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STORM, BUT IS THE GRID GETTING
BURNT BY THE SUN?

HELP WANTED. HOTELS ARE
OPEN, BUT WHERE ARE THE
STAFF?

FRESH IDEAS, FRUITS AND
FUNDING IN GEORGIAN
AGRICULTURE

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Startups on the move – to Georgia





ISBANK GEORGIA AT NEW LOCATION



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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.

ROTHSCHILD & CO TO DRAFT STRATEGY 'FOR GEORGIA TO BECOME REGIONAL FINANCIAL HUB'

Rothschild & Co, one of the largest independent financial service groups, will develop a strategy for Georgia to facilitate its transformation into a regional financial hub. An agreement supporting this decision was signed between the Managing Partner of Rothschild & Co Arielle Malard de Rothschild and the government of Georgia represented by its Prime Minister Irakli Garibashvili on December 16, 2021 in Brussels. PM Garibashvili tweeted at the time that becoming a regional multi-functional hub linking Europe and Asia will bring prosperity to the Georgian people. Rothschild & Co will also work to attract more investments and grants for Georgia, PM said.

FINANCIAL SECTOR LEADS FDIS IN Q3 2021

Foreign direct investments (FDI) in Georgia amounted to USD 299 million in the third quarter of 2021, increasing 1.4% compared to the same period last year, GeoStat data show.

The three sectors with the largest share of FDI for the reporting period include the financial sector with 87.1 million USD (29.1%) in investments, the energy sector with 69.3 million USD (23.3%), and the manufacturing sector with 54.8 million USD (18.3%) in direct investments. The top three countries with the largest amount of investments for the same period were

the United Kingdom with 60.9 million USD (20.4%), the Netherlands with 59.8 million USD (20%), and the Czech Republic which invested 36 million USD (12%) during the third quarter of 2021.

UPDATES FROM GEORGIAN AGRICULTURE



Tangerine exports were up 34% in the last four months, reaching 31,900 tonnes, bringing in USD 15.7 million of revenue. The largest importers of Georgian tangerines are Russia with 22,267 tonnes, Armenia with 5,254 tonnes, and Ukraine with 3,138 tonnes.

Georgian hazelnuts are also on the up, with a 28% y/y increase in exports between August 1, 2021 and January 23, 2022, the Georgian Ministry of Agriculture and Environmental Protection reports. Revenue generated from export equaled USD 84.5 million, which is USD 8.3 million higher than last year. The export price for hazelnuts has grown by 11% for the same period.

The largest importers of Georgian hazelnuts are Armenia, China, Russia, Ukraine, Italy, Germany, Spain, Czechia, Poland, France and Lithuania.

EIB INVESTS €34 MILLION IN RURAL INTERNET PENETRATION IN GEORGIA

The European Investment Bank (EIB) has pledged to invest €34 million to provide open access internet infrastructure for approximately 500,000 people residing in rural and remote areas of Georgia. Georgia will receive finances from the EIB to install approximately 5,000 km of optic fibre cables. This investment will ensure improvement of life and create new business opportunities, the bank representatives said.



GEORGIA, UAE SIGN AGREEMENT ON STARTING FREE TRADE AGREEMENT NEGOTIATIONS

The United Arab Emirates may be the next country with which Georgia concludes a free trade agreement.

An MoU to begin negotiations was signed on December 29, 2021, the Ministry of Economy of Georgia stated. The ministry expects negotiations will conclude by the end of the year. Turnover between the two countries has been increasing in the past year despite the pandemic. Exported products include agricultural produce, fruits, vegetables, meat products, mineral water among others.

GEORGIA'S NET INTERNATIONAL INVESTMENT POSITION AT NEGATIVE \$25.6 BILLION

The net international investment position (IIP) of Georgia, which measures the difference between external financial assets and the liabilities of a country, amounted to negative USD 25.6 billion as of September 30, 2021, the National Bank of Georgia states. Net IIP decreased by USD 319.8 million compared to the previous quarter. International assets equaled USD 11.1 billion as of September 30, 2021, showing a USD 150.3 million increase quarterly. Liabilities increased by USD 470.1 million in the reporting period, amounting to 36.7 billion USD.

