes place.

3. International Best Practices in Mineral Resource Fiscal Policy

Although fiscal policies related to mineral resources vary across countries, in most cases, they are based on similar underlying principles.

In particular, in most countries, the process begins with licensing and the payment of a license fee. This is typically followed by a tax-and-royalty system, which combines royalties with profit taxation and represents the most widely used model. In addition, some countries (for example, Indonesia and Kazakhstan) apply a Production Sharing Contract (PSC) system, which involves sharing a portion of the extracted resources. This model is more commonly used in the oil and gas sector, although in certain cases it is also applied to other mineral resources.

In recent years, international discussions have also focused on newer approaches, such as variable royalties and PSC-like instruments in the mining sector, which are seen as mechanisms for ensuring a more equitable distribution of benefits derived from natural resources.[24]

A more detailed overview of each component of fiscal policy is provided below.

Licensing

The first stage of mineral resource extraction in almost all countries is linked to the issuance of a license. Licensing serves two main functions: on the one hand, it establishes preliminary requirements for business entities (such as experience, technical capacity, and compliance with environmental obligations), and on the other hand, it provides a source of revenue for the state through the license fee.

International best practice involves issuing licenses through competitive tenders or auctions, which ensures transparency and fair competition. A competitive environment guarantees that state-owned resources are not transferred at symbolic prices and that the state maximizes its revenues.

Licensing through open auctions is particularly important in countries with higher risks of corruption and lower levels of trust in resource governance. For example, after Egypt introduced auction-based licensing, the very first auction round in the gold sector increased the number of investors from one to eleven.[25]

However, it is important to emphasize that license fees are typically a one-time revenue source, while the state's primary fiscal benefits are generated later through royalties and taxation.

The Royalty (Fee) System

Royalties are one of the main instruments of mineral resource fiscal policy and are widely used in most countries. Their core principle is that the investor is obliged to pay the state or municipality a certain share based on the volume or value of the extracted resources. In practice, there are three main types of royalties:

- **Flat Rate** - a fixed amount based on the volume of the mineral resource extracted from the subsoil (e.g., $2 per ton of ore).[26]

[24] The Future of Resource Taxation: 10 policy ideas to mobilize mining revenues, International Institute for Sustainable Development in cooperation with the African Tax Administration Forum, 2023, Chapter 9.
[25] Ibid., Chapter 13.
[26] This same method is used in Georgia.

- **Ad Valorem Royalty** - a percentage applied to the sale or market value of the mineral (e.g., 5% of sales revenue).[27]
- **Profit-Based Royalty** - based on the net profit received from the sale of the resource (e.g., 10% of net profit).

The flat rate, apart from Georgia, is almost no longer used in practice because this model is not adjusted to the increase in the price of the mineral resource. Also, profit-based royalty is rarely used because its nature is more similar to a profit tax than a traditional royalty.[28] As of today, ad valorem royalty has been established as the international standard, which is tied to the realization (or market) price of the resource extracted from the subsoil and which automatically adapts during changes in the price of the mineral resource (unlike, for example, a fixed fee).

In addition, in recent years, a modified model of royalty - variable royalty, has been increasingly discussed, which allows the state to receive a larger share of the profit during periods of rising mineral prices (and increasing company profits). For example, if the price of the mineral is less than $100, the royalty rate is determined at 3%; in the interval of $100 - $200 - at 5%; and in the case of a price higher than $200, at 8%. In this way, the state's share increases when the market prices of the mineral (and company profits) are high. Conversely, when the market price of the mineral is low and, therefore, companies also see relatively small profits, the volume of the royalty to be paid is also relatively small.[29]

Taxation System

In parallel with royalties, almost all countries operate a general taxation system, which includes the taxation of companies' profits and the income tax of individual entrepreneurs. In this regard, businesses extracting mineral resources are generally subject to the same rules as other companies.

Thus, in international practice, mining companies are usually taxed under the same regimes as other businesses, except in the oil and gas sector, where, due to its specific nature, special rules often apply (as is the case in Georgia).

