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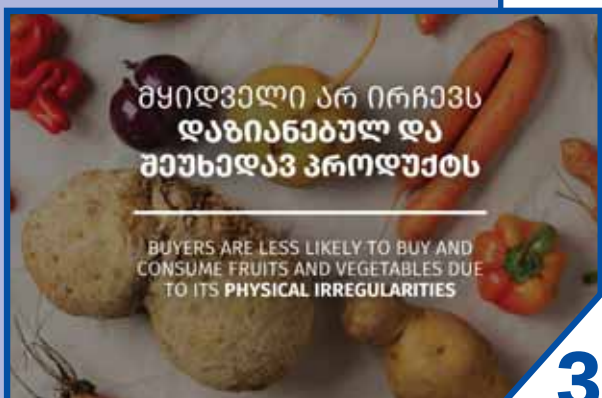
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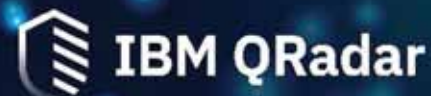


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Investment News

INVESTOR.GE PROVIDES A BRIEF UPDATE ON INVESTMENTS AND CHANGES IN GOVERNMENT POLICY THAT COULD IMPACT THE BUSINESS ENVIRONMENT. INFORMATION IN THIS ISSUE WAS TAKEN FROM AGENDA.GE AND OTHER SOURCES.

GEORGIAN GDP DOWN 6.2% IN 2020

Real growth of Georgian GDP fell by 6.2% in 2020, show preliminary data from the National Statistics Office of Georgia (Geostat). While most sectors of the economy were hammered by the epidemic, several continued to grow, such as: health and social work (7.9%), agriculture, forestry and fishing (3.6%), education (3.1%). The worst-hit sectors were accommodation and food service activities (-37.9%), transportation and storage (-22.3%), and arts, entertainment and recreation (-18.9%).

GEORGIA OPENS AIR BORDERS

Georgia opened its air borders on February 1, allowing all previously non-functioning airlines to resume flights. Lufthansa has announced it is increasing flight frequency and even adding new destinations to and from Georgia. airBaltic has resumed flights, as has Azerbaijan's low-cost Buta Airways. Kazakh carriers Air Astana and FlyArystan have also begun offering flights to Central Asia, while Hungarian low-cost

carrier Wizz Air resumed flights from Kutaisi International Airport at the end of the month and is offering flights to 20 destinations. One airline is entering the market for the first time, with Wizz Air Abu Dhabi operating flights from Kutaisi to Abu Dhabi twice a week. Turkish Airlines, Pegasus, Ukraine International Airlines, Flydubai, Air Arabia and Qatar Airways have also resumed operations.

TURKEY, RUSSIA, CHINA WERE GEORGIA'S TOP TRADE PARTNERS IN JAN-FEB 2021

Turkey (\$248.5 million), Russia (\$202.7 million) and China (\$193.7 million) were Georgia's top trading partners in total external trade turnover in January-February 2021, show preliminary data from the National Statistics Office of Georgia (Geostat). In this reporting period Georgia's top trading partners by exports were Russia (\$71.1 million), Azerbaijan (\$66.4 million) and China (\$53.8 million), while top trading partners by imports were Turkey (\$203.3 million), China (\$139.9 million) and Russia (\$131.6 million). Overall, Georgia's external trade turnover amounted to \$1.65 billion in January-February 2021, which is 12% lower than compared to the same period of last year. The trade deficit of Georgia in January-February 2021 amounted to \$664.6 million which is 40.2% of total trade turnover. The value of exports decreased 6.8% and totalled \$494.7 million, while imports also decreased 14.1%, amounting to \$1.15 billion.

GEORGIAN CENTRAL BANK RECOGNIZED AS MOST TRANSPARENT CENTRAL BANK IN 2020

The National Bank of Georgia has won the transparency nomination at the Central Banking Awards, which



recognizes the outstanding performance and achievements of individuals and organizations within the central banking community.

The transparency nomination includes three components: education, success in targeting a full range of stakeholders, and communication across various platforms.

“When the National Bank of Georgia unveiled its new financial education website, FinEdu, last year, it represented the latest step in a series of initiatives aimed at revolutionizing transparency at the central bank. Many of these changes followed the appointment of Koba Gvenetadze as governor in March 2016,” Central Banking wrote. In recent years, the transparency award has been granted to the central banks of New Zealand, Czechia, Canada, Ireland, Israel and Sweden.

HOW MUCH WERE GEORGIANS EARNING IN Q4 2020?



Average monthly nominal earnings in Georgia decreased by 5 GEL (0.4%) in the fourth quarter (Q4) of 2020 as compared to the same period of the previous year and amounted to 1,314 GEL, reports the National Statistics Office of Georgia (Geostat).

The highest monthly earnings were observed in the following fields: information and communication – 2,199 GEL (+6.2% y/y), construction – 2,061 GEL (+1.2%), professional, scientific and

technical activities – 2,020 GEL (-8.8%), and financial and insurance activities 2,017 GEL (+4.2%).

In Q4 of 2020 the average earnings for women reached 1,022.3 GEL, while men earned an average of 1,581.5 GEL per month. The annual growth of earnings for women amounted to 3.8 GEL, while for men it decreased by 11.7 GEL.

GEORGIA, EU CONSIDER HIGH-VOLTAGE TRANSMISSION LINE ALONG GEORGIA'S SEABED TO CONNECT GEORGIA-EU ENERGY SYSTEMS

Georgia and the European Union are discussing the possibility of laying a high voltage transmission line along Georgia's Black Sea seabed to connect the Georgian and EU energy systems, Georgian Economy Minister Natia Turnava announced in mid-March.

Turnava said that this was one of the issues discussed at the 6th EU-Georgia Association Committee meeting in Brussels, and that the World Bank may be ready to finance a technical and economic study for the project.

MONEY TRANSFERS TO GEORGIA UP 17.5% IN FEBRUARY 2021

Georgia received \$161.4 million from abroad in February 2021, which is 17.5% more than the amount received in February 2020, says the National Bank of Georgia.

Italy (\$28.55 million), Greece (\$19.71 million) and Russia (\$25.14 million) were the largest sources of remittances in February 2021.

EU countries accounted for 44% of all remittances to Georgia and 24% of the growth in inflow volume. Inflows were down from Russia (-12.3%), the UK (-24.9%) and Poland (-11.7%). Countries representing significant sources of inflows that picked up in February included

the U.S. (+32.9%), Ukraine (+78.2%) and Turkey (+10.1%), much of which is attributable to wire transfers and other electronic means of remittance.

Overall, the vast majority (94.8%) of all money transfers from abroad came from 19 countries.

SAKURA 2020: GEORGIAN WINES WIN ONE SILVER, 13 GOLD MEDALS IN JAPAN



An international wine competition judged exclusively by 186 Japanese female wine specialists has awarded Georgian wines with one silver and 13 gold medals this year, announced the Georgian National Wine Agency. The winning Georgian wine companies were: GWS Winery with four golds; Chateau Mukhrani with three golds; Kindzmarauli Corporation Winery with two golds; Mtevino with two golds; Schuchmann Wines with one gold; Vaziani Company with one gold; and Pavillion Wines with one silver.

More than 4,000 wine varieties from 32 countries were represented at the eighth Sakura Japan Women's Wine Awards 2021.

2020 DATA: FOREIGN DIRECT INVESTMENTS DOWN 52.9% IN GEORGIA

Foreign direct investments (FDI) in Georgia amounted to \$616.9 million in ►

► 2020, down 52.9% from 2019, Geostat reports.

Transfers of ownership from non-resident to resident units in several companies is considered to be the main reason for the decline of FDI, which reduced the value of foreign direct investments by \$340.5 million. The top three countries that invested the most in Georgia in 2020 were: the United Kingdom with \$307.8 million (49.9%), the Netherlands with \$172.1 million (27.9%) and Turkey with \$108.1 million (17.5%).

The largest share of FDIs was registered in the financial sector, reaching \$400.3 million in 2020, the mining sector was the second with \$101.5 million, which was followed by the real estate sector with \$71.8 million.

GEORGIA'S NEW RULES ON INTERNATIONAL TRAVEL

Georgia eased entrance requirements for international travellers as of February 1. Foreign travelers must now present a certificate proving they have undergone a complete course of Covid-19 vaccination. If a foreign traveler has not and is traveling from the EU, Israel, Switzerland, the U.S., Saudi Arabia, the UAE or Bahrain, he or she can present a negative PCR test result taken within the past 72 hours. For this latter group, foreign citizens are obliged to do another PCR test on the third day following their entry into the country.

2021 INDEX OF ECONOMIC FREEDOM: GEORGIA 12TH IN WORLD, 7TH IN EUROPE

Georgia received an economic freedom ranking of 77.2 in the 2021 Index of Economic Freedom from the Heritage Foundation, making its economy the 12th freest in 2021.

“Its overall score has increased by 0.1 point, primarily because of an im-

provement in the government spending score. Georgia is ranked 7th among 45 countries in the Europe region, and its overall score is above the regional and world averages,” the index report reads, mentioning that the Georgian economy suffered “only a small setback this year in its long progression to the upper ranks of the mostly free category.”

“Multi-year reforms to reduce corruption, cut regulation, and simplify taxes have led to upward movement in all aspects of economic freedom. Achieving a top-10 ranking, however, will require even more intensive efforts to improve perceptions of government integrity and judicial effectiveness,” the report continues.

Georgia scored highest in fiscal health (94.9), tax burden (89.1) and trade freedom (86). It had its lowest scores in property rights (66.9), government integrity (64.6) and judicial effectiveness (59.3).

GEORGIAN PRODUCTS WITH TURKISH INPUTS TO BE EXPORTED TO EU UNDER DCFTA

Georgia-made products that include Turkish raw inputs will be exported to the EU “in the near future” under the DCFTA diagonal cumulation, signed between Georgia, EU and Turkey on March 20, 2018, the Georgian Ministry of Economy announced in early March.

The ministry reports that diagonal

cumulation will support the further development of the following sectors in Georgia: textiles, furniture manufacturing, construction products, plastic products, steel products and paper and cardboard.

“In general, the introduction of diagonal cumulation will increase the range of produce that can be exported to the EU, as well as it will encourage investments from Turkey in the Georgian economy, will help to establish joint companies and create new jobs” Georgian Economy Minister Natia Turnava said.

Diagonal cumulation will not apply to agricultural produce, as customs agreements between the EU and Turkey does not cover agricultural produce.

UNEMPLOYMENT INCREASED BY 3.8% TO 20.4% IN GEORGIA IN Q4 2020

In the fourth quarter of 2020 the unemployment rate increased by 3.8% as compared to the same period of last year, rising to 20.4%, show data from the National Statistics Office of Georgia (Geostat).

As for the distribution of labor between the sexes, “Traditionally, the unemployment rate is higher for men than for women. In the fourth quarter of 2020, this indicator increased for women by 2.5 percentage points, while it increased by 4.7 percentage points for men,” Geostat stated, commenting on the data.



Georgia's organic wine opportunity

GEORGIAN WINEMAKERS HAVE MADE SIGNIFICANT PROGRESS IN RECENT YEARS IN INTRODUCING THE COUNTRY'S 8,000-YEAR HISTORY OF WINEMAKING TO THE WORLD. BUT THE NEXT FEW DECADES, EXPERTS SAY, WILL BE ABOUT ORGANIC WINE, AND IT'S TIME FOR GEORGIA TO TAKE THE FIRST STEPS TOWARD CONQUERING THE THIRSTY AND BETTER-PAYING MARKETS THAT WANT THEM.

ZURA KHACHAPURIDZE

Georgian wine is sold in 54 countries around the world and revenue from Georgia's wine exports exceeded 210 million USD in 2020. In 2012, that figure was only 65 million USD, making for a 223% increase in just eight years.

But industry specialists say that Georgia could be making dollars by the barrel-full if only winemakers endeavored to carve a niche for themselves in organic wine.

Georgian winemaker Iago Bitarishvili, owner of Iago's Wine, explains the Georgian wine market predicament:

"Georgia cannot compete with countries such as France, Italy, Spain, Australia and Chile in terms of volume and industrialized wine production. Georgia should instead focus on producing organic, natural and 'qvevri' wines, which can fetch a price three to five times higher on the market," Bitarishvili told *Investor.ge*.

Quality over quantity is the way to go, he says, and Georgia's abundance of authentic local grape varieties means it can provide unique products, further increasing sales revenue.



This idea isn't unique to Georgia, but the market for organic wines is relatively young and underdeveloped globally, with just 8.5% of European vineyards and production certified as organic in 2016, offering Georgia an opportunity to join the front-runners in a market Transparency Market Research expected in its 2020 report to grow at a stellar 10.8% between 2020-2030, reaching a market valuation of \$30 billion by the end of this period.

European markets are currently driving global demand for organic wine, which is expected to account for 78% of the global organic wine market by 2022, *beverage-daily.com* writes.

Considering these facts, the circumstances of the makeup of the Georgian wine market are ripe for a pivot in direction: Geostat data from 2020 show that about 57% of all Georgian wine exports (amounting to 120 million USD) went to the Russian market, where the average export price of a bottle is about \$2-\$2.50.

"[Unlike in Russia], in Western Europe, Georgian wines can fetch as much as 8 USD and above on average. These statistics clearly indicate what Georgian wine-

makers should prioritize," notes viticulture researcher Giorgi Barisashvili.

Barisashvili continues: "Organic and natural wines are not intended for the Russian or Chinese markets. White wine is not even acknowledged in China.

In Russian and other former Soviet republics, they like mostly sweet and semi-sweet wines. We should leave this cheap segment to the big wineries in Georgia, i.e. industrial winemaking, while small wineries should only work in countries with an existing wine culture, and aim for the organic market,"

In addition to the supposed health benefits and difference in taste of organic wines, there is a marketing issue with the country remaining so focused on the industrialized production of wine, Mariam Jorjadze, Director of the Biological Farming Association Elkana, points out. "A country with an 8,000-year-old, uninterrupted tradition of winemaking should not focus on industrial production," she says. It doesn't fit the narrative, which is often what attracts the interest of wine lovers to Georgian wines.

In 2020, there were just 20 small- to mid-sized producers of organic wines in Georgia, Caucasert, the country's only organic wine certification issuer, told *Investor.ge*, with real interest having been drummed up in the past four-five years among winemakers and a steady demand for organic certification increasing 10-15% annually.

Despite its serious prospects, organic wine production in Georgia faces an uphill battle.

Organic vineyards in Georgia made up only 0.3% of the country's total volume of vineyards in 2020. In 2019, less than 1% of the country's vintage came from organic grapes.

TBC Research noted in a report focusing on the Georgian wine industry in early 2020 that the costs of switching to organic farming are currently prohibitively high.

Other issues have also stalled growth of the organic wine market, ranging from the expenses needed to prepare orchards for certification; the price of certification itself, which must be renewed yearly; and the fact that the difficulty and expense in establishing new market connections in Europe, in addition to other attractive markets, make the already tried-and-tested path of exporting wine to Russia that much more appealing.



US Ambassador Kelly C. Degnan



AmCham President Sarah Williamson

Transatlantic leadership:

US Ambassador Kelly Degnan and AmCham President Sarah Williamson talk Georgia-US relations and the changing role of women

INTERVIEW WITH AMCHAM EXECUTIVE DIRECTOR
GEORGE WELTON

George: Ambassador, Sarah, what do you think are the strongest characteristics Georgia and the US have in common?

Ambassador Degnan: In the year that I've been here, what strikes me the most between the two countries is a drive to constantly be improving – that energy, openness to engage with new trends, to try new things. That isn't the case everywhere that I've served. And, again, I've only been here a year, but it's that energy and enthusiasm for change that makes Georgia such a good partner for the United States.

Sarah: Georgians have always been sort of rebellious, industrious, even entrepreneurial, in their own way. I think you see similar characteristics in many Americans. I think the best entrepreneurs have a revolutionary mindset in many ways. Also, while we can agree that our past makes us who we are, I like to believe that Georgia and the US also share both an expectation of moving forward, and an ingrained belief in a free-market economy.