INTERNATIONAL FINANCE HUBS PLANNED IN TBILISI, GONIO

The Georgian government is planning to create international finance hubs in the capital city of Tbilisi and a coastline town of Gonio at the Black Sea, Minister of Economy of Georgia Natia Turnava reported.

These hubs will facilitate international companies to register in Georgia and relocate their activities to the mentioned zones. While the government expects the launching and development of such financial hubs to bring in foreign direct investments to the country, they are also aimed at active development of the regions in which they are launched, as well as create additional jobs.

Prime Minister Irakli Garibashvili named "establishing the country as a regional financial centre" as one of the advantages of such international finance hubs. A total area of 110 hectares will be allocated near the Tbilisi Sea area and on the territory of

Gonio for the development of infrastructure for the said financial centers.

GEORGIA WINE EXPORTS SET RECORD HIGH IN LAST 9 YEARS

The total export of Georgian wine amounted to about 107 million bottles to 62 countries in 2021. This number sets a record high in the last nine years of Georgian wine export. Foreign sales generated USD 250 million. A total of 441 companies



exported their wine in 2021. The same indicator only showed 100 companies in 2012. Wine export has increased by 360% compared to 2012, Prime Minister Irakli Garibashvili stated. The total export of alcoholic beverages generated USD 400 million in 2021, which is 18% higher compared to 2020. Besides wine, classic brandy, Georgian chacha are being exported among others.

STADLER RAIL TECHNOLOGY CONSIDERING OPENING FACTORY IN GEORGIA

Plans to open a Stadler Rail factory in Georgia were discussed at a meeting between the Prime Minister of Georgia Irakli Garibashvili and Stadler Chairman of the Board of Directors Peter Spuhler.

Stadler, a Swiss-based internationally recognized rail technology company that produces railway rolling stock, is considering the possibility of opening a factory to manufacture railway components locally in Georgia as well as offer repair service. The favourable business environment and

ongoing and planned reforms in the country were also discussed at the meeting, the Georgian PM's office says.

MORE ECONOMIC FIGURES

Incoming money transfers in December 2021 equaled USD 229.5 million, making for a 14.9% increase compared to December 2020. Largest senders are Russia (39.70 million USD), Italy (37.88 million USD), and the United States (26.65 million USD).

The annual inflation rate for 2021 is at 13.9%, mainly influenced by the following price changes: food and non-alcoholic beverages (+15.6%), transport (+17.3), housing, water, electricity, gas and other fuels (+43.5%).

Gross external debt for the third quarter of 2021 increased by USD 130.9 million compared to Q3 2020, and as of September 30, 2021 amounts to USD 21.0 billion, equalling 120% of the annual GDP. At the same time, nominal GDP equaled GEL 15.99 billion while real GDP increased by 9.1%, preliminary data from the National Statistics Office of Georgia show.

DOMESTIC EXPORTS UP NEARLY 27%

Georgia's top trading partners in 2021 by external turnover remained Turkey (2.1 billion USD), Russia (1.6 billion USD), and China (1.4 billion USD), preliminary data from the National Statistics Office of Georgia show. The country's top trading partners by import for the same period are Turkey (1.8 billion USD), Russia (1 billion USD), and China (864.8 million USD), while the countries that became top trading partners by export are China (615.6 million USD), Russia (610 million USD), and Azerbaijan (531.7 million USD). Locally produced Georgian goods worth USD 4.2 billion were exported in 2021, showing a 26.9% growth compared to last year.



Georgia brings home the gold – and international awareness – for Christmas

WHILE THE COUNTRY WAS BUSY READYING ITS SUPRAS FOR THE EXTENDED HOLIDAY SEASON AT THE END OF LAST YEAR, ARTISTS AND ATHLETES CONTINUED TO REPRESENT GEORGIA, WINNING PRIZES AND ACCOLADES FOR THEIR OUTSTANDING ACHIEVEMENTS ON THE INTERNATIONAL STAGE. INVESTOR.GE BRINGS YOU SOME OF THE HIGHLIGHTS FROM THE HOLIDAY SEASON IN THE WORLD OF GEORGIAN ARTS AND SPORTS.