Production Sharing Contract (PSC)

Another widely used model for transferring the state's share of mineral resources is the Production Sharing Contract (PSC). Under this model, the state and the investor agree in advance that the investor, at its own risk and expense, will carry out all exploration and extraction activities specified in the contract, with the state providing necessary support. In the case of oil and gas discoveries,

[27] Escaping The Resource Curse, Columbia University Press, edited by Macartan Humphreys, Jeffrey D. Sachs, Joseph E. Stiglitz, 2007, Chapter 3.
[28] Natural Resource Charter, Second Edition, Natural Resource Governance Institute, Precept 4.
[29] The Future of Resource Taxation: 10 policy ideas to mobilize mining revenues, International Institute for Sustainable Development in cooperation with the African Tax Administration Forum, 2023, Chapter 9.

the state and the investor agree on how the extracted resources will be shared, with the state receiving a share of the production either in kind or in cash equivalent.[30]

A related approach is the service contract, under which the investor carries out exploration and extraction on behalf of the state or a state company and receives remuneration in the form of a share of the production (in kind) or the monetary value of that share.[31]

This model is not unfamiliar to Georgia - the Law „on Oil and Gas" provides for similar types of contracts in the country's oil and gas sector.[32]

Traditionally, PSCs and service contracts are most common in oil and gas, including in Georgia. However, in recent years, they have increasingly been considered for other minerals.

For example, countries like Tanzania, the Philippines, and Ecuador successfully apply PSC-like models in the gold sector. In such cases, the contract sets a minimum share of profit for the state, e.g., 50% of profits. The state deducts license fees, royalties, taxes, and other contributions from this share. If the actual share received is below the agreed minimum, the company pays the state the difference.[33]

The main advantage of PSCs and similar instruments is twofold: on one hand, they directly link state revenue to the actual performance of the business, increasing investor confidence; on the other hand, they guarantee the state a certain minimum share of profits, which translates into greater public trust in the project. However, it should be noted that such instruments require strong administrative capacity and strict oversight to function effectively.

4. Analysis of Georgia's Fiscal Policy: Challenges and Problems

This section reviews Georgia's current fiscal policy regarding licenses, taxes, and fees, evaluating how effectively the system operates, particularly in comparison with international best practices.

Licenses

As noted above, to obtain the right to use mineral resources in Georgia, businesses must first acquire the appropriate license. Licensing is carried out through a public auction, where the license is sold to the highest bidder. The starting price for the auction is determined using a specific formula, which, under the current fee model, ensures a reasonably fair initial price for the license.

Thus, in the area of licensing for mineral resource extraction, Georgia's regulatory framework aligns well with international best practices.

Taxes

[30] Escaping The Resource Curse, Columbia University Press, edited by Macartan Humphreys, Jeffrey D. Sachs, Joseph E. Stiglitz, 2007, Chapter 3.
[31] Natural Resource Charter, Second Edition, Natural Resource Governance Institute, Precept 4.
[32] Law of Georgia "on Oil and Gas", Article 11.
[33] The Future of Resource Taxation: 10 policy ideas to mobilize mining revenues, International Institute for Sustainable Development in cooperation with the African Tax Administration Forum, 2023, Chapter 5.

As noted earlier, international practice generally does not establish a special tax regime for the mining sector (except for oil and gas, which also has a special system in Georgia).

Unlike most countries, which collect corporate income tax annually, Georgia uses the Estonian model for profit taxation. Under this system, corporate income tax is only collected when accumulated profits are distributed. Thus, unlike in other jurisdictions, in Georgia, profit tax is deferred until profits are distributed. However, it simplifies tax administration, provides a favorable regime for businesses, encourages reinvestment, and can make the country more attractive to investors, positively influencing the broader economic environment.