George: Turning that around – are there any characteristics you would like to see each country learn from each other?

Ambassador Degnan: Both countries are very polarized at the moment, but I still think that there is more of an understand-



ing at this point in America's democracy that democracy requires compromise. Whereas I feel at this point in Georgia's democratic development there's still not a full embrace of the fact that politics is the art of compromise. Compromise is not a sign of weakness.

Sarah: I agree that polarization is a big problem for both, but what I have come to really appreciate about the US over the past 4-5 years is that our institutions have held. Both sides are constantly crying foul, but with a few bumps along the way, our institutions have stood firm and held up against attempts by one side or another to abuse or dismantle our democracy. Georgia needs to have strong institutions that insure the same.

George: Ambassador, you've been here a year. How is your experience so far in Georgia compared to other postings?

Ambassador Degnan: It has been very much dominated by COVID. This is a unique prism through which to see any culture. The other side of it, of course, is

that I arrived in the middle of a political crisis. It seems like a really important transition time for a country that is very much in the earliest stages of building its democracy. So it's really a fascinating time to be in Georgia, and to be the United States Ambassador, when we are trying across the board in so many ways to be a good partner to this country.

George: Sarah, how do you see Georgia and the challenges it faces now compared to the challenges that it faced when you first came here?

Sarah: Frankly, there was often just a few hours per day of basic needs like electricity and running water, when I first came here. That was in the middle of the summer; just imagine the winters! I came at the end of it, but Georgians had been going through it for years. To see a country transforming, and to be involved in that change, over just 20 years from that first state of collapse to its current level of development has been phenomenal.

The Ambassador said that it has been a fascinating year, and I agree. But

they've all been fascinating years! In my time here, I feel like I've gotten to witness not only the Rose Revolution, and the first peaceful transfer of power, but also something like the country's economic and industrial revolution, its sexual revolution and the women's empowerment movement. Things that I might be lucky to see one of, in a whole lifetime, in the US.

I appreciate this question for making me go back and appreciate all the good that has happened. Sometimes it's too easy to get bogged down in what hasn't happened yet.

George: Looking at the relationship between Georgia and the US, what is the most important component of that relationship? And what is your role in developing that relationship?

Ambassador Degnan: The people-to-people exchanges over the years, I think, are the most valuable connection that we've got. Obviously, just the experience of Americans coming to Georgia and Georgians going to America, you ►►

► almost see the ideas light up, you see the connections. The United States Embassy has had wonderful exchange programs over the years – whether from the FLEX program for high school students, the Fulbrighters, the Humphreys, the Rumsfeld fellows – there’s close to 1,000 alumni that we’re still in touch with.

And I think the same is true for the Peace Corps volunteers who come here. They have the opportunity to contribute to English language training or skills building. But the gift that the Georgians give those Peace Corps volunteers to take back to America is just invaluable.

And so we’ve already got this rich stew that produces good ideas in business, good ideas in academics, in research cooperation, in agricultural cooperation. This, to me, is where it starts.

Sarah: When we built our company, we took practices from our experiences in America, and we want to call them ‘American’ but they are also just good practices...and we were able to prove that if you really do stick to a straightforward business plan, it can work here. I’m still proud of that. I think my role, over many years, has been about helping to understand each other. I’m not a diplomat, it’s not my job to work out foreign policy for either country. I just love both countries with all my heart and want the best for both of them, for my children’s two homelands, and so it’s important to me to see Georgia stay on the right track.

George: One of the reasons we’re having this interview is because we have just finished International Women’s Month. Ambassador, you’ve been in the US Foreign Service for quite a long time now. You must have seen some incredible changes over the years. Tell us a bit about that.

Ambassador Degnan: There have been very significant improvements in the almost 30 years that I’ve been in



the Foreign Service. And before I was in the Foreign Service, I practiced law, which in those years was also very male dominated.

With careers in the United States, perhaps in other countries as well, it’s often the government that leads the way and opens doors for minorities, or for underrepresented groups like women. I think that has very much been the case in the United States government. I’m very proud of the support that the United States government has given to open all of our eyes to our own unconscious biases.

I also really appreciate what President Biden has done, very deliberately, to build a cabinet that reflects American society.

But it’s not enough just to bring in the numbers. It’s also about making underrepresented groups feel accepted and integrated and comfortable working in the Foreign Service or in the private sector, wherever it is. We’re still working on that. But I think most Georgians would

also admit that there’s more work to be done in terms of truly integrating minorities and underrepresented groups here.

Having role models is so important to showing men and women that gender is irrelevant to doing the job. Because it’s important to encourage women, but it’s even more important, in my view, to help men understand that this is a plus and neither threatening or inappropriate.

I think, George, when you asked about what’s changed during my career, one of the most important things that I think has changed is that it has become easier for men and women to have a family in this life-style of moving all the time. When I first came in, it was much more often that women would have to leave their career in order to have their families and raise their children. Now, in part because of technology, it is easier for us to have two foreign service officers raising their children. This has allowed men to also have the experience of being more involved in raising their families, and I think that’s so important.

George: Sarah, how do you think you've seen the role of women change during your time here? What has the impact of that been on the country?

Sarah: US government organizations have done a lot of work on this issue, and others, too. We still need to get more women in Parliament, civil society and senior private sector positions, but we've also come a long way. We need to encourage girls in things like STEM fields and others, but I'm glad that it's no longer a standout thing when a woman holds a high-ranking position.

To be fair, I never felt discriminated against in Georgia, but I came to realize that I was being treated differently because I was American. Georgian women are some of the most talented, intelligent and hardworking that I have ever met. They are doing an inspiring job of proving themselves at every level. One day, they won't have to do so any more than their male counterparts do.

Though it's not just Georgia, by any means. In 2012 or 2013, I went to Washington D.C. for a meeting at the US Chamber. It was for Presidents and Executive Directors, from AmChams throughout Europe.

One of our hosts from the US Chamber there in D.C. thought I was Executive Director...and when they realized that I was the President, they acted impressed and pointed out that all the other presidents in the room were men. I found that strange, but it didn't really register to me at that moment. Later they came and told me that they had done some checking and were now pretty certain that I was actually the only female president of an AmCham outside of the US at that time. They all thought it was great and that I must be so proud. Actually, I was mortified. It was shocking. This was 2013. It shouldn't have even been noteworthy and yet, out of the 115 AmChams they looked through, I was the only woman? Insane. Thankfully, that's just so not the case anymore. There are lots of women presidents and being one gender or the other is not noteworthy.

I can think of another example. I remember in the early 2000s there were rumors that there was going to be a female US Ambassador to Georgia. I was shocked at the response. People were saying, 'it won't work to have a female US Ambassador here, Georgia is a macho society'. And I just thought, oh god, the

best thing we could do is put a female Ambassador here, in that case! Since then, the UK, Turkey, Germany, now the USA, and so on – they've all had excellent Ambassadors many of whom happen to be women. It does work!

George: Ambassador, you trained in journalism and law; what does the training in journalism and the journalism experience bring you in terms of your engagement with the media here and what do you think about the Georgian media circuit?

Ambassador Dignan: I'm really glad to have that background because it gives me an appreciation for how hard their job is but also how high the standards need to be in order for media to play the role it needs to play in a democracy. And then there's the level of politicization here; the level of polarization in a market this small is to me a disservice to the citizens of Georgia, because there are very few places that Georgians can go for impartial information.

As people are driven to social media to get their information that's an even greater danger in many ways...the siloing of information, the reinforcing of stereotypes, the loss of that marketplace of ideas and exchange of views – it's so damaging.

The first thing I did when I got here was I wanted to understand the challenges that the journalists and editors face here. It's a tough, tough market everywhere in the world because it's changing and the financing of it becomes so difficult. I feel like that is a challenge here, in particular. It makes it difficult for outlets to be impartial when their funding is not impartial.

But I also have a deep respect for self-regulated professions like the media, like law, where it is incumbent on the professionals to maintain those high standards of ethics and that commitment ►►





► to doing their job ethically.

George: Sarah, as the owner of a technology company, how do you see technology kind of working its way into Georgia's development?

Sarah: When we started UGT in 1997, there was hardly a landline network in this country. Everything was on paper, and so corruption was easy to get away with. It was unbelievable. No communication between anything, as you know. The way they have been able to jump ahead, in a relatively short amount of time, into a much better situation is of benefit to every single corner of society. I mean, my online banking works better in Georgia than it does in America and my cell phone data and network capabilities are much better! Georgia has been able to learn from other countries' mishaps, without having to go through the expense of making them.

George: What role does business play in building US-Georgia relations? Are there any particular instances of this that you've seen that you found can be particularly compelling so far?

Ambassador Degan: I would hesitate only because it's been such a strange year that we didn't have the kind of engagement that we normally would have.

We shouldn't underestimate the influence of groups like the the American Chamber of Commerce, because I think

the government needs to hear from the business community, not just in an ad hoc way, but in in a really unified way; when the business community, through groups like AmCham, speak with one voice to express what Georgia needs to do to make the environment more investor friendly, the government listens.

Those channels need to be sharpened, they need to be amplified, so that the business community can have a greater influence on the kind of legislation that goes through, the kind of environment that is created. That is a huge tool in terms of attracting foreign investment, whether from the United States or from other kinds of investors that Georgia wants and needs. I really can't emphasize enough the value of what groups like the American Chamber of Commerce contribute. And I just really commend your membership for being so actively involved.

Sarah: From an AmCham perspective, with our solid American and Georgian roots, we are in a great place to demand the changes that need to happen, like judicial reform, demanding open markets, transparency and so on. In those things, no one could play a bigger role than the business community and we are central to that. And I think AmCham honors its responsibility to lead by example in abiding by those things, ourselves.

We are also well placed to push for bilateral agreements like a US free trade agreement, supporting discussions around the GSP program and how to use these treaties to push for positive change. For example, the US has a bilateral investment treaty with Georgia that is useful in helping us hold Georgia to a higher standard in some ways.

The private sector can be such a great way of connecting people. Those in Georgia and those in the United States, the Americans that come here to work, own companies, run companies, end up going back to the United States as sort of ambassadors for Georgia because pretty much every-body that lives here loves it, by the time they leave. The same is true of the Georgians that come back from the States, have loved their time there, and are transformed by it.

George: What are you most looking forward to post COVID?

Ambassador Degan: I would say that the opportunity to be in groups again. It's wonderful to have the small group exchanges where you can really get into different issues deeply. But I find every time I'm in a slightly larger group, and again, we're still quite small here because of the precautions, it just warms my heart to see people again, and to connect with them, and to start exchanging ideas again, and get all of those flashes going of good ideas. And then, of course, to be able to do that in beautiful places like Svaneti, or Kakheti or out on the Black Sea coast – all the beautiful places that I still have yet to see here. I do hope to be able to do that soon.

Sarah: In other times we'd be having this conversation on a terrace in the city. I have taken for granted the ability to just be out and enjoy the heartbeat of this place. I miss people and the vibrancy of life. I am really looking forward to that again.

New routes open up for Georgian SMEs as IFIs move to diversify financing options

IFIS IN GEORGIA ARE MOVING TO ATTRACT ENTREPRENEURIAL FINANCE FOR SMES, PASSING ON ALONG THE WAY A MUCH NEEDED BOOST TO GEORGIAN CAPITAL MARKETS

SALLY WHITE

It is all-hands-on-deck for Georgian capital markets as International Financial Institutions (IFIs) have been rallying to the call to diversify the money on offer to small and medium-sized enterprises (SMEs)—the key to Georgia’s economic growth—over the past several months.

Involved are the European Bank for Reconstruction & Development (EBRD), USAID, the Asian Development Bank (ADB), European Investment Bank (EIB), the World Bank, as well as the Georgian Ministry of the Economy and Sustainable Development (MoE) and National Bank of Georgia (NBG), to name a few.

Their aim is to widen the range of sources of corporate funding beyond just bank borrowing, increasing Georgian companies’, and particularly SMEs’,

access to long-term international money and domestic funds. Vital is that this will attract investors who can take greater risks than banks. The plans, IFIs hope, will speed-up the development of Georgia’s capital markets, which has been a slow process for several years now.

Over the coming months, Georgian SMEs are going to find themselves on the receiving end of instruction on how to appeal to foreign frontier funds, how to present their financial profiles to investors; they will learn about EU requirements on governance and financial transparency and how to set up private pensions schemes to incentivize key staff. They will be invited to consider non-bank financing in the form of bonds or shares. Starting with a select few, they could be helped with mentoring and maybe also funding to cover the issuance costs to raise money directly from international and domestic investors of all sorts.

In the view of investment bankers Galt & Taggart and TBC Bank, both of whom have international investor clients, foreign investors should be attracted to the Georgian companies in the IFIs’ line of sight because of the relatively high level of Georgia yields in the current global ultra-low-yield environment.

The TBC Bank deputy CEO of Cor-

porate, Investment Banking and Wealth Management, George Tkheldidze, believes that once more potential investee companies become available—the IFIs stress that chosen candidates will need to have strong cash flows and earnings—international funds will be drawn in. Domestically, new funds should join them, as legislation for private equity and venture capital funds is on the NBG’s action list, and company pension funds could follow.

The scope of Georgia’s domestic markets is currently too small to attract international institutional funds, but it could be boosted by activity from the country’s recently established state Pension Fund, believe both TBC Bank and investment bankers Galt & Taggart. There should also be very useful expansions in size and activity on the entry of promised privatisation via the stock market of state-owned enterprises, which could help the whole market.

“The Government has recently announced intentions to privatize a number of Georgian corporates. It’s crucially important for the development of capital markets that these privatizations be carried out through local capital markets (a path of development taken by a number of Eastern European peers),” said Otari Sharikadze, Managing Director at Galt & Taggart.

Currently, he says, the pace of development of Georgia’s capital markets is “significantly lower compared to our Eastern European peers.” There has been a little recent activity at the smaller end of the market in that Galt & Taggart listed two companies on the Georgian Stock Exchange in 2020—Metro Euphoria and Green Insurance. These were rare events, because of the lack of trading and hence liquidity at the exchange. But with prospects of increasing IFI support in the background, Galt and Taggart is



- “looking for interesting companies to be listed that could trigger investors coming to the market.”

The much-needed catalyst of more intermediaries (brokers and investment banks) and traders to pull in clients, groom prospective issuers, and create a more dynamic capital market is still a work in progress. USAID and other international agencies are hoping to help with this. Without them, although regulations are going into place, the situation is described by Sandro Bibilashvili at BGI Legal as “having building structures but no occupants.”

Active international trading to create a dynamic stock market in Tbilisi in local bonds and shares is not something currently on the IFI’s short-term agenda. First, they want to prepare the companies. So for now, any SME bond or equity issuances, brokers believe, are likely to be placed directly with small groups of investors.

Oft consulted by IFIs is George Loladze, who now runs broker Caucasus Capital. Loladze was the founding chairman of the Georgian Stock Exchange (1999-2014) and active in its predecessor, the Caucasian Exchange. Advising on the basis of one of the longest market experiences in the country, he says that, “To get a long-term sustainable outcome, if they really want to develop a local capital market, the donors should concentrate their efforts on capacity building of the key entities of any stock market, local (non-bank-subsidary) investment banks/brokerage companies.”

“This could take a year and a half or so, then they would, in turn facilitate the process, educate potential issuers and investors on a (permanent) sustainable basis—the business model followed in developed markets.”

For its part, the EBRD says it will “assist the NBG with the design and

implementation of support mechanisms facilitating access to capital markets—both debt and equity—for local corporates, including SMEs. Targeted support will enhance Georgian companies’ preparedness for capital markets, broaden their funding sources and help attract financing from domestic and international investors. Companies can receive tailor-made advisory services and technical support to improve their corporate governance, transparency and credit rating to source investments across capital markets.”

The program will offer this “capacity building” to “objectively selected companies” and “targeted support to prepare for the issuance process.” More details will be published when the program is officially launched, and market expectations are that it will be an 18-month programme.