Georgian film Brighton 4th by director Levan Koguashvili won Best Film award at the Red Sea Film Festival in Saudi Arabia in December 2021

FILM

Cold temperatures may have kept many at home this holiday season, but Georgian cinema was rolling at a steady burn.

Georgian film Brighton 4th by director

Levan Koguashvili won Best Film award at the Red Sea Film Festival in Saudi Arabia in December 2021. The film tells the story of a former Olympic wrestler from Georgia on his trip to the US to help his son out of a gambling debt. The film has also been selected as an Academy Awards contender for best international feature film in October 2021. Other awards Brighton 4th currently has under its belt include from the Asian World Film Festival, Tribeca Film Festival and Film Festival Cottbus.

Georgian film directors are also in focus at Italy's most renowned Trieste Film Festival, taking place between January 21-30, 2022. Every year the festival has a range of sections, showcasing the best pieces of cinematography in various genres. This year the festival explores films from European female filmmakers in the category Wild Roses: Women Filmmakers in Europe. The works of nine Georgian female filmmakers will be presented within this program scheduled to offer in-person viewings.

The audience will be offered films from female Georgian film directors that have already achieved recognition at other festivals, including, among others, Salome Alexi's Line of Credit set in the recession-hit Georgian economy, award-winning House of Others by Rusudan Glurjidze that tells the story of the protagonist in the post-conflict 90s, and Taming the Garden, a documentary by Salome Jashi that follows the story of massive ancient trees transported at great cost to a private garden of a politically powerful person. In addition to the showcasing, Georgian filmmakers

will also participate in industry networking and pitching sessions.

CULTURE

The Bolnisi Museum has been nominated as a contender for the European Museum of the Year Award. The award, established in 1977, marks "excellence and innovation in the museum field". Part of the Georgian National Museum network, the Bolnisi Museum includes permanent exhibitions showcasing the region's natural and historical artifacts, and has a hall fully dedicated to the life of the 19th century German settlers in the region of Kvemo Kartli and Bolnisi in particular.



The Bolnisi Museum includes permanent exhibitions showcasing the region's natural and historical artifacts

The first ever Georgian-language edition of Domus magazine was published at the end of last year in December. Originally founded in Italy in 1928, Domus is dedicated to architecture and design and is now one of the most prestigious publications in the field. While being an international English-language magazine, it has several local editions in German-speaking countries, South Korea, Mexico, and China. Georgia will be the first country in Eastern Europe to publish its own edition in the local language. The launch also means that Georgia will be joining the Domus international platform as its newest member. Publishers emphasized the contribution the magazine can make to "improving the level of education" and introducing the world to prominent and emerging architects from Georgia.

A virtual reality-based installation by artists Mariam Natroshvili and Detu Jincharadze was selected by the Venice Biennale to represent Georgia at the next international event starting April 2022. Named "I Pity the Garden", the project takes a look at the inevitable change in natural and cultural landscapes using VR as its centerpiece, while being also accompanied by a "large-scale video

installation”.

This year the biennial, which comprises several events, celebrating art, architecture, music, theater, film, and dance, will be held around the theme of The Milk of Dreams. Taking its name from the book by a surrealist artist Leonora Carrington, it will focus on projects that have a concept of an “imaginary journey through metamorphoses of the body and definitions of humanity” at their core.

Georgia signed an agreement on the country's inclusion into Creative Europe, a European Union initiative set to provide support in the sphere of culture and creative sectors for its member and partner states on December 8, 2021. The program directs its budget at helping creative professionals and organizations “to cooperate and co-create across borders”, promoting cultural diversity. Georgia first joined the program in 2015, being the first country from the Eastern Partnership to become a member of Creative Europe. The second phase will run between 2021-2027 and among other goals, aims at supporting the news media sector and use of technologies, while also reinforcing resilience of media and audiovisual industries.

A new development has been added to the now widely famous Gaprindashvili vs Netflix court case, with a hearing set to be held with the United States District Court in the Central District of California on January 24. Nona Gaprindashvili filed a defamation case against Netflix after its 2020 TV show *Queen's Gambit* referred to her as having never played against men.