Regarding taxation in the mining sector, Georgia's fiscal policy differs from most countries that collect profit tax annually. However, since Georgia generally applies the so-called Estonian model for almost all business entities (with some exceptions), which encourages reinvestment, deferring profit tax until profit distribution is not inconsistent with international best practice. That said, deferring profit tax does not pose a problem for the country only if an adequate royalty (resource fee) policy is in place. Given that Georgia's current resource fee system is widely criticized for being insufficient, additional deferral of profit tax under these conditions could be problematic. Conversely, if the resource fee policy is improved, deferring profit tax until distribution would not create significant issues for the country.

Natural Resource Usage Fee

As noted earlier, Georgia's law sets a fixed fee for the use of natural resources, including minerals, calculated based on the volume of resources extracted.

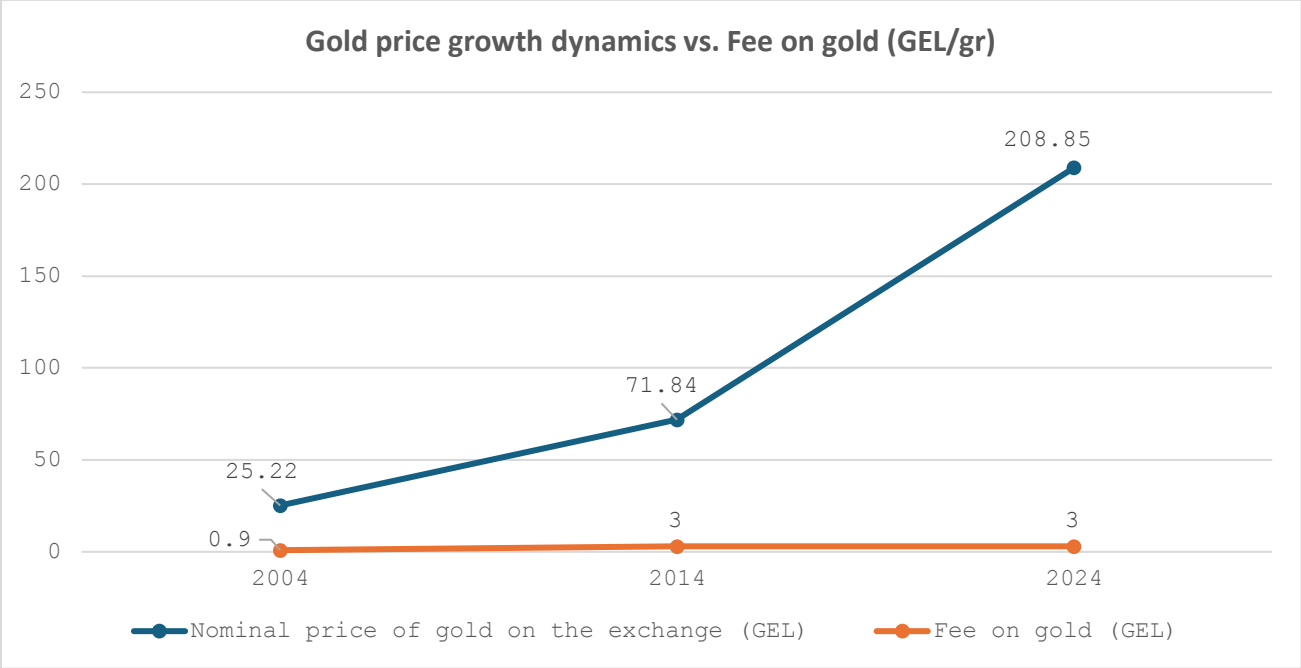
However, as discussed in the previous section, this type of system is outdated and rarely used in international practice. Its main drawback is that it does not respond to inflation or increases in mineral prices. Consequently, under this model, the state or municipalities typically receive a much smaller share of the extracted resources than would be considered fair under modern fiscal regimes. Another key issue is the adequacy of the fee rates, for example, whether a fee of 3 GEL per gram of gold is reasonable or justifiable.