Catarina Björling Hansen, EBRD Regional Director for the Caucasus, says, “The pandemic and its economic impact have created a new reality for the private sector and now is the time to rethink, re-educate, reskill and restart. We are delighted to be joining forces with the European Union again to support businesses, jointly fostering digital transformation, driving green growth and assisting companies to access much-needed funding from diverse sources.”

USAID has stated that “a functioning, diverse financial market is a crucial underpinning for economic growth” and is providing (to the tune of \$10 million–\$24.9 million) the money to “establish additional funding sources” and financial innovation for SMEs. Potential areas for the USAID plan do include enabling the intermediaries essential for markets. Others are development of diversified financial products and services tailored for SMEs and stimulating private equity to invest in them. Also

to be provided are “support to improve the capacity of SMEs to access fit-for-purpose financing; and incorporation of appropriate financial technology into the local capital market ecosystem.” This is all part of its drive to “build a modern capital market” so that Georgian companies can “access diversified sources of capital.”

The pace of effort to augment the supply of funds from banks is being driven at a faster rate. Work on Georgia’s capital markets has been protracted over many years. While the Caucasian Exchange was created and traded in 10 companies back in 1991, its updated re-incarnation, established with the aid of USAID, the Georgian Stock Exchange, has listed 350 companies and has been active from 2000. However, local markets have been pushed aside for SME funding in recent years. Banks and microfinance groups have largely taken over the role as suppliers of finance, dominated by the Bank of Georgia and TBC Bank, both limited on risk-taking by London Stock Exchange listings. These banks also own the major brokers.

Non-bank finance in Georgia has come mainly through large denomination bonds issued by the IFIs and major corporates, although the latter have often preferred overseas rather than domestic stock markets. The position for smaller companies has attracted concerned comment from the IFIs. As the EIB has commented, “Banks dominate the financial system in Georgia. Banking sector assets to GDP reached an all-time high of 96% in January 2019.”

In its look at SME enterprise policy in Georgia last year, the OECD states that “Georgian banks have lent larger amounts to smaller numbers of corporate clients (e.g. loans of USD 1 million+) rather than focusing on smaller-scale SMEs in the Georgian context.”

It added that at that time, though conditions were improving in late 2019, “in general, lenders regard the SME sector as being relatively high risk.” Thus, “[b]urdensome collateral requirements are a significant barrier. In terms of collateral, banks may sometimes demand more than 130% of the total loan value (usually in the form of real estate or land). For many SMEs, this is challenging as their fixed asset base may be relatively small, or their value proposition based around intangible assets.”

“High interest rates, especially in local currency, also create significant barriers for many SMEs in Georgia to access finance [...] reflecting the relatively high levels of perceived risk. Rates are significantly higher for borrowers using microfinance structures. Often maturities are relatively short. They may not reflect the potential payback periods needed for profitable capital investment (e.g. renewable energy or energy efficiency).” As a result, the OECD states, “SMEs face a significant financing gap.” Likewise, the EIB notes that “a noticeable level of loan rejections and credit-constrained firms characterize the Georgian market.”

Yet, the OECD pointed out, this segment of the economy provided “59% of total production value, 53% of turnover, 62% of value added (2017) and 62% of the total number of employees in the business sector and 50% of the country’s exports in 2018 [...]” Hence, moves by the EBRD, USAID, ADB and others to bring in more funds to help growth.

It is not, as the OECD comments, that Georgian conditions for SMEs are any worse than in most developing countries. Plus, the IFIs and government have been trying, as it says, “to address barriers to access finance; targeted programmes aim to provide access to credit under the SME support programmes previously identified. These programmes provide

a range of instruments. Some provide grants, while others subsidise the interest rate for SME beneficiaries.”

For several years now, the NBG has been building a regulatory framework to attract international investors and widen the range of available financial instruments, though much that has been passed by the legislators has targeted the top end of the financial sector.

Indications, brokers believe, are that future bonds of SMEs could be in smaller units—\$1,000 equivalents—than the daunting size of those currently being issued in tens or hundreds of thousand-dollar units by major groups, perhaps, even enabling access by local retail investors. Bonds are still by far the preferred means of financing. As Sandro Bibilashvili says, while he sees no reason why current legislation could not also support the issuance of equities by SMEs, their founders may not want to dilute ownership or like the increased reporting and governance requirements.

The NBG has been very active in building the framework for capital markets. It has been creating attractive tax regimes for investment funds, in line with EU practice. It sees access to investment in SMEs for venture capital and private equity funds as vital to “improving funding conditions/growth opportunities for domestic companies.” It believes the entrance of the state Pension Fund and then these funds will speed up capital market development as “[...] usually investment funds act as intermediary entities, and also trigger future capital market transactions by exits from the funds.”

Auditing requirements have been introduced by legislation, which has been helping companies improve their financial statements and their accounting standards, the NBG says. Medium-sized companies are already complying, and

this will help them present better to investors

The NBG is now expanding the range of investment instruments, including plans for covered bonds (where investors are protected by collateralizing a bond against a pool of assets). These can be used by domestic credit institutions and a draft law could be launched this year.

The MoE has joined in with NBG to help diversify Georgia’s financial offerings. Giorgi Gurgenidze, a lawyer who is leading the Ministry’s team of Georgian commercial corporate lawyers working on capital markets, says they are looking at, among other reforms, laws to allow more asset-backed securities, as well as at securitization and private pensions.

However, as TBC’s George Tkhelidze notes on the EBRD plan to bring more companies to investment markets, the banks are anxious to stay in touch with their medium-size corporate clients who are eligible for the IFI’s funding program, and to help.

“Bond issuance preparation includes setting up an advanced corporate governance system and choosing a sustainable structure for a board of directors. Our experience allows us to guide mid-corporates in the qualification process for international rating companies as well. In addition, TBC helps mid-size companies structure their finances and debt/equity ratio in a way that makes companies more attractive for investors and additional funding sources,” Tkhelidze says.

Gains from the IFI’s program, he says, go beyond SME financing.

“Developed local capital markets will further benefit the country by improving access to local currency and reducing FX [foreign exchange] dependence. Furthermore, companies can have access to a diversified investor base, thus decreasing the concentration risks, which is beneficial for the overall economy.”



How Georgian literature has made its way into 35 languages

UNTIL THE MID 2010S, GEORGIAN LITERATURE WAS ALMOST ENTIRELY UNKNOWN ABROAD, BUT STATE-FUNDED TRANSLATION PROGRAMS AND EFFORTS TO REACH READERS THROUGH BOOK FAIRS HAVE HELPED HUNDREDS OF BOOKS FIND FOREIGN AUDIENCES.

ANA MEZVRISHVILI

Foreign bookworms living in Georgia are often dismayed by the fact that Georgian is a notoriously difficult language to learn; reading the country's great works of literature in the original is a pleasure few, even dedicated language nerds can afford. Fortunately Georgian literature is easily available in translation. At least in German.

More than 400 works of Georgian literature written by some 280 authors are available in 35 languages: considerable progress for a body of work that in the 1990s had little to no translations available in foreign languages other than Russian.

Approximately 250 Georgian-language books, including both fiction and non-fiction, have been translated into German, with French and English the runners-up in terms of the quantity of translations from Georgian.

Much of the growth in the number of translations of Georgian works has come as a result of the guest of honor opportunity Georgia enjoyed at the Frankfurt Book Fair in 2018, and by Tbilisi being named UNESCO's World Book Capital for 2021.

It was only in the lead-up to the Frankfurt Book Fair several years back that Georgian literary works began to be noticed in the West: between 1990 and 2004, there was little support for the translation and publication of Georgian-language works. In addition, until fairly recently, there was little to no awareness of Georgian literature (or, for that matter, the country in general, which has only recently stopped having to refer to itself as 'the other Georgia').

Until recently, foreign publishers have been disinterested in investing in Georgian literature, says Gvantsa Jobava, the deputy chairwoman of the Georgian Publishers and Booksellers Association, which was founded in 1990.

"We faced problems connected to low awareness about the country when we would go to international book fairs and have meetings with our colleagues. They did not know we had our own language. They thought we wrote in Russian. It was challenging to explain to them why a certain author is worth translating, how important the text is, or what value this text would have for a foreign-language-speaking audience who knew nothing

about Georgia and Georgian literature," Jobava says.

But the situation began to improve starting in 2010, when the Georgian Book and Literature Program was launched with the funding of the Ministry of Culture and Monument Protection of Georgia, aimed at promoting the translation and publication of Georgian literature in foreign languages.

This process was facilitated by an annual forum-dialogue for foreign and Georgian publishers, supporting Georgia's participation in international book fairs, and the participation of Georgian authors in literary festivals and symposia.

Translation of Georgian literature picked up significantly starting in 2014.

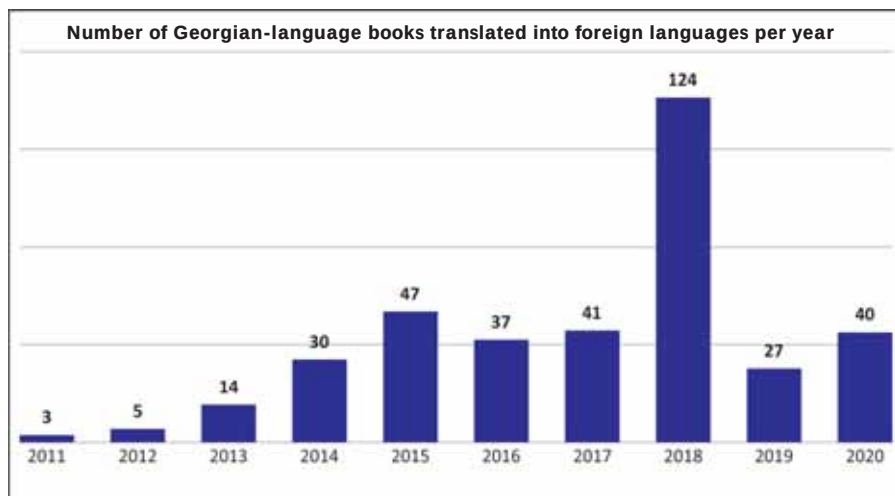
According to Maiko Danelia, Deputy Director and Head of International and Translation Department of the Writers' House, after the outset of the Georgian Book and Literature Program in 2010, only two applications from foreign publishers were received. This trend continued on for a few years—only three Georgian books were published in foreign languages in 2011, with the number growing to five in 2012 and fourteen in 2013.

The dynamics slightly improved in 2014, when about 30 books were translated. That year, the establishment of the Georgian National Book Center helped increase the number of translations; the main purpose of the Center was to carry out preparatory work for the 2018 Frankfurt Book Fair.

The following year, 47 works of Georgian literature were translated and published in foreign languages, which was the highest figure in 2011-2015. In 2016, Georgian literature was included in 37 foreign translations; and in 2017, a total of 41 books were translated.

With the financial support of the Georgian National Book Center, foreign publishers translated a total of more than 160 Georgian-language works into both European and Asian languages in 2014-2017, including Georgian hagiographic texts, Georgian literature of the Middle Ages, authors of the 19th and 20th centuries, and contemporary Georgian authors of the 21st century working in various genres.

In 2018, the number of translations reached 124, with the majority being translated into German. Both the state's active involvement in co-financing programs and the increase in the budget of the Georgian



National Book Center helped the Georgian literary world reach this number. In 2018, nearly 10 million GEL was allocated to such projects.

SINCE THE FRANKFURT BOOK FAIR

The Frankfurt Book Fair in 2018, at which Georgia was a guest of honor, did much to alter the perception of Georgia and its literature on the market. In fact, before the Frankfurt Book Fair, Georgian publishers did not put much work in attempting to sell Georgian literature in foreign languages.

"This fair aroused interest in the country, which later led to an interest in its literature. Our presence at the fair meant not only appearing on the German market but also being at the epicenter of the whole world," Jobava comments, adding that "the involvement of the state and the increase of funding for translations has helped us a lot. Interest in our literature has increased and, as a result, Georgian literature has been translated into many languages."

Interest in Georgian literature didn't peter out after 2018. Even though the pandemic has affected this field greatly, last year about 40 books were funded under the Georgian Literature in Translations program run by the Ministry of Culture. As for 2021, the Writers' House will fund 20 projects, of which six will be translated into French.

The increase in French translations also has a logical explanation. This time, Georgia is getting ready for the Paris Book Fair.

"In 2024, Georgia will be a guest country at the Paris Book Fair. Although we are still waiting for the signing of an agreement, we have already started working on French translations. Children's literature has been translated. The works of Mikheil Javakhishvili, Grigol Robakidze and Davit Kidishvili are underway," said Maiko Danelia, Deputy Director and Head of the International and Translation Department of the Writers' House.

Writer Teona Dolenjashvili is one of the modern Georgian authors whose books are often translated into different languages. She spoke to *Investor.ge* about the importance of literature as a universal language and noted that if translations are not done, Georgian authors will remain locked within the language barrier.

"Of course, it is very important for a writer to have as many readers as possible, and especially for their voice to be heard outside the country. I would like to note that foreign readers give us a very warm reception. They are genuinely interested, even more than Georgian readers. Throughout this process, we promote not only literature, but also the country and tourism," said Dolenjashvili.

Despite the positive dynamics, Georgian publishers and authors still face some issues regarding translations. While the popularity of the country and Georgian authors has increased since the Frankfurt Book Fair, foreign publishers often find it unprofitable to translate and publish books by unknown authors or less-popular contemporary foreign writers, Dolenjashvili notes. She says that the role of the state is especially important at such times.

"Despite the fact that Germany has opened its door to Georgian authors, we are still facing big challenges. It is very important to maintain the interest of publishers from different countries, and this should be supported by the Ministry of Culture and the state, because a foreign publisher cannot risk its finances for an unknown writer from an unknown country. It is easier to build a connection when there is co-financing. This is the right approach," Dolenjashvili told *Investor.ge*.



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How the Enguri HPP shutdown played out for Georgia and its breakaway Abkhazia region

GELA MAMULASHVILI

You might not have noticed because the lights stayed on, but Georgia's largest single source of electricity, the Enguri hydroelectric power plant (HPP), was shut down for repairs for three months on January 21.

The plant supplies nearly 40% of Georgia's annual electricity consumption, and nearly all that of the country's breakaway, Russian-occupied region of Abkhazia. *Investor.ge* looked into how the shutdown of the Enguri HPP has played out both for Tbilisi and breakaway Sokhumi.

GEORGIA: INCREASING DEPENDENCE ON NEIGHBORS

Fortunately, the shutdown of the Enguri HPP passed without much of a hitch on Tbilisi-controlled territory, as "in [the winter period] nearly the entirety of the volume generated by the Enguri HPP would still have been consumed by Abkhazia," energy expert Murman Margvelashvili told *Investor.ge*.

Had the shutdown taken place at any other time, it may have been more problematic, as Georgia has become increasingly more reliant on energy imports in recent years. Between 2010 and 2016, Georgia was largely self-sufficient when it came to power, importing little electricity from its neighbours.

But starting around 2017, the picture began to change as direct energy imports from neighbors into Georgia began to increase. In 2019, the energy deficit was 1.8 TWh, or 14% of the 12.8 TWh the country consumed that year. By 2025, studies predict the energy deficit will have risen to 3 TWh.

Despite much talk of the country's under-utilized hydro energy resources, the internal generation picture hasn't changed that much, with thermal and hydropower plants retaining a very rough 25%-75% share respectively throughout the years, while imports have risen gradually since 2016 with the exception of 2020 due to decreased energy consumption in the first year of the Covid-19 pandemic.

One positive takeaway is that Georgia has been able to diversify its energy imports away from heavy reliance on Russia in the past several years, adding Turkish and Azerbaijani power imports to make Russian energy of secondary or even tertiary importance when it comes to imports.

While energy prices did go up during the Enguri shutdown, this was a scheduled tariff increase established by the Georgian National Energy and Water Supply Regulatory Commission, which fell short of the request for large price hikes made by transmission companies seeking higher fees to offset their surging expenses caused by the depreciation of the Georgian lari.

Coupled with subsidies from the Georgian government to pay the electric expenses of households that consumed electricity within certain bounds due to the Covid-19 pandemic, the closure of the HPP did not significantly affect prices.