Gaprindashvili, who was the first woman to be awarded the title of the Grandmaster by FIDE in 1978, has been specifically known for playing against men throughout her career. Her case has become a point of great interest to Georgians due to the role she played in the chess history of the country.

As Gaprindashvili's legal team announced, prior to the hearing, screenplay author Scott Frank was interviewed by the attorneys representing the Georgian Grandmaster in the US hearing. Earlier in September last year, Netflix refused to remove the disputed reference or apologize to Gaprindashvili for calling her Russian instead of Georgian throughout the series.

A Georgian cultural center will be launched on the banks of the Jordan River. A 4,000 square meter land plot was presented to Georgia by the decision of

the royal family of Jordan. A commission will be set by the Government of Georgia to develop a concept for the cultural center that will be located near the site of the baptism of Jesus Christ. Earlier Prime Minister Garibashvili named the construction of the Georgian cultural venue in Jordan, strongly supported by the Patriarch Ilia II, “a return to the holy land”.

WINE

A traditional Georgian wine cellar opened in the Brazilian state of Goiás in December 2021 with the support of the Embassy of Georgia. Known for its use of large clay vessels, the qvevri, Georgia's unique winemaking method has been on the UNESCO list of Intangible Cultural Heritage since 2013. Brazil isn't the only country to play home away from home to Georgian wine-making methods. Both Sweden and Japan have opened maranis producing Georgian wines. The Swedish wine cellar uses Georgian technology with local grapes, while Japanese company Tokachi Wine, on the market since 2000, released its first qvevri-made wine in 2020.

SPORT

The end of 2021 saw renowned Georgian weightlifter Lasha Talakhadze awarded the title of the Weightlifting World Champion as well as winning three gold medals at the competition held by the International Weightlifting Federation in Tashkent, Uzbekistan. This is Talakhadze's fifth world champion title.

At the spot event in Tashkent, he broke three of his own records, having shown improved figures in Snatch and Clean & Jerk categories, while also increasing the total sum of weights lifted. Talakhadze showed a combined result of 492 kg, having mastered 267 kg for the Clean & Jerk



At the spot event in Tashkent, Talakhadze broke three of his own records.

attempt, and 225 kg in Snatch.

Georgian fencer Sandro Bazadze who represented the national fencing team in the 2021 Tokyo Olympics won silver medal at the CN2 Elite Sabre competition in Pau, France after losing the final to the French fencer Bolade Apithy with a score of 14-15. Bazadze's team won the round of French fencing club championships with the score 45-31.

MUSIC

Georgian baritone George Gagnidze will be performing in Metropolitan Opera in New York City for David McVicar's staging of *Tosca*. In this classic by Puccini, Gagnidze will don the role of Scarpia and share the stage with a number of renowned performers, including sopranos Son-

dra Radvanovsky, Elena Stikhina and Aleksandra Kurzak, and tenors Brian Jagde, Joseph Calleja and Roberto Alagna. Production was opened in early December and will continue until March. His role in *Tosca* will mark Gagnidze's return to the Metropolitan stage where he had previously performed title roles in *Rigoletto* and *Macbeth*, among other roles.



Nona Gaprindashvili filed a defamation case against Netflix after its 2020 TV show *Queen's Gambit* referred to her as having never played against men.



Grown in Imereti, Adjara, Samegrelo and Guria, blueberry exports have risen 48 percent to almost 1,000 tonnes last season.

Fresh ideas, fruits and funding in Georgian agriculture

A NUMBER OF HITHERTO UNFAMILIAR BUT PROMISING FRUITS ARE SPROUTING ON GEORGIA'S AGRICULTURAL SCENE, WITH UPBEAT PREDICTIONS ABOUT EXPORT AND REVENUE POTENTIAL.

SALLY WHITE

Locally grown but unfamiliar fruits, nuts and vegetables are increasingly to be seen in Georgia's shops and restaurants and winning a place on Georgia's export list. More are on their way as farmers – encouraged by western advisers, government programmes and international market prices they find on the internet – see profits worth the risks.