Currently, Georgia's "Law on Fees for the Use of Natural Resources" was first adopted in 2004. The fee rates set in 2004 have essentially remained unchanged for almost 20 years, and for major export minerals, **the rates have not been adjusted at all since 2012-2014.** The table below illustrates the fee trends for gold, silver, copper, manganese, and mineral water (Borjomi, Nabeghlavi, and fresh water) for the years 2004, 2014, and 2025.

	Gold (GEL/gr)	Silver (GEL/gr)	Copper (GEL/t)	Manganese (GEL/t)	Borjomi (GEL/m^3)	Nabeghlavi (GEL/m^3)	Fresh Water (GEL/m^3)
2004	0.9	0.015	90	0.12	10	6	4
2014	3	0.03	255.31	0.12	30	18	4
2025	3	0.03	255.31	0.18[34]	30	18	4

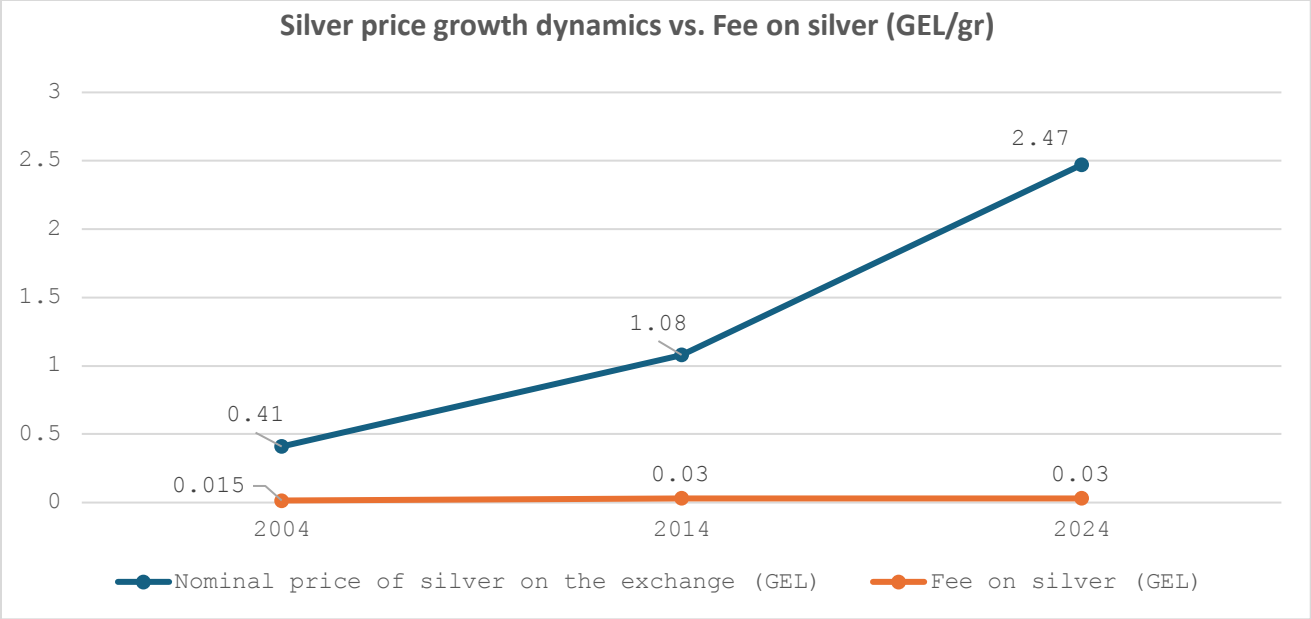
[34] Law of Georgia „on Fees for the Use of Natural Resources", Article 10^1 (transitional provision) established in 2014 that until 2016 the manganese fee would be 0.12 GEL, and from 2016 the fee would increase to 0.18 GEL.