Though Georgia has steadily moved away from its reliance on the HPP located on the administrative boundary line and energy shortfalls have been readily made up for by imports, Enguri remains of critical importance, and the repairs being carried out on the HPP promise to extend its lifespan and increase efficiency by as much as 30-35%; preventing water leakage in the dam's diversion tunnel may mean as much as an additional 100 million kWh of electricity generation per year starting in May, once the HPP is scheduled to resume operations. More than 95 million GEL has been invested in the project, and projected profits over the next 15 years thanks to the repairs are in the range of 230 million GEL and up.

RUSSIAN-OCCUPIED ABKHAZIA IN THE DARK

Breakaway Sokhumi has had a rougher go of the shutdown, which has revealed gaping holes in its energy system, and raised fears that this could cast the region further into Russia's orbit and control.

Abkhazia has always been nearly entirely dependent on the Enguri HPP. An agreement between Tbilisi and Sokhumi stipulates that the energy produced by the Enguri HPP is to be shared 40%-60%, with the larger share going to Tbilisi-controlled territory. However in recent years Abkhazia's share has steadily increased, and in certain periods of the year, such as the winter, the region consumes nearly all of the plant's energy, while it has been tapping the Enguri HPP for as much as 60% of its total generation during other seasons.

This is in large due to the recent proliferation in cryptocurrency mining in the region in the past two years, and which by some estimates accounts for nearly one-third of the region's energy consumption. The culprit: ultra-low electricity tariffs. A recent ISET-PI study reads: "The increase in electricity consumption in Abkhazia in recent years is mainly due to the fact that electricity bills are much lower than in the rest of Georgia. The Telasi tariff for 1 kWh of electricity ranges between 0.04-0.07 USD, while the population of Abkhazia pays much less (0.0063 USD). This circumstance

Georgia's electricity trade by country, 2000-19



Georgia has become a net importer of electricity, mainly from Azerbaijan, in recent years.

Sources: IEA (2019a), *World Energy Balances 2019*, www.iea.org/statistics; ESCO (2019), "Electricity balance 2019", <https://esco.ge/en/energobalansi/by-year-1/elektroenergiis-balansi-2019>



leads to inefficient consumption of electricity and increased demand (households and companies, cryptocurrency mining)."

A December 2020 ban on cryptocurrency mining and the import of mining machines into Abkhazia will remain in place until June 1, 2021, and hundreds of cryptocurrency "farms" have been disconnected and confiscated since. But many illegal farms remain connected. A number of the disconnections come from blatant daylight robberies, when entire farms are uprooted and replanted elsewhere, as owners have no recourse to the police. It is speculated that the attempt to eradicate mining has been stymied by both de facto Abkhaz officials' and Russian business interests.

As a result, power outages and unusually low current are now the norm in the region.

The timing of the Enguri shutdown did not make things easier: the occupied region's energy consumption in the January-April period traditionally exceeds the total output of the Enguri HPP and the Vardnili I

and Vardnili II HPPs as well.

Director of the Enguri HPP Levan Mebonia points out what many feared in the run-up to the shutdown: "During this time, Abkhazia has had no alternative but to purchase energy from Russia, however I cannot say whether they are paying a monetary price or in some other way."

In the past, Georgia has bought electricity from Russia to make up for the region's deficit and supplied it to Abkhazia, but this time, Economy Minister Natia Turnava announced shortly before the shutdown, this would not take place.

To manage, unrecognized Sokhumi took out a nearly \$8 million loan from Russia to purchase 200-250 million kWh hours from Inter RAO (the Russian operator of electricity imports/exports).

There have been heated arguments about the advisability of Georgia's decision not to fund the winter in Abkhazia.

On one hand, there is an argument to suggest that the Georgian government's effective electricity subsidy has been funneled into the region's cryptocurrency

boom. Others point out that the only other option is to let Abkhazia turn to Russian assistance, which rarely comes without a catch. In this particular case there have been multiple such strings. The one particularly relevant for our purposes: Russian companies have long eyed Abkhazia's energy system, whose struggling electricity operator has public debt estimated at around \$26.5 million, and which would struggle to become profitable even with improved collection measures.

In the recently published program of "harmonization of the legislation of Abkhazia and the Russian Federation," which has riled the Abkhaz public itself, one of the points suggests "the denationalization of the Abkhaz energy sector," which includes transmission networks and the admission of Russian businesses to the market.

Moscow has persistently asked Abkhazia to allow Russian companies into the sector, but the de-facto Abkhaz authorities have declined. Now, many are wondering whether there will be any choice in the matter.



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SOMEWHAT DELAYED, BUT STILL RESTART RATHER THAN RECOVERY

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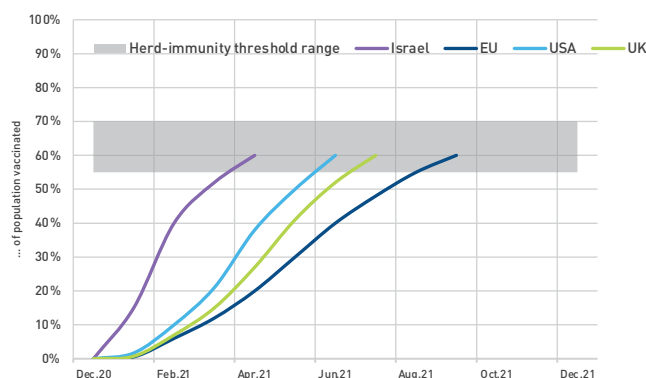
TBC Capital's macro insights report from mid-March points to a slow reassembly of the pieces in 2021, but retains optimism for 2022 and beyond. A delayed start to mass vaccination in Georgia and slow tourism inflows are likely to hinder the recovery process, while still sufficient external financing and the NBG's cautious stance amid close to, or even above, tolerance level inflation will provide some stability on the exchange rate front.

VACCINATION

While the EU, US, Israel and Turkey head for achieving herd immunity in 2021, Georgia may be looking at reaching that threshold only in Q2 2022, TBC Capital's new macro insights report from mid-March notes.

Depending on the efficacy of the vaccine used in the widespread immunization program, and considering the number of people who have already recovered from the virus, Georgia will need around 45%-63% vaccine coverage to reach this threshold.

Timeline of reaching potential herd-immunity in selected entities



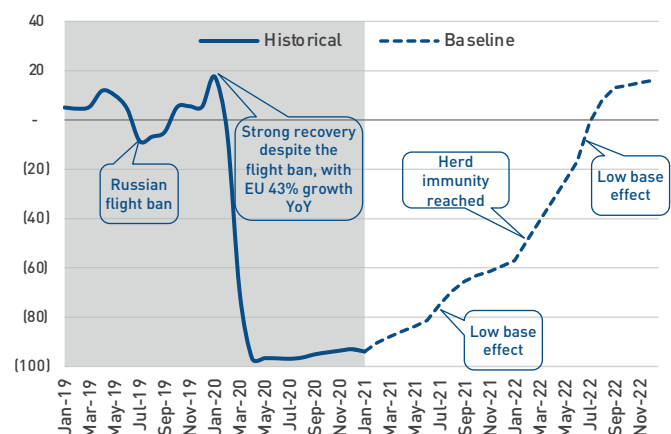
Sources: Barclays, airfinity, Reuters, Gamaleya National Research Center, Georgian Government, TBC Capital estimates

Unfortunately, Georgia is looking at an uphill battle, as the public's take on vaccination remains negative.

TOURISM

Despite the delayed inoculation program, tourism levels in Georgia in 2021 are set to recover by 25% compared to 2019, followed by a 90% recovery in 2022, if regular flights are to resume.

Tourism inflows' projections (% change, relative to 2019)



Source: NBG, TBC Capital estimates

However there are reasons to confidently look forward to the revival of the tourism industry, the TBC Capital report points out: the strong 20% pre-pandemic growth of inflows in 2019 despite the Russian flight ban; the low share of long-distance and business trips in Georgia's tourism structure; the high share of repeat visits; the relatively young age of visitors and an abundance of open-air tourism destinations are all factors which will reliably prop up the tourism sector.

Pent-up demand will also likely play a role in getting tourism back on its feet. This was visible in other countries last summer – once they reopened, albeit temporarily, the tourism industry recovered fast.

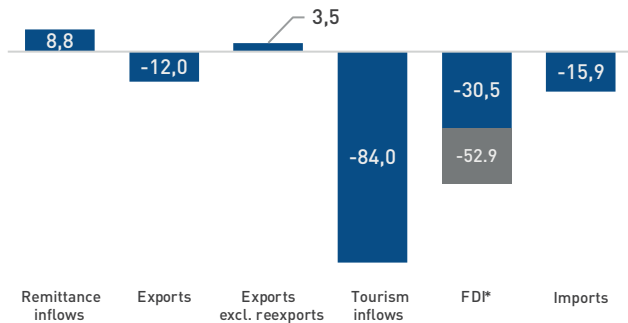
However, due to the delay in the vaccination campaign, a gradual reopening is favorable as the risks of a resurgence of the virus and strict lockdowns remain high, TBC Capital writes.

GROWTH OF INFLOWS, STRENGTHENED TRADE BALANCE

Not all inflows have come to a screeching halt, the TBC Capital report notes. Some have even displayed resilience: namely, in 2020, total exports decreased by 12.0% in USD terms while actually increasing by 3.5% if re-exports are excluded.

The main reason behind this is the fact that Georgia produces very few, if any, capital goods – demand for which has been subdued during the pandemic. Instead, Georgian exports have higher domestic value added in the production of essential goods, which have been more resilient during the crisis.

Growth of inflows and imports during 2020 (YoY, %)



* Note: In Q4 2020, the main reason for the decline of FDI was transferring of ownership from non-resident to the resident companies, without cash outflow, but still reducing FDI by around 295 m USD. Adjusting for this component, FDI fell by 30.5%, while without adjustment they fell by 52.9% YoY

Source: Geostat, NBG

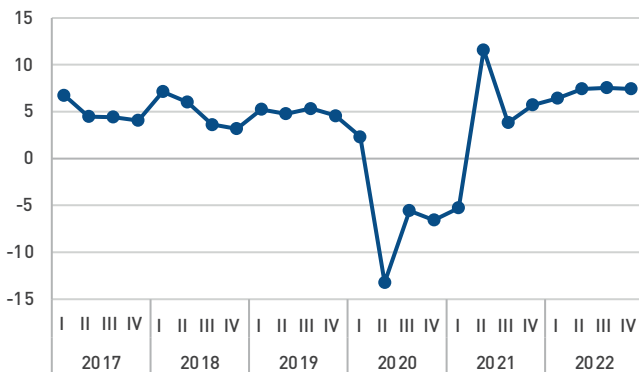
Remittance inflows also increased by 8.8% in 2020, including a strong, 15.7% year-on-year growth in the fourth quarter. Some of this increase was due to reduced cash inflows and increased digital transfers as a result of the closed borders. However, even after adjustment for this component, per TBC Capital estimates, remittance inflows increased by 5.0% in 2020, which is explained by strong household disposable income dynamics in most remitting countries on the back of unprecedented fiscal responses to the pandemic.

Alongside lower total inflows, re-exports and oil prices, coupled with a weaker GEL and diminished domestic demand, imports of goods dropped by 15.9% in 2020, leading to around a \$1 billion improvement in the trade in goods balance.

GROWTH

Although January 2021 GDP growth came in at -11.5%, this decline was in line with expectations. As the low base effect comes into play and the non-tourism sector continues to perform relatively better, for the full year of 2021 TBC Capital expects around 4% growth.

Real GDP growth projection (YoY, %)



Source: Geostat, TBC Capital estimates

This will be followed by around a 7.5% rebound in 2022, the main driver of which will be the almost-full recovery of the tourism sector.

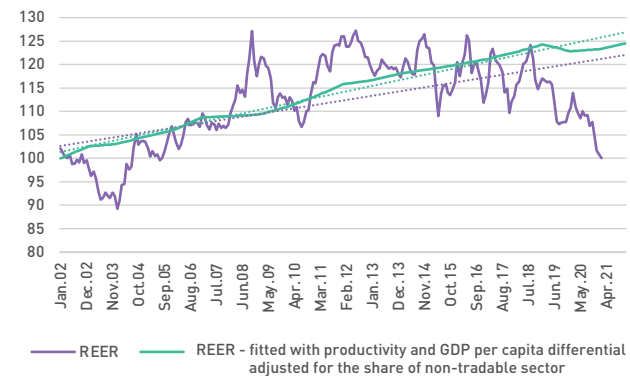
As in 2020, household consumption supported by remittances, public current spending and grace periods on credit, is going to be strong and will lead growth in 2021 before net exports turn positive and investments also recover substantially (the latter increasing only marginally in 2021 due to still-sizable government capital spending coupled with the low base effect).

GEL EXCHANGE RATE

As for the GEL, the real effective exchange rate has weakened substantially and remains well below both its long-term trend and medium-term average.

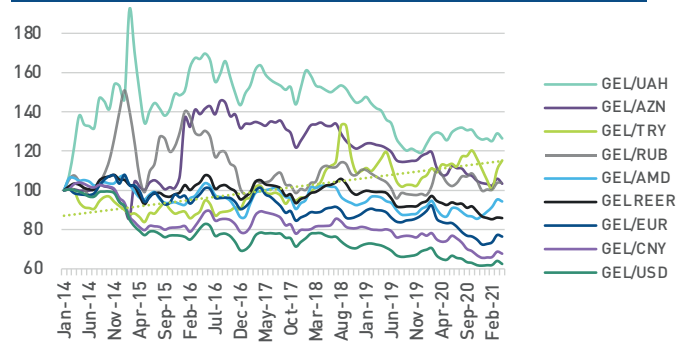
However, an important question is whether the dynamics of bilateral exchange rates should also be taken into account. In other words, trade partners' currencies can have a detrimental impact on competitiveness, due to the higher elasticity of trade to the exchange rate compared to other partners' currencies. Thus, looking at the overall real effective exchange rate may be misleading.

GEL actual and fitter REER (actual REER as of Apr-21)



Source: NBG, World Bank, TBC Capital estimates

RER indices of GEL (Jan-14=100, As of 5-Apr-21)



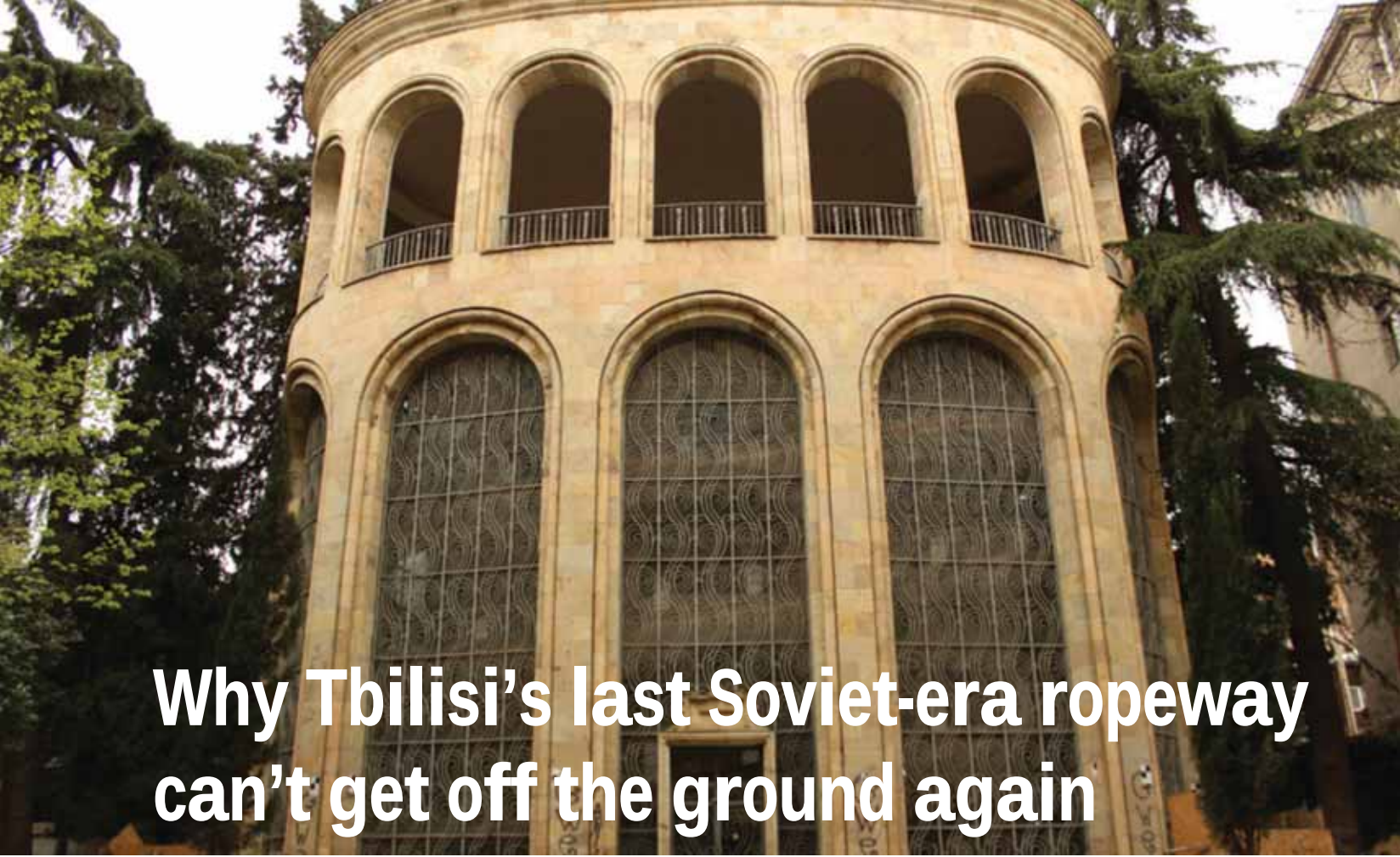
Source: NBG, corresponding statistical offices, TBC Capital estimates

When looking at bilateral exchange rates, the GEL has depreciated against almost all economic partner currencies, with the Turkish lira having strong recent depreciation and a substantial share in Georgia's external trade.