Ironically, many of these crops have ancient local ancestry. Rejected by Soviet planners as fit only for wild foraging by the poor, Georgian blueberries, asparagus, almonds and pistachios were for long neglected. Weather and fashion have lately rehabilitated a number of Caucasian natives and new cultivated variants, hardier and producing fruit for mass production and long-distance travel, are attracting investors and overseas buyers.

Why is this happening now? A range of reasons are touched on in reports from local aid programmes and government initiatives (such as Plant the Future) in Georgian agriculture. The programmes are supported by the European Bank for Reconstruction & Development (EBRD), the UN Food & Agriculture Organisation (FAO) and EU4Business, and initiatives include EastFruit, the information and

analytics platform.

Reasons include the opening up of new overseas market opportunities as global warming hits US, European and Asian harvests with its erratic weather, droughts and rising temperatures. Georgia's improving supply chains mean produce can arrive in overseas markets in good condition and with days of shelf life left – there is growing availability of temperature-controlled storage and containers and technology for better packaging and processing. Georgian growers are adhering to EU and other international health and environmental regulations and can comply with western certification requirements.

The major banks are helping with their introduction of schemes to provide finance for expansion and start-up in agriculture. The best of them are those that accept as collateral the land plot of the project and give a grace period of years for profits from the plot to provide the repayment.

There is also the pay-off from the advice and support (financial and educational) from EU and US led government programmes that have targeted horticulture for years now. These, as listed on EastFruit's website, are teaching modern growing methods, expanding greenhouse

production and introducing new crops that can be sold into international as well as domestic markets.

Lastly but perhaps of most interest is the self-help coming from Georgian farmers in developing new distribution infrastructure, similar to that for grapes, with small producers who cannot afford sophisticated processing and export costs selling their produce to the large ones who can. Farmers, both large and small, are now cultivating new variants proven in overseas markets and known by international buyers.

Some producers are hedging their bets by exploring new opportunities for processed rather than fresh, with blackberry juice being one example and dried or frozen fruits another, or olive and other nut oils. Import substitution is another route and one taken at the Loladze farm in Lagodekhi, where for the last six years the farm has focused on production of exotic fruits – okra, pepino, physalis and black corn.

The big success, however – helped by health fashions (it is revered as an antioxidant), the government subsidies of seedlings, equipment and irrigation and access to the Russian market – has been blueberries.

Grown in Imereti, Adjara, Samegrelo and Guria, blueberry exports have risen 48 percent to almost 1,000 tonnes last season. This was despite a panic caused by new rules for access to Russia, which defying advisers and sales to the EU markets of Germany and Bulgaria dominates overwhelmingly. Forecasts are that exports will reach 5,000 tonnes within five years, says EastFruit.

Even at the start of 2020 there were 1,000 hectares of commercial blueberry plantations and EastFruit says that 200-300 hectares are added a year thanks to the subsidies and high levels of profitability. With the crop destined almost totally for export, the biggest inhibitors of future growth, says the FAO, could be capacity shortages for cooling, sorting and processing. Or, it adds, Russia market blockages as "Georgia will face a difficult problem of finding an alternative sales market." Logistics to both the EU and the Middle East are "complex and costly".

The FAO estimates that Georgia is on track to become one of the world's largest producers as its blueberries are available at the end of May, fitting into an export niche after Spain's harvests and before the Eastern European ones. Exports, according to EastFruit, rose \$0.4 million to

\$5.6million last season.

"Blueberries are attracting more and more investments, both in production and technology improvements," reports EastFruit. This trend is being encouraged by the Blueberry Council of Georgia, set up in 2020 by four of the major producers, Blue Valley LLC, Blueberry LLC, Agrolane LLC and FCO LLC, and, as well as Agritouch, the owner of a refrigeration facility for storing and freezing berries.

To support blueberry and other fruit and nut exports, state programs are helping producers meet the standards of Europe's GlobalG.A.P on sustainability and the minimization of agro-chemical inputs. However, this is not easy for small farmers so as an entry stage, with the support of USAID, the Georgian Farmers' Association (GFA) has developed a local standard – GeoGAP.