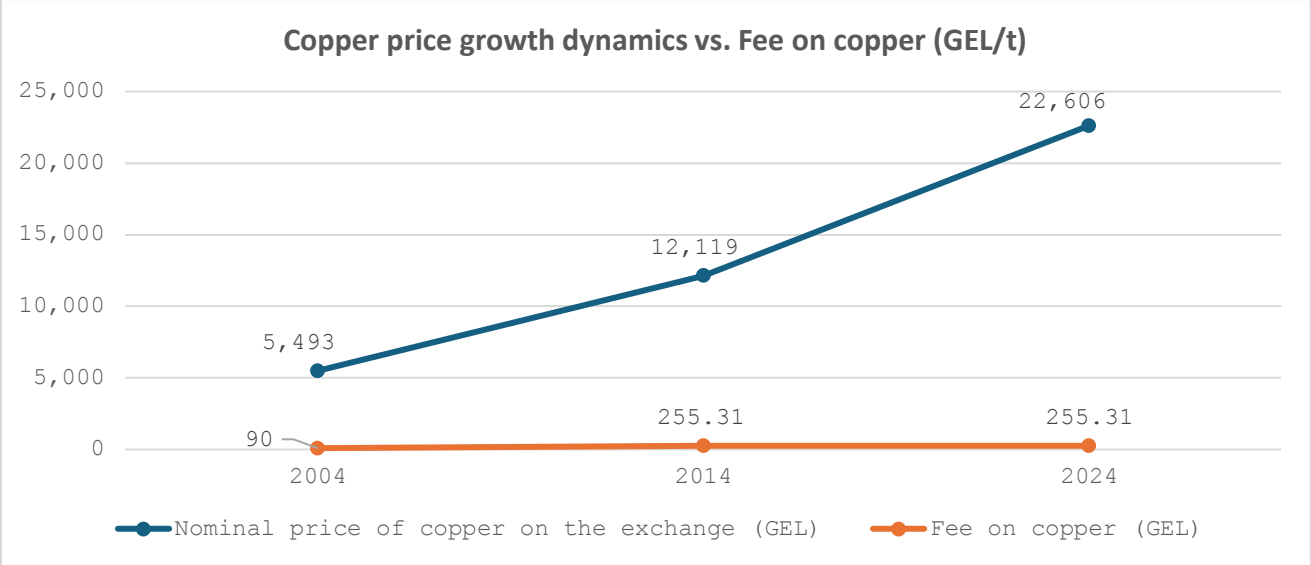
The following data shows the price growth dynamics of gold, silver, and copper on the international market,[35] which allows for a comparison with the dynamics of fee growth (without accounting for inflation).[36]



[35] World Bank, Commodity Markets, link.

[36] Because prices on international markets are set in USD, and the fee is established in GEL, market prices were converted to GEL according to the average exchange rate of the respective year.





In addition to the fact that fixed fees tied to volume cannot keep pace with price increases on the international market, they are also affected by inflation. According to Geostat data,[37] from 2013 to 2024, the price level in Georgia increased by a total of approximately 67%. This means that the 3 GEL fee on gold set in 2012, if it had maintained its real value, should have been approximately 5.01 GEL per gram in 2024. However, due to the rate remaining unchanged and the impact of inflation, its real value has effectively decreased by about 40%. A similar pattern can be observed for copper. The fee of 255.31 GEL per ton set in 2013, when adjusted for inflation, should have reached approximately 426.33 GEL per ton by 2024. Yet, because the rate remained unchanged

[37] National Statistics Office of Georgia, Consumer Price Index (Inflation), link.

and inflation took effect, its real value has also declined by around 40%. Thus, keeping fee rates unchanged for key mineral resources, combined with inflation, has significantly reduced the real value of resource-use fees.

Thus, it is clear that, on the one hand, fee rates have remained unchanged for more than a decade, which in itself indicates that they no longer reflect a fair, market-based value. On the other hand, the rising prices of mineral resources further highlight the growing disparity between market prices and the established fee levels. As a result, resource-rich regions do not receive a fair share (compensation) from the extraction of minerals on their territory.