At the same time, the TBC Capital report does not foresee competitiveness pressures arising from Turkey to be strong for the following reasons: first, the lira has already appreciated back due to high inflation in Turkey and partially nominal appreciation. In fact, the GEL has an appreciation trend against the lira due to stronger GDP per capita and, consequently, productivity growth, and the lari/lira exchange rate may even be seen somewhat below its trend. This holds even after the end of March depreciation of Turkish lira.

Second, while there is some evidence of the lari/lira real exchange rate impacting Georgia's trade balance with Turkey, this relationship has likely weakened recently. More importantly, in such episodes where a weaker lira was causing Georgia's higher trade deficit with Turkey, the overall trade balance appeared not to have been impacted, meaning cheaper imports from Turkey were mainly competing with other imports, rather than with domestic producers.

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Why Tbilisi's last Soviet-era ropeway can't get off the ground again

VERONIKA MALINBOYM

One of Tbilisi's most unique, eye-catching structures is the old ropeway base station tucked away in the courtyard of the Georgian National Academy of Sciences off Rustaveli Avenue.

A curiosity that emotes the difficulties faced by the country since independence, the building houses the last of Tbilisi's Soviet-era skyways that have yet to be put back into motion.

And a dark tragedy surrounding the ropeway is only partly to blame. The ropeway was first opened in 1959, and underwent renovations in 1987, just three years before a tragic accident took place on June 1, 1990, resulting in 19 deaths and more than 40 people being injured. Most of the victims were children. The cable car was closed following the accident.

But since then, a concerted effort to get the city's cableways up and running have seen a number of trams adorning the

sky line in several locations, and several new ones are planned for the coming years, most visibly the ropeway that will connect Paragraph Hotel on Freedom Square with Convention Center—Tbilisi into the hills of Mtatsminda.

But the Mtatsminda cable car on Rustaveli Avenue continues to sit dormant. Talks about restoring the ropeway began in 2012, when the proposal was to move the station from Rustaveli Avenue to First Republic Square (formerly Rose Revolution Square), but nothing doing: 10 years on and restoration works have yet to even begin.

Several failed tenders and even suits against Tbilisi City Hall have hindered the process.

THE 1990 TRAGEDY

Nearly 30 years after it was installed, the ropeway was renovated in 1987. The towers supporting the cables were reduced from three to two, and, in order to avoid large queues, larger cabins were introduced that could carry up to

40 people, as opposed to the old cabins which could only carry 25 in one go.

The accident on June 1, 1990 saw the hauling rope break—that day, the two cabins were carrying more people than they were supposed to, 46 and 47 passengers, respectively. The cabin en route to Rustaveli Avenue slammed into the lower station, killing and injuring several people. The second cabin, which had been approaching the Mtatsminda station, raced down the line at high speed. Near one of the towers, the cabin hit the broken hauling rope and the tower and was torn in two. Half of the cabin continued rolling down the mountain before hitting a six-story residential building below. Those in the other half of the cabin fell a chilling 20 meters onto rooftops of the buildings and the ground.

15 people died at the scene and four later passed away in hospital. 42 others received severe injuries. The circumstances surrounding the catastrophe only threw salt on the wound: most of the passengers were children on a sightseeing

tour from an Akhaltsikhe-region school, visiting Tbilisi to celebrate Children's Day.

Several parts of the tram system were dismantled immediately after the accident, and the remaining bits were recycled in the early 2000s; the towers and both stations remain intact.

After the accident, an investigation found that specialists had failed to install an emergency brake system for the new cabins, which may have prevented the fatalities.

PLANS FOR RENEWAL OF THE ROPEWAY

The grisly history surrounding the ropeway is only half the story as to why this beautiful monument to Tbilisi architecture continues to sit neglected.

The first contract for the renewal of the aerial tram was signed in 2012. The lower station was supposed to be built on First Republic Square, however in 2015, it was decided the station would remain in its original home, the building of the Georgian National Academy of Sciences. The Austrian-Swiss company Doppelmayr/Garaventa Group agreed to manufacture the necessary parts for the ropeway system as well as assist in the process of installing them.

Despite finally reaching an agreement on the location of the station, renovation works were not launched; Tbilisi City Hall and Mayor Kakha Kaladze himself said that the delay was caused

by families living in the vicinity of the Rustaveli Avenue station who refused to relocate.

Per the terms of the 2012 agreement between the Tbilisi City Hall and Mtatsminda Park, the cable car system was to have been completed by 2014.

Mtatsminda Park paid Doppelmayr 4 million EUR, and the latter manufactured the missing parts for reconstruction of the aerial tramway back in 2012. Due to the necessary preparatory works not being completed in Tbilisi, to this day, the parts are stored in the company's European warehouses.

Mtatsminda Park even filed litigation against Tbilisi City Hall to recoup the money it paid for the new construction. However, the agreement that was reached between the Park and City Hall in 2020 states that the construction should be completed within the next 2 years, and, as a result of the new agreement, the lawsuit was withdrawn from the courts.

THE FUTURE OF THE ROPEWAY

"We've already prepared a project and are planning to announce a tender to select the construction company that will undertake it. The project will take between a year and a half to two years to finish," said Mayor Kaladze back in September 2020. By then, an agreement with the residents near the Rustaveli Avenue station had been reached and the demolition of the residential buildings began shortly after.

The first tender was announced in November 2020 by Tbilisi Transport Company Ltd, a municipal company that operates public transportation in Tbilisi, but the tender proved unsuccessful, thus, a second tender was announced in December 2020.

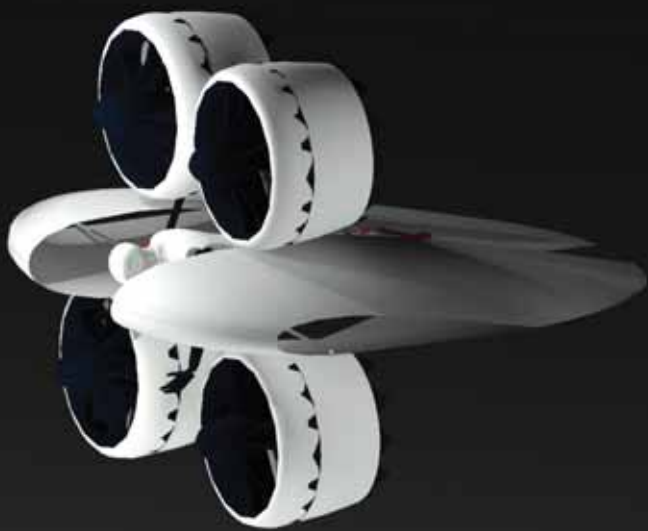
Per the tender terms, a company undertaking the project would have to demolish the remaining residential buildings near the Rustaveli station, renovate the two stations, and install five towers necessary for the cable car system, among other construction obligations. The tender was open between January 13 and January 18, 2021. The timeframe for the project was set at 15 months.

A contender company was disqualified by the commission for a 'lack of relevant experience.' Therefore, the tender for the construction works failed for a second time as well.

In February 2021, a third tender was announced. Companies have been able to apply between March 25 and March 30, 2021, and the timeframe for construction has been extended and now amounts to approximately 18 months.

However, at the time of writing, no tender winner has been announced. After years of failed attempts to restore the ropeway, it is still unknown when Tbilisi residents and visitors will look at the mysterious building tucked away behind one of the city's main arteries with anything more than a sense of perplexity and curiosity.





Georgian drone startup looks to spread its wings come spring





Irakli Shengelia, Raven founder

Georgia's lone drone startup Raven began its ascent to the skies after founder Irakli Shengelia set off down a black diamond ski slope at the country's most popular ski destination of Gudauri, with families huddled below in anticipation of whether he'd eat ice or glide off the ground with the help of a pair of inflatable wings.

Three years later and soaring, Raven is looking not just to entertain crowds in Georgia's ski resorts craving a dose of *schadenfreude*, but to revolutionize the drone industry, which Drone Industry Insights predicts will reach a \$43 billion market value by 2024. Further down the line, Morgan Stanley predicts a drone market with a possible value of \$1.5 trillion by 2040.

The industry is still fluttering, trying to decide what makes and models will get the job done. Shengelia and his team have settled on a vertical take-off and landing (VTOL in industry-speak) approach, which they believe has the potential to radically alter both public and private transportation.

"VTOL has numerous implications for transport, consumption, urban design and ecology: aircraft that can take off and

land theoretically anywhere with a flat, stable surface are much more flexible in their application than traditional aircraft, and they can perform maneuvers not possible with a conventional plane."

But the days of personal transport vehicles dotting the skies are still a decade or two away. There are numerous technologies to be mastered, aero-fields to be built and fly-zones to be carved out above buzzing, already congested metropolises.

"In the meantime," Shengelia says, "there are other horizons to be explored to help us get there."

Raven has turned its energies to agriculture, which stands to benefit greatly from the introduction of drones.

"I'm very much a fan of smart agriculture and organic farming. Drones with maneuvering capabilities/autonomy such as ours and that can deliver high payloads of agrochemicals and fertilizers will have much to offer. They can also carry out livestock and field monitoring, and are used in large scale reforestation missions to tackle climate change, oversee irrigation processes and help farmers analyze their fields and find areas in need of intervention. This helps farmers avoid the

overuse of certain products, and saves time and resources. Cameras used in the process can identify even a single pest," Shengelia notes.

Multispectral imaging, Irakli says, "are like MRIs for plants": they offer the promise of being able to identify plants lacking nutrients, plants under attack from pests, and other stresses.

The concept would be welcome in Georgia, which has recently been struggling with agricultural pests in the country's western regions, but ultimately Raven has its eyes on the global market.

"Georgia is a good market for a startup like ours; hazelnuts, vineyards and high-value crops in general would be in need of such an innovation. We are hoping to already begin operations with our drones later this spring, offering crop multispectral analysis, spray works and fertilizer application. This will generate our first revenue stream and extend our runway. Of course, we will be seeking seed investment to be able to form a good world-class team for fast and aggressive scaling. We already have some momentum and interest from various parties that are interested in both agricultural and personal flying devices. ►►

► We also hope that as soon as we mature for seed investment, we will be able to get a matching 650,000 GEL grant from GITA, as have done other promising startups in Georgia,” Shengelia says.

As for personal flying devices, Shengelia’s dreams have not been put off indefinitely:

“Much of it comes down to safe flight hours. This is one of the motivations in our decision to begin with agriculture; you need to demonstrate that your apparatus can safely be operated for thousands of hours on end. That’s why we’ve put our bet on agriculture, which requires precision, and long hours in the field.”

When personal flying devices do appear, there will be no need to fear clogged skies and the constant whirl of drones,

Shengelia notes.

Before the technology matures, personal drone travel is more likely to start with suburban transit, he says, where safe airways and relatively more open space will be much more forgiving in case of mistakes and unexpected aircraft behavior. Just like traditional fixed-wing aircraft, safe landings are provided for by fields, not urban environments. Raven, its creator says, will most likely enter the market as an adventure/recreational personal aerial vehicle and later aim to become a shared transport means just like electric scooters.

Only following a gradual introduction would drones begin to penetrate cities, Shengelia says, which would evolve to incorporate municipal airways,

keeping drone traffic out of large swaths of cityscape.

And owls have a piece of good news for the sensitive ear. “Some very promising research and prototypes in modern propeller designs mimic the snowy owl’s wing structure for silent flight. The same concept is utilized to kill the sound of spinning propellers that produce around 80% of a vehicle’s noise, something the industry is very much dedicated to and which promises significantly lower noise levels,” Shengelia adds.

At any rate, we have several years before we have to start worrying about these issues. But when the time does come about, if you’re in Georgia, keep your eye to the sky—one of the first flyers you’ll see might just be a Raven . . .

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GOING PLACES TOGETHER



TBC Bank's strategy to be a leading employer, tech forerunner in the region



TBC Bank Head of Human Capital
Gvantsa Murghvliani

INVESTOR.GE SPOKE WITH TBC BANK'S DIRECTOR OF HUMAN CAPITAL GVANTSA MURGHVLIANI ABOUT HOW FOSTERING EMPLOYEE GROWTH AND THE BANK'S COMMITMENT TO BEING A FORERUNNER IN TECH HAVE GONE HAND IN HAND.

TBC Bank has long made a point of making people, both customers and employees, the focal point of its business strategy.

"This approach is not just an empty toast, as the Georgian expression would have it," TBC's Director of Human Capital Gvantsa Murghvliani tells *Investor.ge*: "We've 7,000 employees, and as a leading employer across the region, ensuring that our employees are properly taken care of and that they have the ability to grow and further themselves is of critical importance for us."

***Investor.ge:* In what ways has TBC sought to foster employee talents and ambitions?**

TBC Bank pays close attention to employee aspirations. We're a large corporation, but our employees can start small and grow into senior positions. I'm an example of this: I started here in 2004 and worked a junior position at a branch. Mine is just one story. The environment here is one that wants to help people grow, reach their maximum potential. The stronger the team, the stronger the organization.

What stands out is our corporate culture. Our employees interact on a horizontal playing field. Employees call upper-level staff by their first names, and everyone is free to voice their opinion.

We have our own internal school where staff can widen their horizons and choose from a variety of topics that interest them: banking, IT, management—the opportunities are there. And for free, at that. We view it as a 50/50 responsibility. If the demand for career growth is there, TBC Bank meets and supports it.

***Investor.ge:* TBC has made a number of forays into tech with additions such as Vendoo and Space Bank. How has becoming a technology-driven company affected employee policy?**

Programmers and IT specialists are in short supply and large demand. We've responded to this predicament by seeking to develop talent and capacity both inside and outside the bank as well. We've decided to stimulate the growth of the programming industry by creating a separate, outward-facing school—our IT academy, which has already had more than 200 graduates, of whom 80 have begun working for TBC.

We've especially sought to encourage women. This year, the IT Academy is starting a new program with a special

focus on women in tech to provide them with opportunities to grow and develop professionally. The platform serves to introduce successful female tech professionals, have them share their experiences and stories about their accomplishments and choices. Right now, about 36% of enrollees in our academy are women—a number we are very proud of.