Much newer on the market is asparagus, both foraged and cultivated. It is found in the wild across most of the Eurasian continent, including Georgia, and has been wild-harvested for thousands of years for its medical rather than culinary uses. In Georgia it has now become an "economically important crop", says EastFruit.

In the highlands of Samtskhe-Javakheti director and founder of Toki Agri Products, Tornike Mzhavanadze, has been growing both wild and cultivated asparagus varieties, supplying the Georgia market under the brand-name Green Republic. Wild asparagus is also being grown rather than just foraged from alpine areas, he told journalists.

Olives already have a recognised place in the world. While olives may not immediately be associated with Georgia, the International Olive Oil Council (IOC) says, they have been recorded in the country since the 1st and 2nd centuries AD, probably introduced by colonising Greeks. Of the 300 or so varieties known globally it says, around 10 per cent grow in Georgia.

In current times Georgia has become so well established in the world of olives that an adviser to the Georgian Ministry of Agriculture and founder of the company Georgian Olive, George Svanidze, chaired the IOC in 2020 and 2021. There is a ten-year expansion plan for Georgia, helped by IOC grants for, among other things, the creation of an international laboratory to provide the level of certification necessary to boost exports.

Georgia has over 1,200 hectares in olive production, Svanidze told delegates at an IOC conference last December, and it "plans to expand its sector through ongoing investments and with the technical support of the IOC, the Georgian Government (under its Plant the Future plan) and the international community". Work is also being done to revive the old varieties that grew so successfully in the past in Georgia – Tbilisuri, Akhasheni, Burko and others.

More and more attention is being paid to Georgian olive production, he told journalists early last year: "Big companies have begun to show more interest in breeding this crop. We have already signed cooperation agreements, for example with KTW (major wine company Kakheti Traditional Winemaking). It is about planting hundreds of hectares of oil plantations."

Georgian Olive, which has grown with Turkish-Dutch investment, ranks top amidst Georgian olive companies. In its 12 years of existence it has planted well over a million seedlings from Turkey and Spain in the Signagi region and built a processing factory in Sakobo. Its production is organic and it has been selling both olives and at home, in Agrohubs and Goodwill, and abroad.

Georgia has an ideal climate and ample water resources for growing almonds, walnuts, pistachios and hazelnuts. Although hazelnut production is well-established in Georgia, the country remains a net importer of walnuts, pistachios and almonds. Pistachios are one of the latest ancient revivals and the hope is that given their



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► high world market price and wide popularity they will prove a good export. Trees still grow in the wild in the Vashlovani Nature Reserve and the area east of Signagi, but farmer numbers are rising, cultivated orchards now cover over 300 hectares, and there is already a Georgian Pistachio Association and a Georgian nursery providing local saplings.

In Georgia almonds are now becoming big business, with the Georgian Association of Almond & Walnut Producers forecasting that production will grow 16 times in the next seven years, although this may be held back by shortage of capacity for processing. According to EastFruit the first dedicated almond processing plant should open later this year.

In Georgia there is wide diversity in the species; historically much of the production was alpine and the harvest was heavily reliant on wild collection. The trees were also to be found in yards and study of almonds across the former USSR records that cultivation has been growing in recent decades, although according to FOA figures there were only 33,000

trees in Georgia in 2012. Now the Adjara Group alone (one of the country's major new entrants into horticulture) has 2,000 hectares planted with 700,000 trees, according to its website.

Pecans are the latest nut to catch the attention of Georgian nut growers, and although there are as yet no major commercial plantations, EastFruit says they are already being exported to China and the EU. "According to growers' forecasts, the current potential of Georgia is 150 tonnes of pecans per year," said EastFruit.

It is the hazelnut importers who have decided to branch out into growing American pecan varieties. Initially these were planted for the durable quality of the wood but Georgian nut producers are seeking to diversify and the hope is that these nuts will bring profit margins superior to those on hazelnuts (a competitive market, especially from Turkey since the collapse of the lira).