It is therefore unsurprising that municipalities rich in natural resources, such as Bolnisi, are not financially self-sufficient and remain dependent on transfers from the central budget. These municipalities do not receive a fair share of revenues from resources extracted within their territories, such as gold, silver, and copper. The current fee-based fiscal policy fails to respond to modern challenges. Such a policy, combined with a passive approach by the state, is unjustified, it primarily benefits extraction companies while negatively affecting both municipal budgets and local populations.

The shortcomings of the existing model are also acknowledged by the Government of Georgia. In particular, Government Resolution N 2575 of December 9, 2019, approving the Mineral Sector Strategy of Georgia, explicitly identifies fiscal policy as a problematic area. As stated under Objective 2.1:

> *„Objective 2.1. Improvement of the fiscal regime and revenue management.*
>
> *The fiscal regime represents one of the problematic issues, as it is inconsistent with best international practice and limits the country's ability to receive maximum financial benefit; accordingly, the following is planned in this direction:*
>
> - *Updating the existing fiscal regime in the mining sector and introducing a royalty system based on market prices for specific minerals.*
> - *Revisiting the rates of existing fees in the mining sector..."*[38]

As can be seen from the resolution, the Government of Georgia has been aware of the problems related to the fee-based fiscal regime since at least 2019. Despite this, as of 2025, no legislative changes have been implemented in this area. In particular, since 2012-2013, fee rates for key mineral resources have not been revised.

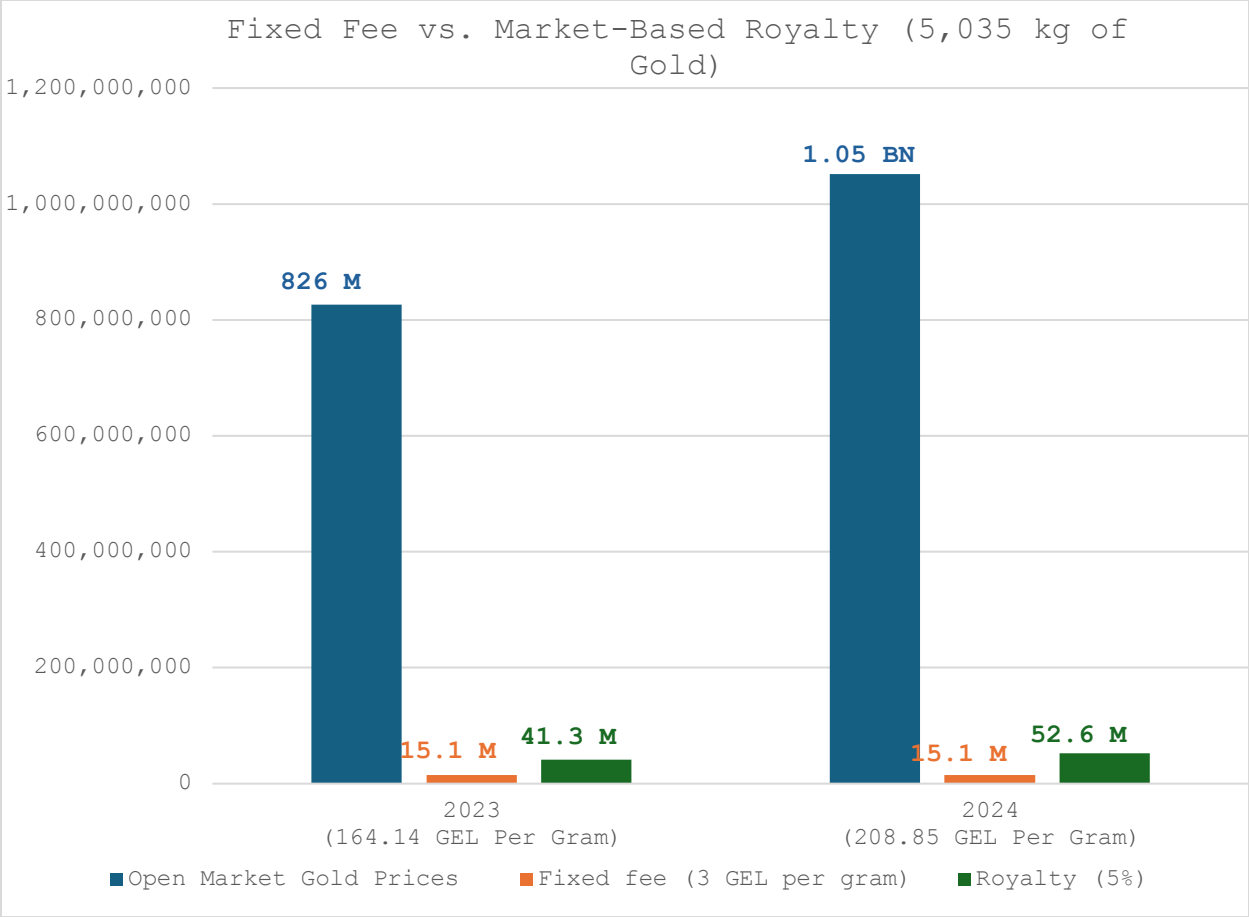
The shortcomings of the current fiscal policy, specifically, the fixed fee model based on the volume of extracted resources, have also been highlighted in reports by international organizations. These documents explicitly note that Georgia does not have a proper royalty regime, that the existing policy does not align with modern practices, and that it fails to optimize revenue generation.[39]