The inclusion of tech specialists on the team has changed TBC as a whole, not just particular departments. Tech is a bit of an industry apart, because specialists have expectations that rather differ from what you might find in a traditional corporate setting—openness, outlets for creativity, freedom of personal expression—and changes meeting these expectations have flowed across the entire organization. When designing our new offices several years back, we acknowledged the need for open spaces where teams can sit together—not just each individual by themselves in a cubicle. We needed spaces where our staff can relax and be creative.

Our new layouts reflect that we strive to be an organization where people are defined not by their title, but by what they bring to the table and their impact.

This freedom is reflected in the company offices' liberal dress code, and in branches where female employees can paint their nails (something unheard of several years back), and where male employees can wear neat beards (try finding a millennial without one).

***Investor.ge:* What about Covid-19? How has the pandemic tested the bank's dedication to its employees during the crisis?**

When the pandemic hit, one of the first big announcements we made was that nobody would lose their jobs, and that we would do our best not to lower salaries. We ended up being able to go beyond our promise—nobody lost a single lari. We were able to do this by cutting management bonuses. We supported our staff by providing transportation when it was limited and by providing free PCR testing for our employees. Working from home has worked for us, and we'll allow our staff to continue doing so half-time even after the pandemic. Ultimately, the crisis showed all businesses where their strengths and weaknesses fall. But one thing we realized is just how ready we are at TBC Bank is to stand by our employees.

How public-private sector partnerships have transformed development in Georgia

IN THE INTERVIEW BELOW, *INVESTOR.GE* SAT DOWN WITH KATY TCHUMBURIDZE, CHIEF OF PARTY OF THE USAID ZRDA ACTIVITY IN GEORGIA PROGRAM, TO DISCUSS HOW PUBLIC-PRIVATE SECTOR PARTNERSHIPS HAVE ALTERED THE DEVELOPMENT LANDSCAPE IN GEORGIA.



Chief of Party for USAID Zrda Activity in Georgia Katy Tchumburidze



პროექტი გრძელდება საქართველოში ZRDA ACTIVITY IN GEORGIA

Zrda was conceived largely as a platform for donor-government partnerships. When did Zrda start partnering with the private sector, and what was the impetus?

When USAID's Zrda Activity in Georgia was conceived and began operations in 2016, it did begin largely as a series of strong partnerships with government agencies that were eager to get on board with development projects. And those worked great. Not only did we accomplish much, but we brought capacity building and project models to dozens of government agencies and structures. What we suspected at the time, but didn't quite know for sure, was whether we could engage the private sector as well, and whether it could prove to be an equally if not

stronger partner and offer unique opportunities to donor organizations such as our own.

Our first such partnership came about through a match prompted by the Georgian Farmers' Association—one of the four organizations implemented by Chemonics International, which is also the USAID contractor for Zrda.

At the time, the Georgian Farmers' Association was working with the Adjara Group, one of the country's largest hospitality holdings, to help them source fresh produce for their many hospitality venues. However, the scale of their operations was not enough to meet the needs of the group, which was still sourcing nearly 80% of its produce from abroad.

At Zrda, we had already been

toying with the idea of bringing more technology into our work, and creating market information systems.

The GFA, knowing that we were willing to finance apps and electronic platforms, came and pitched the idea of creating an agricultural produce matchmaking platform.

We financed the project and together with the GFA, we produced Agronavti—a match-making application for farmers selling certain kinds of produce to Adjara Group as a guaranteed buyer.

Starting from just five types of products available on Agronavti, there are now more than 250 available, and farmers have made more than 4.3 million USD thanks to the Agronavti application, which allows them to understand what produce is in demand, in what quantities, and the range of prices they can expect for their goods.

So what this partnership did was match up the needs of a hospitality business, a local NGO and a donor organization, us. On our side, we liked the project because it ticked a number of boxes—promoting growth in the regions, it brought new technology to farmers and introduced them to the one-window principle.

Now, Agronavti has gone public and has expanded beyond the Adjara Group, with other restaurants and hospitality businesses signing up as well.

What other projects have come out of Zrda's public-private sector partnership model?

The next project we took on involved some of our target regions of Samtskhe-Javakheti, Shida Kartli and Kvemo Kartli. BP, which has been in the country for more than 15 years, also works in these regions. We looked at a map and saw that our work and mandate overlapped in 41 villages.

BP has a number of grant and training programs to help locals that live around this pipeline. At the time, we had a small SME assistance program starting. So we went to them and proposed uniting our resources, which would be far more effective than us working in two separate directions. That project worked out great, and after discussions, USAID and BP

may expand partnership and cooperation in the future.

Working with multinationals is one thing—working with local companies has been a different experience, and we're proud to have been able to share our experience in project management with a number of larger companies and organizations here.

The Partnership Fund, a joint stock company, is a great example of this. Its StartUp Georgia program buys equity in local startups, and exits after two years after providing mentorship and guidance.

We offered to match their buy-ins for companies on the administrative borderline territories that meet our criteria. To date, we have helped get five startups off their feet, including a kombucha factory in the village of Karapila, right on the ABL with Tskhinvali; you can see Russian troops stationed just 300 meters away from there. We've also helped finance a fertilizer production facility—one of the first in Georgia. Charcoal production, a dairy facility and a used motor oil-recycling factory (another first!) have also received assistance from us via this partnership.

This partnership with the Partnership Fund allowed us to reach larger businesses and create employment opportunities for people in these areas near the conflict zones. The businesses have benefited from larger financial resources, added capacity building offerings and oversight. For us, by partnering with the Partnership Fund, we lower our risks because StartUp Georgia is in charge of the vetting process, which eases our administrative load and allows us to spend our energies more effectively.

What are some of the other advantages of public-private sector partnerships?

In addition to combining funds for projects and doing away with additional project planning and implementation costs, one of the largest benefits we've seen from this model

is how we can widen the range of the kind of activity we engage in with the help of our private sector partners.

For example, with BP, we had a community development program which had two components: one was a business assistance and support program and the other was an economic infrastructure support program. For Zrda, teaming with BP was a great solution due to the fact that we do

The USAID-funded Zrda Activity in Georgia is a five-year program designed to promote inclusive and sustainable economic growth in target regions by improving micro-, small-, and medium- sized enterprise (MSME) growth; increase productivity of rural households; facilitate market linkages between producers and buyers; and promote local economic development by establishing and strengthening networks. Zrda targets communities in proximity to administrative boundary lines and communities with ethnic minority populations. The Zrda Activity works in 81 communities within five regions of Georgia to create at least 2,400 jobs, increase sales for at least 860 MSMEs, boost incomes of 13,200 households, and generate measurable improvements in community resilience.

not have a mandate to do construction work. We cannot actually build infrastructure, such as roads, bridges, irrigation channels. But we were able to fund the designs and studies for roads, and BP was able to build them through local partner organizations. As for the larger community infrastructure projects, Zrda supported the preparation of such project plans, donated them to local municipalities, that later are funded by the Municipal Development Fund (MDF) or central budget. Such partnerships allow us to effectively connect with other players who can widen our reach and range of activity.

Is financing in these partnerships

generally equal? What has been the criteria for Zrda to choose a partner in the private sector?

Generally our financing and what has been brought to the table by our partners has been more or less equal, but it really depends on the project. As for what kind of project we choose to get involved in, we have a very clear mandate—we only work along the ABL and in ethnic minority communities.

Zrda will be ending come December 2021. What will be some of the main takeaways from its experience?

We are hopeful there will be a Zrda follow-up project in the near future. But if not, then we have set a great model of how to experiment, to network and to discover other opportunities. I hope that after us, whether or not there will be a Zrda follow-up initiative, there will be many more projects that will practice this type of partnership, because we've seen how effective these results can be.

USAID has appreciated the private-public partnership model we've introduced and has always encouraged increased private sector engagement. And though it's sad for the activity to be ending, it worked on such a large

scale that we are confident that the methodology will be used by other donor organizations and work with the private sector will continue. Had someone told me five or seven years ago that this would be the direction that development was heading in Georgia, I would have been very surprised. I wouldn't have believed it.

Why not? What's changed?

Private sector organizations have grown and matured. Another fact is that just a few years ago, we didn't have as many big firms as we do now. Active cooperation from other donor organizations has demonstrated to the private sector what is possible, and they're open to it.



Agricultural startup Kalo disseminating know-how through tech

HANS GUTBROD

By most credible estimates, there are more than 150,000 farms across Georgia, and the overwhelming majority are very small. Reaching these farmers to increase their productivity is hard. Many live in elongated streetside villages, some of them are in cold mountain areas, others in the subtropical climate along the Black Sea coast. Diversity can be strength, but it can also make it much harder to provide tailored service and information.

Kalo, a recent agricultural startup, is working to change this, with systematic digital outreach to farmers. An ambitious idea when founded in 2017, the platform now has come a long way, and helps to illustrate how information flow in the agricultural sector is beginning to change.

By the end of 2020, Kalo had managed to recruit 91,770 paying online subscribers for its basic package, with access to all online resources. In other words, nearly 3% of the entire population of Georgia is signed up for this basic service, which costs 9 GEL a year. Kalo has achieved these figures by collaborating with Credo, one of Georgia's largest microcredit organi-

zations. Kalo's support is bundled in with Credo's financial services, to increase the productivity of Credo's clients. In 2018, 70% of Credo's 200,000 clients were active in agriculture, highlighting how relevant good agricultural practice is to the bank's loan portfolio.

Next to this basic package, Kalo is also offering more advanced products, including Agro Mrcheveli (Georgian for 'advisor'), a premium service that includes 24/7 access to a call-center, and Vet Advisor, a similar service for veterinary services. For these services, at 50 GEL a year, Kalo has attracted nearly 4,000 subscribers, and it hopes to grow its numbers as Georgia's farmers get into the habit of using their phones and laptops for agricultural purposes. Kalo's most popular services at this point are its online videos and tutorials, a retail shop and a call center, where farmers can receive immediate advice on the most pressing issues. Moreover, Kalo has started working on high-tech offerings, such as digital farm management tools. Attempts to develop image-based pest and disease recognition so far have suggested that this is still best done by sharing the images with agricultural experts, rather

than with any recognition tool.

After initially being founded by a group of Georgian and foreign entrepreneurs, Kalo recently appointed a new CEO. Levan Iosebashvili knows the challenges that smallholder farmers can face: before starting at Kalo in early 2020, he was a branch manager at Credo. Next to an MBA from the Free University, he brings a degree from the Agricultural University, the premier institution of higher education for agriculture in Georgia. Iosebashvili oversees a team of ten colleagues, currently all working from Kalo's Tbilisi office.

The collaboration with Credo gave Kalo a viable business model. With this collaboration, it has a base of paying customers, and does not need to rely on advertising, which in Georgia is unlikely to sustain a website with quality content, nor is it reliant on its retail offerings. Farmers, in turn, have the advantage that the advice offered by Kalo is not primarily driven with sales in mind.

Digital literacy does remain a challenge. The Kalo team believes that many of their users could probably gain more from the service than they currently do. The team is exploring what distinguishes

their super-users from those that are less active, and whether lessons can be drawn on how to activate the subscribers for maximum impact. One advantage in this context is that with tens of thousands of subscribers, Kalo can draw on a large user base and on good data about some of the users. The experience does underline, though, that improving digital literacy in Georgia is a broader issue, as a March 2021 report for the European Union also found.

The Kalo team reports that much of the uptake still runs through their call center, and that field visits remain essential to build a connection with their clients. In this way, the company grew from originally just having a digital footprint to a more blended model, at least for now. The team believes that it needs to put a positive user experience first, and then figure out how to further increase revenue. As these things go for companies in the digital space, some of it can be a marathon: a mobile app, first developed in 2017, needs regular updates to align with the expansion of the website and with the various updates of the operating system. For the programming work, Kalo relies on a strong IT lead that has been with the company from the beginning.

Iosebashvili says that in spite of the solid growth in 2020, the company also faced its challenges due to the pandemic. Field visits became much more difficult, though they remain an important part of building a closer relationship with bigger customers. The overload of postal and delivery services was another problem, as

customers often received their products with a delay. Such delays can be costly, as farmers need to deal with challenges such as pests before they become overwhelming. Some of these delays still remain an issue, one year in. (On a positive note: in other times, countrywide delivery seems to be working, even into remote areas.) Also, the company felt some of the supply chain disruption.

Given Georgia's small size, and the long haul required to build such a platform and gain followers, the Kalo team needed to mobilize external support to get the venture off the ground. In the beginning, it focused on attracting funding from various development donors, including the Swiss Development Corporation, various European Union support programs, the Dutch Embassy and the Startup Matching Grant of the Georgian Innovation and Technology Agency (GITA).

The rationale for this was that Kalo, also in its earlier iterations, documented good farming practices and made them widely available on Facebook and YouTube, often attracting near-viral reach, with tens of thousands of views, in the space of a few weeks. The videos featured local farmers, as credible representatives of what some farmers already do well, in short, accessible and upbeat clips. Altogether, Kalo has had close to 1.75 million video views on YouTube, and more than 4 million views on Facebook, and thus has enjoyed very wide reach. The most watched videos give a clue to what currently is of particular interest to many farmers throughout Georgia: Chandler walnuts, how to set up and

operate a greenhouse with mostly local materials and tools, as well as the pruning of different crops.

Next to the user numbers, Iosebashvili also highlights individual success stories. In one instance, Kalo's advice helped the producers of strawberries to adapt their methods, after they had invested 150,000 GEL into greenhouses and initially had struggled with switching from their previous open field production. This story may underline the extra value for Credo's loan portfolio: a little backup for their clients can reduce the likelihood of big losses, and in the best cases can help them thrive.

The team sees a particular opportunity for Kalo in organic agriculture in which timely application of less potent input is critical, and is scoping opportunities for connecting Georgian producers with importers in the EU. One of the main challenges remains that European purchasers often want sizable quantities for their markets, whereas Georgia at this point still only has a limited supply. Logistics across the distance add an additional challenge. More mid-sized producers would help the entire sector along.

As Kalo is earning its keep, and can deliver extra programming with and for donors whenever activities line up, it doesn't have the limited runway that cash-burning startups otherwise often face. It is working on expanding the breadth and the depth of what it can offer.

The initial founders, Jonne Catshoek and Mark van Embden, remain involved in a supervisory capacity. Their involvement in other digital ventures has taken them back to The Hague in the Netherlands, but with a viable model, they are now exploring options to transfer Kalo's model to other countries. For Georgia, one of the broader lessons may be that next to the in-person extension service (agricultural advisors working for the Ministry of Agriculture), digital tools may be a good channel to reach tens of thousands of farmers at low cost. Kalo illustrates that this approach – especially when blended with a call-center – is becoming a viable model.

Hans Gutbrod teaches at Ilia State University and is also active in agriculture. He originally worked with the Kalo team to launch online videos, to make good agricultural practices widely available in Georgia, and is also active in other agriculture ventures.



Kalo expert Archil Kapanadze explains the root structure of a cherry plum (tkhemali) seedling to a client, during planting in Kakheti



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Bill on the Law on Entrepreneurs -

New Take on Capital Formation, Maintenance and Protection

In September 2020, amendments to the Law on Entrepreneurs was tabled in the Georgian parliament.

The bill implements EU directives required under the Association Agreement between Georgia and the EU and would contribute to harmonization of the Georgian legislation to that of the EU. The bill aims to entirely replace the existing Law on Entrepreneurs, rather than merely amending it.

The bill introduces many fundamental changes to the existing regulations, rectifying shortfalls in the existing law. One of the declared objectives of the new law is to better protect the interests of creditors and minority shareholders, introducing a number of amendments concerning the formation, maintenance and protection of the capital of an entity. Such amendments will be the primary focus of this article. Given that the most popular forms of doing business in Georgia are limited liability companies (LLC) and joint stock companies (JSC), we shall trim this down to the amendments relevant for such entities.

Subscribed capital

The draft law introduces the notion of **subscribed capital** - the amount agreed upon by the founding partners and indicated in the founding agreement.