[38] Government of Georgia, 9 December 2019, Decree N 2575 "Approval of the Strategy of Georgia's Mining Sector", link.
[39] EBRD & Adam Smith International, Georgia Mining Sector Policy, 2019, link.

A possible solution to this issue is the introduction of a modern royalty-based fiscal system, which is the international standard used in most resource-rich countries. A royalty system involves applying a fixed[40] or variable[41] percentage to the sale or market value of extracted resources, with revenues allocated to municipal budgets. Such a system would ensure a fairer distribution of benefits between the state, municipalities, and investors. Accordingly, it is essential for state institutions to implement timely reforms of the fiscal policy related to resource-use fees. Under the current flawed system, municipal budgets are losing significant potential revenues each year.

The advantages of a market price-based (ad valorem) royalty system become particularly clear when compared to a fixed fee model. For example, consider the fee/royalty paid on gold extracted in Georgia, which clearly demonstrates that the fixed fee system leaves the state with an unfairly small share of the extracted resources. In 2023, the total declared volume of gold extracted amounted to 5,035 kilograms.[42] Under the current system, with a fixed fee of 3 GEL per gram, the total fee payable on this volume would be 15,105,000 GEL. In the same year, the average annual nominal price of gold on international markets was $ 62.46 per gram,[43] which, based on the average exchange rate, equals approximately 164.14 GEL per gram.[44] If Georgia had applied a royalty system linked to the market value of gold, for example, a 5% royalty rate, the total royalty payable in 2023 would have been 41,322,245 GEL,[45] instead of 15,105,000 GEL. In 2024, the price of gold increased further to 208.85 GEL per gram ($ 76.77).[46] Assuming the same volume of extraction (5,035 kg) and, consequently, the same amount paid under the fixed fee system (15,105,000 GEL), a market-based royalty would have increased proportionally with the price. As a result, instead of 41,322,245 GEL in 2023, the royalty in 2024 would have reached 52,577,988 GEL - an increase of 11,255,743 GEL. Thus, in the case of rising gold prices, a market-based royalty system would produce a significantly more beneficial and fair outcome for the state. Under the existing fixed fee model, however, the state does not meaningfully participate in the additional profits generated by higher prices, as these gains are almost entirely retained by extraction companies. The diagram below illustrates the example discussed above.

[40] Ad valorem royalty.
[41] Variable royalty.
[42] CEIC Data, Georgia Gold Production, link.
[43] World Bank, Commodity Markets, link.
[44] The 2023 average exchange rate was 2.6280 GEL/USD, link.
[45] ((5,035*1000)*164.14))*5% = 41,322,245
[46] World Bank, Commodity Markets, link; average exchange rate for 2024 was 2.7206 GEL/USD, link.



As a result, for example, Bolnisi Municipality, where most of the country's gold is extracted, could have mobilized an additional 11.2 million GEL into its municipal budget with the increase in gold prices, something that was obviously not possible under the current fixed royalty system. Considering that gold prices generally rise each year, and assuming for illustration purposes that approximately 5,000 kg of gold is extracted annually in Georgia, the municipal budget losses over a 10-year period would be significant.

	Fixed Royalty vs Market-Linked Royalty (5,000 kg Gold)					
	Gold Price per Gram (GEL)	**Value of 5,000 kg Gold (GEL)**	**Fixed Royalty (3 GEL/gram)**	**Fixed Royalty %**	**Royalty (5%)**	**Difference (Lost Opportunity)**
2015	84.68	423,407,864	15,000,000	3.54%	21,170,393	6,170,393
2016	95.04	475,184,575	15,000,000	3.16%	23,759,229	8,759,229
2017	101.46	507,313,442	15,000,000	2.96%	25,365,672	10,365,672
2018	103.41	517,039,448	15,000,000	2.90%	25,851,972	10,851,972

2019	126.17	630,851,641	15,000,000	2.38%	31,542,582	16,542,582
2020	176.95	884,742,907	15,000,000	1.70%	44,237,145	29,237,145
2021	186.40	931,998,862	15,000,000	1.61%	46,599,943	31,599,943
2022	168.82	844,103,881	15,000,000	1.78%	42,205,194	27,205,194
2023	164.14	820,699,569	15,000,000	1.83%	41,034,978	26,034,978
2024	208.85	1,044,252,805	15,000,000	1.44%	52,212,640	37,212,640
					Total 2015-2024 = 203,979,750	

It follows that if, from 2015 to 2024, 5,000 kg of gold were extracted annually in Georgia, due to the outdated fixed royalty system (3 GEL per gram), instead of a market-linked royalty, e.g., 5%, the municipalities lost the opportunity to collect an additional 203,979,750 GEL in revenue, solely from gold extraction. As a result, in the long term, the problem created by the fixed royalty system becomes clear, and as noted above, the rates have not been revised since 2012-2014.

Alongside a royalty system, Georgia could consider introducing a PSC-like model, similar to practices in the Philippines, Tanzania, or Ecuador, which would guarantee the state a fair share of profits (for example, ensuring the state receives at least 50% of project profits).

It is also important to note that mineral extraction involves large-scale investments, usually carried out by multinational companies. In practice, there are frequent cases where a local mining company sells extracted resources to a related foreign entity (another company within the same corporate group). In such cases, the asset may be sold at a price significantly lower than market value. If the royalty is tied to the sale price of the asset (rather than its market price), the reduced transaction price can create issues in determining a fair royalty. Therefore, in transactions between related parties, the reduced price is relevant not only from a tax perspective but also for the fiscal policy of royalties. As a result, the tax authority responsible for administering royalties must strictly monitor the market value of transactions between related parties to prevent artificial reductions in the amount of royalty payable.

Conclusions and Recommendations

Georgia's mineral-rich municipalities possess significant economic potential, yet the current fiscal policy fails to fully realize this potential. Fixed, volume-based royalties are outdated, do not respond to increases in resource prices, and do not ensure a fair share for local governments.

International experience shows that ad valorem and variable royalty models, as well as PSC-like systems, more effectively balance the interests of both the state and investors.

Therefore, for Georgia, the priority should be fiscal policy reform, which includes:

- Replacing volume-based fixed royalties with royalties tied to market (or sale) prices.
- Considering a variable royalty system for strategic minerals.
- Implementing robust administrative mechanisms to prevent artificial reductions in market value in transactions between related companies.

Such changes would not only increase revenues for the state and municipalities but also create a fairer and more sustainable economic model, where benefits from natural resources are reflected in the well-being of the population.