Unlike in an LLC, having subscribed capital is mandatory in a JSC. The main function of subscribed capital is to form the initial capital of an entity at the time of its formation. Once the entity is registered, the subscribed capital should be used to maintain and increase the entity's property. In essence, it is the same as statutory capital, legal capital or charter capital of an entity.

Subscribed capital must be denominated in GEL in LLCs but no similar requirement is present with respect to JSCs.

According to the draft law, an enterprise (both JSC, as well as LLC) can issue shares at their nominal value or at the value which is different from the nominal value. Nominal value is the minimum price to be paid for the shares/stock. Subscribed capital shall be equal to the sum of the nominal value of the issued shares or, where they have no nominal value, exceed the sum of their accounting par value. In order to ensure compliance with the EU directive 2017/1132, the draft law sets the minimum capital requirement for a JSC at 100,000 GEL (roughly EUR 25,000). No such statutory minimum is established for a LLC.

Furthermore, the charter of a limited liability company may allow for the existence of different classes of shares, which is a novelty in Georgian company law and is designed to accommodate the interests of investors as it opens the door to various forms of equity financing.

The draft law introduced an important although not a compulsory mechanism for capital protection in the form of reserve capital. A JSC may have reserved capital of at least 10% of its subscribed capital. Reserve capital serves to cover the losses. Until the reserve capital reaches the above threshold, the JSC has to retain 5% of its annual net profit and direct it to the reserve capital.

Capital formation

Capital is formed by way of initial and further or additional contributions. The term "contribution" is defined as property transferred to the entrepreneurial entity in exchange for a share (participation interests) in an entity. A contribution to the capital of a JSC may not be considered the provision of services or performance of work. The limitation is due to the difficulty in objectively determining the monetary equivalent of the services/works performed and is in line with the EU Directive 2017/1132.

The contribution can be made by way of paying money (cash contribution), or transferring other tangible or intangible property (non-cash / in-kind contribution) to the entity. Such intangible property can also be a contractual or in rem right to use certain assets. If the value of the in-kind contribution made at the moment of registration of an entity is less than the agreed value

of the contribution, the shareholders have an obligation to pay the balance in cash. In-kind contribution to a JSC shall be evaluated by and independent auditor / valuator prior to contribution to the capital. The new bill restricts the right of a general meeting of shareholders in an LLC to release the shareholder from the obligation to make a contribution if the contribution is necessary to meet the obligations towards creditors or substantial for carrying out the company operations.

Unless specified in the charter, the contribution must be made within a reasonable time at the request of the JSC. However, such term shall not exceed a total of 5 years from the date of registration of the JSC or its capital increase, as applicable. At the time of registration of the JSC or increase of its capital, at least 25% of the nominal value of the shares must be paid in with cash contribution by the shareholders.

The draft law stipulates that in case of violation of the payment term by the shareholder, the annual interest will accrue on the overdue amount. The interest rate can be agreed upon in the company charter. In absence of such agreement, the fallback rate is double the NBG refinancing rate. In addition, in the event of breach of the time limit for a cash contribution by a shareholder, the management body of the company may initiate the process of foreclosure, which may result in the loss of the partially paid-in shares and related rights by the defaulting shareholder.

Capital maintenance and profit distribution

Arguably, the most important amendment introduced in the draft law concerns certain limitations on distributions. This serves to preserve capital adequacy and protect the creditors' interests.

The proposal to distribute dividends is made by the company management on the basis of financial statements, unless otherwise determined under the company charter. Both, LLCs and JSCs may distribute annual or interim dividends. The proposal has to be accompanied by a statement from the management that the proposed distribution will not cause the insolvency of the company and the company will be able to meet its obligations as they fall due in the course of the coming one year following the distribution. If the company is unlikely to meet such obligations or if as a result of distribution, the assets of the company are less than its liabilities and the subscribed capital, then such distribution is prohibited.

In other words, distribution is still allowed even if the company has not generated profit provided that the company has a positive net asset balance and in case the entity has subscribed capital - the net asset value exceeds the subscribed capital. The draft law also regulates the right of related parties, including shareholders, to have a contractual relationship with a company and receive compensation for the services they provide. This shall not be regarded as distribution and is generally allowed provided that such contracts are on arm's length basis.

In a JSC, distribution of dividends is allowed annually or semi-annually, unless:

prior to or as a result of the distribution of dividends, the net asset value of the JSC provided in the latest financial statements of the company, is less than the aggregate amount of the subscribed capital of the company and the reserves;

the aggregate amount of the distribution exceeds the financial indicators calculated in accordance with the draft law; or

as of the date of payment of the distribution or as a result of such distribution, the company becomes insolvent or is likely to become insolvent.

Change of Capital

The draft law introduces a complex mechanism for changes to subscribed capital.

Capital can be increased by way of issuing new shares or an increase of the nominal value of existing shares. The decision to increase the capital of the company shall be subject to a separate vote at least for each class of shareholder whose rights are affected by such decision. Such a decision is passed by a ¾ majority of votes. If the capital is increased by way of in-kind contribution, then such contribution shall be made within 5 years. The capital of a joint stock company may as well be increased by way of reinvestment of retained earnings or financial reserves of the entity, in which case the new shares issued as a result of such conversion shall be distributed to the existing shareholders pro rata to their share participation. ¶

Subscribed capital of the company can be decreased either by way of reducing the par value of shares or redemption of shares. Information on capital reduction must be published and reflected in the share registry. A decision to reduce subscribed capital is made by a ¾ majority of votes and is subject to a separate vote at least for each class of shareholder whose rights are affected by such decision. A decision to reduce capital can be made only on the basis of a proposal from management or the supervisory board if the JSC has one. Reduction of the subscribed capital is not allowed in certain cases, including if as a result of the reduction, the subscribed capital falls below the established statutory minimum of GEL 100,000.

The actual payments to the shareholders (or waiver of right to request paying in the unpaid portion of the capital contribution) during the capital reduction shall not be made earlier than 6 months after the publication of information on capital reduction. As a cumulative precondition, the actual payment can be made if the claims of the creditors derived prior to the publication of the decision on capital reduction are satisfied or secured by the company or dismissed by the court. No satisfaction or security is required if the financial condition of the company does not warrant the need to protect creditors. The latter enjoy a similar right to request security for their claims in case of reorganization of an entity jeopardizing the satisfaction of the creditors' claims.

The new Law on Entrepreneurs is planned to be enacted from 1 November 2021.

Existing entities shall be given 2 years to bring their respective capital in compliance with the requirements established under the new law. This is particularly relevant for JSCs where the new law establishes a minimum subscribed capital requirement. One way to avoid such obligation is to reorganize a JSC into a LLC, which does not require a minimum statutory capital.

Please apply for the professional advice prior to relying on the information given in this article. BLC and its team shall be ready and pleased to provide any information, legal advice and specific recommendations regarding the issues covered herein.

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US-Georgian partnership proves 'a woman's place' is in tech

According to a study in 2020, women-founded startups raised just 1% of investment in Central and Eastern Europe (CEE). 5% went to mixed-gender founding teams, while all-male teams raised 94%. Yet female-founded startups generate more revenue per euro invested and female-led businesses outperform in capital productivity by 96%.

In these tough economic times it is not wise to leave many of the 'best and the brightest' out of high-economic-impact activities. While Georgia does better than many CEE countries on female founding of startups, the majority of founders are still male, so there is still tremendous opportunity to unlock.

To help Georgia tackle this issue and unlock the potential, the US Market Access Center, a Silicon Valley startup growth company, have partnered with Startup Grind Georgia to launch Georgian Women in Tech.

The USAID Economic Security Program was the lead sponsor of the program and provided tuition for startups Beauty Lab, Bioms Nano Fertilizers, Bizon, Pulsar AI, and Shenia. UN Women also joined by supporting MULTI, and BTU Business and Technology University did a partial scholarship for Trice AI and Caucasus University for Doggo Pair; these startups were joined by international female founders from Italy, France and other countries.

Trainings were held mostly online, with limited in-person sessions when mentors visited Georgia. "While it's a shame we could not hold the program in-person, it is amazing to see the connections and value that participants are still getting. We're proud of our team and the Silicon Valley experts for successfully making the switch to online training & mentoring", says Kate Bunina, Managing Director of US Market Access Center.

In fact, doing the program mostly remotely allowed for high-level mentors and trainers that would otherwise have been unavailable for live trainings due to distance or budget concerns, includ-

ing: Head of DEI Technology Programs at Google Natalia Villalobos; Senior Director Corporate Development from Oracle Anna Vissers; Manager, Innovation & Partnerships at T-Mobile Christina Claire, and; Sheana O'Sullivan - managing director, head of US at FirstCapital.

In addition to the very high level of Silicon Valley speakers, the environment was important to the challenges startup founders face when making something out of nothing.

Keta from Beauty Lab comments:

"As an entrepreneur you face a lot of challenges and sometimes you feel lost and not safe. This program gives me a safe space where I'm not afraid of challenges that I face everyday and it helps me to be ready for the future ones as well. This program is not only business, but also personal advancement for me and I'm inspired by hearing the stories of female leaders."

The US Market Access Center takes a "founder centered" approach and the development of founders is what they feel drives a startup ecosystem.

"Frankly it's all about the founder. A given startup idea may or may not be the

one which goes big, but if founders are developed as highly capable leaders they may not succeed on their first attempt but they learn and grow to tackle ever more exciting opportunities", says Chris Burry, co-founder of US Market Access Center, the organizers of the GWIT program.

Kate Bunina, the managing director of the program, emphasized how unique the program is because of the mentors and speakers it involves: "It's very important that founders can get a feel for the Silicon Valley culture and environment. We can't fly every founder to Silicon Valley so programs such as ours allow founders to get connection and exposure to top Silicon Valley leaders and a feel for the pace and scale that is possible and expected there. We're excited to take ambitious founders and give them even more ambitious goals and dreams. Really there is no place in the world like Silicon Valley for dreaming big, and we're so proud of giving our founders a dose of this."

Companies involved were varied but all had potential to scale into markets beyond Georgia. The initial training phase in fall was followed by a longer phase where project 'sherpas' help founders travel farther faster and give them unique insights and connections, with the total program supporting founders over six months touching on a variety of topics.

This collaboration between US Market Access Center and Startup Grind Tbilisi was not the first; Georgian startup Phubber gained their first investor at an event US Market Access Center hosted in Silicon



Bizon co-founders Nato Toronjadze and Salome Ghudushauri



Shenia co-founders Marika Tsulukidze and Marika Loria

Valley with Startup Grind as partner.

Startup Grind director Gio Tukhashvili invited Eugene Fooksman, an early core team member at Whatsapp, to attend the event and he and Phubber connected, resulting in a first \$100,000 check to Phubber and 9 months later another for \$300,000 at double the valuation.

This US acceleration program Phubber took part in was also funded by the USAID Economic Security Program and implemented by the US Market Access Center.

The Georgian Women in Tech program is a first step for US Market Access Center doing 'on the ground' programs in Georgia; GWIT director Kate Bunina and the US MAC co-founder Chris Burry have recently moved to Georgia.

"I'm very excited that Georgia has captured the interest of such a strong institution as US Market Access Center",

says Colin Donohue, Director of Startup Grind Tbilisi, "They have worked with literally thousands of startups in dozens of countries around the world. Having them basing a team here is an amazing signal validating Georgia's startup efforts. Many places can have startup organizations come in on a 'pay to play' basis but they leave when the project funding finishes. USMAC making a commitment to Georgia independent of any big contract or funding is an exciting signal. GWIT is a great step in sharing their experience and we look forward to exploring how we can collaborate to build a strong startup ecosystem here overall".

The next Georgian Women in Tech cohort will begin July 2021. More information about the program can be found here: <https://www.georgianwomenintech.com>



Chief Operating Officer at Pulsar AI
Sopo Chkoidze



Project manager at bioms Nano Fertilizers Laboratory
Maka Tsertsvadze

Bizon is a marketplace for the sale and rental of construction and agricultural equipment. Given many companies and farms need equipment they don't have capital to purchase themselves, Bizon unlocks the opportunity to get important work done via rental without undue capital cost.

• • •

Bioms Nano Fertilizers is a startup taking the research from a female researcher and putting it onto the market with advanced organic fertilizers which don't just fertilize but also build soil and enhance disease resistance.

• • •

Shenia makes customized children's books using the child's name and teaching socially-beneficial values.

• • •

Pulsar AI is developing 'conversational AI' for auto dealerships, allowing car buyers with questions about car's features to be served by a bot which learns from big data and can relevantly answer questions. Pulsar operates in the US market and just secured their 50th auto dealership as a customer.



What Georgia stands to gain from ending food waste

THE CAUCASUS ENVIRONMENTAL NGO NETWORK (CENN) SHOWS HOW ENDING FOOD WASTE IN GEORGIA CAN ALSO END HUNGER, LESSEN ENVIRONMENTAL POLLUTION AND LIFT BURDENS ON BOTH THE BUDGET AND THE ECONOMY

NANA TAKVARELIA, CENN

A third of the food produced across the world never reaches the consumer and goes to waste. And even when it does make the perilous journey to our kitchen, a large portion of it still ends up in the bin.

The most comprehensive assessment of food waste to date, the UNEP Food Waste Index, shows that worldwide, people waste almost a billion tonnes of food a year, and 61% of food waste is produced at the household level.

Wasting food has enormous consequences socially, environmentally, and economically.

The biggest issue that has exposed cracks in the way our food systems are designed is that it's not only the left-over scraps that end up in landfills: perfectly

edible food ends up in landfills when it could be used to feed those who need it the most.

This has become particularly apparent in Georgia during the pandemic, when many have lost their jobs, are going hungry or cannot afford a healthy diet.

Another reason to be raising the alarm: food waste causes about 10% of the greenhouse gas (GHG) emissions that are driving the climate change emergency. Food waste that decomposes in landfills releases carbon dioxide and methane. Methane is a GHG that is at least 28 times more potent than carbon dioxide, accounting for more greenhouse gas emissions globally than all of the commercial flights we take each year. When food is lost or wasted, so are the vast amounts of resources that have gone into producing it.

The UNEP report mentioned above writes that 931 million tonnes of food waste was generated in 2019, 61% of which came from households, 26% from food service, and 13% from the retail sector.

The reasons behind food waste can range from anything from products being too close to the expiration date, to incorrect labeling, (even slightly) damaged packaging, deterioration of the quality of fresh products, over-supply, large portion sizes, or poor phytochemical and storage practices.

FOOD WASTE IN GEORGIA

Although there is no data available to measure food waste levels in Georgia, we know from waste composition reports produced by CENN that over 40% of the waste in the country's landfills is organic waste, large portions of which consist of food products.

Food waste has a substantial impact on the economy and accounts for a huge loss of revenues for all actors in the food supply chain, including the government and the consumer.

Unlike many other countries, Georgia does not have food banks, nor does it have a legal framework to incentivize food donations for recovery and redistribution of food to vulnerable groups.

This is most evident in the case of business taxes: businesses still have to pay profit tax (15%) and VAT (18%) on donated products. There is an exemption of corporate profit tax if donating to charitable organizations, which is valid only if the total deductible amount does not exceed 10% of the net profit made by the organization during the preceding calendar year.

For this reason, quite a high amount of food waste is being generated, particularly at the retail level, instead of it being redistributed to those who need it

the most. Many supermarkets in Georgia tend to remove products from shelves one to two weeks prior to the expiry date to avoid potential problems of liability or accusations of poor quality. Some supermarket chains in Georgia throw out between 300 and 500 kg of products every few days per branch.

This level of inefficiency in our food systems puts a significant strain on the country's economy.

Last month, the Caucasus Environmental NGO Network (CENN), with the support of the British Embassy, kicked off a new project called "Sustainable Food Systems for Climate Resilience."

The project aims to contribute to a reduction of the country's GHG emissions by initiating a dialogue between the private and public sectors and advocating relevant policy changes at the governmental level. For this reason,

CENN has put together a Food Waste Working Group composed of key actors in the food industry affected by this issue and will be advocating policy changes.

CONSUMER AWARENESS

A lot can be said about consumer habits and awareness as consumer behavior is one of the biggest drivers of food waste. Consumers are less likely to buy and consume fruits and vegetables due to their aesthetic or physical irregularities. As such, one third of the fruits and vegetables globally do not make it to our grocery store shelves because they are rejected to avoid complaints of bad quality by consumers.

More than 820 million people go hungry every day, and climate change is increasingly harming agriculture. Saving ugly fruit and vegetables isn't just a question of ethics, it is a question of

resources.

Lack of planning and overbuying is leading households to throw away food, which is money wasted. But what is also causing high amounts of food waste in households is the lack of knowledge, whether it's knowing how to use leftovers from the table to come up with new meals, using scraps for composting, or more importantly, reading food labels correctly.

FOOD LABELING

Products considered "high risk," such as meat, usually include Use By dates on their packaging, which means the product should be consumed by that date. Low-risk products, such as grains, are usually labeled with a Best Before date, which means that the product can still be consumed after the indicated date. Food past its Best Before date may lose some qualities, such as a strong aroma, but it is still usually perfectly edible.

Reducing food waste will have economic, social and environmental benefits. It would cut greenhouse gas emissions, slow the destruction of nature through land conversion and pollution, enhance the availability of food and thus reduce hunger, and save money at a time of global recession.

CENN, with the support of the British Embassy, is running an awareness-raising campaign on food waste with the aim to influence consumers to abandon their wasteful habits. As part of the campaign, various influential restaurants and chefs are stepping forward to provide tips and advice on how people can reduce their food waste in their restaurants and households.

It is clear that we need to reconnect to our food and to remember its value and resources that go into its production and understand how we, as individuals, contribute to the problem of food waste.





Agronavti: USAID-funded mobile application brings innovation, efficiency to Georgian agriculture

Agriculture remains the largest source of employment in Georgia, accounting for roughly 40% of the country's workforce. However, agriculture's relative contribution to gross domestic product is shrinking, falling from 10.3% in 2011 to only 7.4% in 2019.

Gaps in skills and market information currently hamper the sector's ability to generate revenue and exports, and have resulted in surprisingly high food imports for a country with significant agrarian resources.

However, the development of mobile technologies, combined with increasing consumer preferences for 'eating local,' means the agricultural economy has tremendous room for growth. Encouraged by global trends, a growing number of Georgian firms—including supermarkets, hotels, and restaurants—are looking to replace imports with domestically p

roduced fruit, vegetables, dairy and meat products.

The challenge, many of these firms find, is in sourcing high-quality produce in stable and sufficient volumes for commercial consumption. Most individual farmers are eager to reach larger markets but lack the ability to provide sufficient volumes of high-quality products to meet growing consumer demand.

The United States Agency for International Development (USAID) is partnering with the Georgian Farmers' Association (GFA) to help bridge this gap, and thus drive job creation and income growth across Georgia. Through their collaboration, USAID, the leading development arm of the U.S. government, and the GFA, a non-profit organization that increases the productivity of farmers, are helping food producers improve the quality and quantity of their production and build connections with large-scale

commercial purchasers.

One of the fruits of this partnership is Agronavti, a mobile match-making platform that allows local farmers to sell their products to hotels and restaurants affiliated with the Adjara Group, one of Georgia's leading hospitality firms. Developed by the GFA with USAID financing and in partnership with the Adjara Group, the app is being taken up by a growing number of both farmers and firms in the hospitality industry.

And it's working: since 2017, participating farmers have used the app to make \$4.4 million in sales. Agronavti has been so successful, in fact, that in 2020 the GFA spun it off into a private entity, Agronavti LTD, which is capable of driving further development and expanding to new regions and value chains.

By charging a 10% fee on all products distributed through the app, Agronavti is setting itself up to become a commercially sustainable business in its own right.

WORKING WITH THE PRIVATE SECTOR TO SOLVE A PROBLEM

The story of Agronavti began in 2017, when the GFA entered into a contract-farming agreement with the Adjara Group, a hospitality holding company with a chain of hotels and restaurants in several Georgian cities, which was searching for a way to source high-quality food produced in Georgia.

The contract provided the opportunity for GFA member farmers to sell their products directly to Adjara Group hotels and restaurants, providing a lucrative and stable market. This was a win-win, with the Adjara Group gaining the ability to provide its customers with high-quality, locally-produced food, and the GFA establishing a large and stable market for its member farmers.

"[The Adjara Group] wanted to supply its restaurants with more local food

and less imported food,” said Tamar Toria, Executive Director of the GFA. “They tried to do this on their own but it was very difficult. They asked for our help in connecting them with farmers producing high-quality produce.”

For the GFA, a partnership with the USAID Zrda Activity in Georgia program, which was then providing grants to develop mobile tools for farmers, was a natural match. With USAID funding, the GFA was able to contract a local tech firm to design the Agronavti app.

“USAID is always looking for ways to promote innovation and private sector-led solutions that can support economic growth and generate higher incomes and high-value employment,” said Marika Olson, Office Director of USAID/Georgia’s Economic Growth Office.

The app’s first version was fairly straightforward. “We wanted to simplify the matchmaking process and include more farmers into the existing scheme that we had been operating in partnership with the Adjara Group,” added Toria. However, they soon realized that they could offer more than a matchmaking app, and even provide farmers with a market information system (MIS) that would not only create market linkages, but help farmers improve the quality and efficiency of their production.

“During the app development process, we realized that the GFA’s model,

being unique in its matchmaking offer, could also serve as a one-stop-shop for its users. So we added other functionality of offering more information, such as weekly prices for agro products,” said Toria.

Agronavti was expanded to provide farmers with real-time information about prices and weather forecasts, as well as access to research and training materials.

When Agronavti first launched, only a handful of farmers could meet Adjara Group’s quality and quantity standards. The GFA, with USAID assistance, continued to help farmers improve their products’ quality through technical assistance and the promotion of GeoGAP, a local certification scheme that is a domestic marker of quality for local farmers.

The investments made in improved quality and certification have allowed more farmers to benefit from Agronavti. There are now more than 150 products available through the application, with more farmers adding their products every day. And, with the \$4.4 million in sales achieved since 2017, farmers have been able to hire more workers and reinvest more of their profits into innovations to improve the quality, efficiency, and scale of production.

GeoGAP is key to the continued success of Agronavti, but it has implications beyond the app. “We see the GeoGAP certification system, and the improved

quality that it represents, as an important development for Georgian farmers. It is a stepping stone to more lucrative markets, both in Georgia and abroad. We hope to use it as a model for greater agricultural value in Georgia and across the region,” said Olson.

SUPPORTING FARMERS THROUGH A COMMERCIALY SUSTAINABLE BUSINESS MODEL

Agronavti was developed and promoted with USAID assistance, but both the GFA and USAID saw the potential for it to become financially self-sustaining. Toria and her colleagues worked with the USAID Zrda Activity in Georgia program to develop a business model that could sustain itself without donor financing. “We realized it was crucial that the application be effectively monetized in order to generate sufficient revenues to cover its own costs and potentially provide profits to GFA as owner of the application,” said Toria.

In 2020, Agronavti LTD was born, and the new company made an instant splash, winning a 100,000 GEL grant from Georgia’s Innovation and Technology Agency (GITA) to integrate artificial intelligence (AI) into the application. AI will allow the app to provide farmers with recommendations based on soil analyses, weather forecasts, and best practices in agribusiness management. This will build the capacity of local farmers, helping them provide more produce to participating restaurants and hotels. It will also funnel more revenue back into Agronavti LTD, helping it to grow and benefit more businesses.

To learn more about USAID/Georgia programs and partnership opportunities, visit [USAID.gov/Georgia](https://www.usaid.gov/georgia) or contact Beverly Hoover, USAID/Georgia’s private sector engagement coordinator, at bhoover@usaid.gov.





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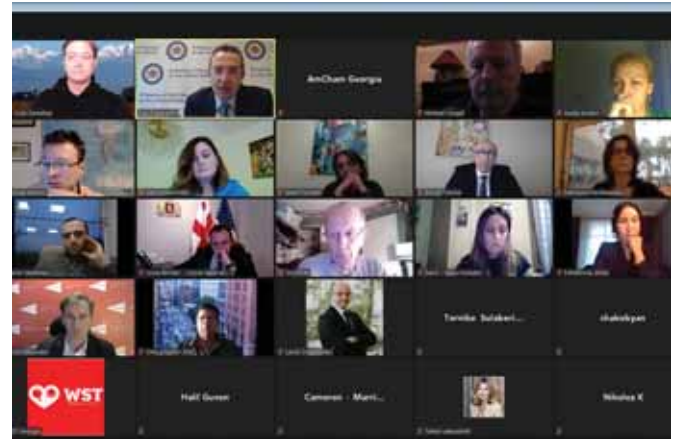
AmCham hosted a virtual Construction and Real Estate Committee Meeting on February 4 with invited speaker and President of the Georgian National Association of Real Estate Mariam Demuria who briefly presented about the association and shared her insights into the sector. Members updated each other on current challenges encountered in the industry.

ENVIRONMENTAL BUSINESSES COMMITTEE MEETING



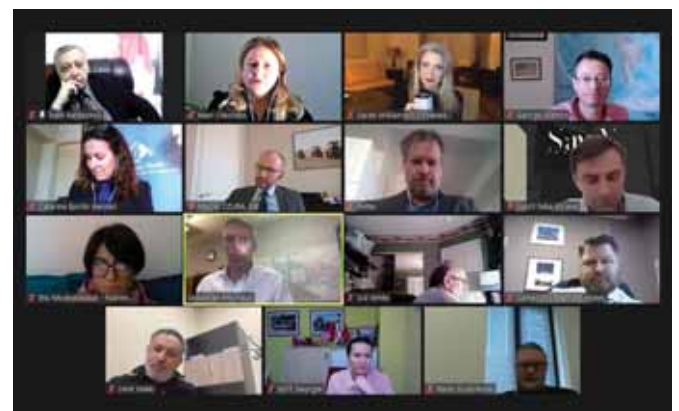
AmCham hosted a virtual meeting of the Environmental Committee on February 9 with invited guest Nana Takvarelia from CENN who presented on their new project Sustainable Food Systems for Climate Resilience, which aims to reduce food waste in the country by facilitating a dialogue between the private, civil, and government sectors and raising awareness.

AMCHAM MEETING WITH AMBASSADOR OF GEORGIA TO THE US DAVID BAKRADZE, DEPUTY CHIEF OF MISSION GIORGI TSIKOLIA



AmCham Georgia spoke with Ambassador of Georgia to the United States David Bakradze and Deputy Chief of Mission Giorgi Tsikolia and the General Consul in San Francisco Levan Beridze on February 16. They gave their take on current US politics, the prospects for US-Georgia relations and planned activities to promote Georgia commercially in the US. The meeting involved a lively Q+A.

MEETING WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN GEORGIA



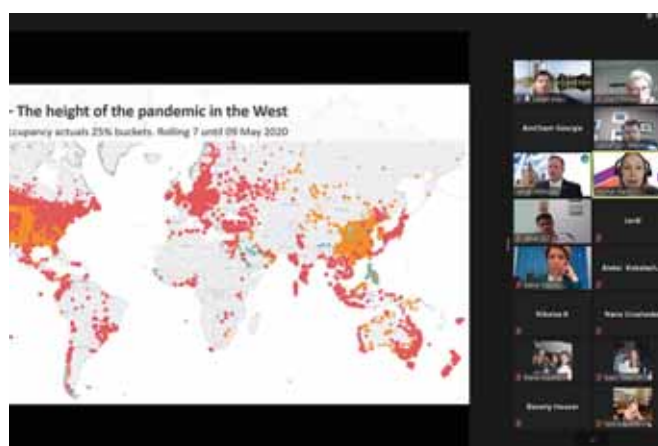
On February 22 AmCham Georgia hosted a Zoom meeting with International Financial Institutions in Georgia represented by Catarina Bjorlin-Hansen, EBRD Regional Director for the Caucasus, Maciej Czura, European Investment Bank Head of Regional Representation for the South Caucasus, Sebastian Molinueu, World Bank Regional Director for the South Caucasus and Shane Rosenthal, Asian Development Bank Country Director for Georgia.

TOURISM COMMITTEE MEETING WITH INVITED GUESTS



AmCham Georgia organized a virtual meeting of the Tourism Committee with invited guests Mr. Borivoj (Borik) Vokrinek and Ms. Tekla Iashagashvili from Cushman & Wakefield on February 25, who gave a presentation on the “Outlook of the Hospitality Market”, which was followed by a Q&A session.

HOSPITALITY DATA COMPANY STR PRESENTS ON RECENT TRENDS IN SECTOR



AmCham Georgia organized a virtual meeting of the Tourism Committee with hospitality data company STR on March 21 with invited guests Ms. Sophie Hanlon, the Senior Business Development Manager and Mr. Jakub Klimczak, Regional Manager of Central Europe. The speakers presented on the impact of Covid-19 and shared their views on future. The presentation was followed by a Q&A. Members also had an opportunity to share updates about the current challenges of the sector.

AMCHAM EXECUTIVE DIRECTOR GEORGE WELTON PRESENTS RESEARCH FOR EBRD ON CHALLENGES IN GEORGIA-EU TRADE



AmCham Georgia hosted a virtual meeting with AmCham Executive Director George Welton on March 17 on his research on challenges in Georgia-EU trade which he conducted for EBRD. The presentation was followed by a lively Q+A.

CLT COMMITTEE MEETING



AmCham's CLT Committee met on 18 March. The Committee discussed ongoing current legal issues and AmCham's involvement. In particular the Committee discussed tax issues, new provisions as to VAT taxation, labour code amendments and their practical implementation and draft regulation on foreign ownership of agricultural land via investment plan route.

AGRIBUSINESS COMMITTEE MEETING



AmCham hosted a virtual Agribusiness Committee on March 31 to discuss the current situation in the sector. In particular the Committee discussed: agricultural land investment plan procedure, an update on Brown Marmorated stinkbug (BMSB) / parosana and overview on the new Georgian Nursery Association (GEOSSA).



American Hospital Tbilisi Corp A

American Hospital Tbilisi (AHT) is intended to operate in accordance with international standards, reflecting Best Practices in the provision of a leading-edge standard of clinical and customer care. This implies that AHT will initially meet and constantly maintain the accreditation requirements of the Joint Commission International (JCI). AHT will be the fully-accreditable hospital in Georgia.

ahtbilisi.com



Enka Renewables LLC Corp B

Enka Renewables LLC is developing Namakhvani Hydropower Cascade (HPP) project in Georgia, in particular in Tsageri and Tskaltubo municipalities on Rioni river withing the scope of Build Own and Operate Agreement (BOO) signed on April 25, 2019 with the Government of Georgia.

enka.com



Zinc Network LLC Corp B

The Georgian Information Integrity Program is a USAID funded project implemented by Zinc Network. The company aims to combat disinformation in Georgia.

zincnetwork.com



PH International (Project Harmony Inc.) Non-Profit

PH International (formerly known as Project Harmony, Inc.) is an international non-profit organization working with people, communities, governments, academia, and corporations to build strong global communities by fostering civic engagement, cross-cultural learning, and increased opportunities in the digital age. PH International began its first educational, cultural, and public diplomacy programs in Georgia in 1986 and has had a permanent branch office in Tbilisi since 2000. With support from various U.S. Department of State bureaus, the U.S. Embassy in Tbilisi, USAID, and private sector partners, PH International Georgia implements diverse and complex multimillion dollar in-country, regional, and international programs. With its cross-cultural team, in-country regional NGO partner network, and partnerships with government, private sector, and academia, PH Georgia is known for its grassroots programming approaches that promote local ownership, citizen empowerment, and sustainability. Some of PH Georgia's flagship initiatives include: professional, cultural, and educational exchange programs to the U.S. for Georgian adults and youth; the legal socialization initiative which focuses on juvenile crime prevention with an emphasis on supporting community policing approaches; civic education programming, improving the quality of school-based civic education and its practical applications in 60% of Georgian schools while also promoting informed and responsible citizenship; countering violent extremism through online and offline campaigns, capacity building and training; and English language programs providing specialized training to teachers and youth and improved English teaching and learning throughout Georgia by working in formal and non-formal educational settings across the country.

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