Avocados are another new crop that is definitely in fashion – globally they are the fastest growing horticulture export, the FAO has been telling farmers in the region – and

Georgia has not been left behind. EastFruit has reported the establishing last year of the first commercial plantation – planted on six hectares at Lanchkhuti in Guria by the Nutsge company, a long-established hazelnut grower.. It does not expect to enter full production for four or five years. All these new opportunities also bring new problems for the farmers, however. Overproduction is one spectre – raised by the Georgian Almond & Walnut Producers Association and by blueberry farmers – that is keeping on the pressure to build not just exports but more processing facilities to create finished products that will keep, be they juices, oils or preserves. Heavy dependence on the Russian market is another spectre raised constantly by government programmes encouraging diversification.

The depleted state of much of Georgia's soil, the need for high quality fruits with long shelf lives, the demand for better packaging, marketing expertise and guaranteed financing. Wise advice from USAID agronomist Jorge Duarte to them is: "Gain knowledge before planting. Have the correct plan!"

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Galt & Taggart looks back on the Georgian economy in 2021

THE GEORGIAN ECONOMY RECORDED ONE OF THE STRONGEST RECOVERIES IN THE REGION LAST YEAR, REGISTERING GROWTH IN ALMOST ALL KEY SECTORS, CURRENCY STABILIZATION, AND HEALTHY GAINS IN THE BANKING SECTOR. G&T'S END OF YEAR REPORT EXAMINES MACROECONOMIC INDICATORS FROM 2021 AND PROVIDES POSITIVE PREDICTIONS FOR THE YEAR AHEAD.

POSITIVE GROWTH OUTLOOK

Georgia's real GDP growth in 2021 exceeded most economists' expectations and is projected to reach 10.5%, according to G&T's latest macroeconomic review. Most of the country's key sectors, including manufacturing, trade, transportation, real estate, and hospitality showed growth in 2021, fueled in part by strong exports and remittances as well as fiscal stimulus and strong bank lending. With unemployment at 19.5% in Q3 of 2021, its lowest figure since Q4 of 2020, analysts are predicting it will return to its pre-pandemic level of 17-18% this year.

Considering these positive developments, G&T predicts that economic growth in 2022 will amount to 5%, a figure slightly lower than the IMF and government forecasts of 5.8% and 6.0%, respectively. However, higher tourism recovery could positively affect this projection, while disruptions caused by the pandemic and geopolitical tension in the region risk stifling growth.

STRONG EXPORTS

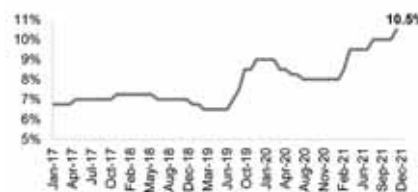
Georgia's exports ended the year strongly in December, increasing 28.8% YoY and 5.9% compared to 2019, statistics that can largely be attributed to the growth of trade partners' economies and high commodity prices worldwide. Imports also boasted YoY growth of 26.3%, up 6.7% compared to 2019.

TIGHTER MONETARY POLICY

The National Bank of Georgia continued to tighten its monetary policy throughout 2021, raising the benchmark interest rate by half a percentage point in December (to 10.5%) in an effort to temper inflation expectations in the medium term. Overall inflation for 2021 amounted to 9.6%, with the NBG attributing Georgia's inflationary woes to transitory and exogenous factors, including global commodity prices, higher utility tariffs, and the acceleration of local demand.

Looking to 2022, G&T analysts evaluated other factors that could potentially affect inflation, including possible GEL depreciation, continued growth in energy prices, and wage growth. Upon analysis, these risks have been deemed weaker than in earlier forecasts, leading G&T to predict an average inflation rate of 4.1% in 2022, which is notably lower than the NBG's current forecast of 7.2%.

Monetary policy rate



Source: NBG

THE LARI STABILIZES

Since May, the GEL/USD rate has remained relatively stable, trading consistently in the 3.1 – 3.2 GEL/USD range for the second half of 2021. G&T attributes this stability to several factors, including tighter monetary policy, strong growth, recovery in the tourism sector, and foreign exchange interventions in the run-up to the October elections.

Unlike in previous instances, the depreciation of the Turkish lira in recent months has not negatively affected the value of the lari. At this time, G&T expects that any impact the lira's instability might have on the value of the lari through trade channels would be both small and short-lived, citing stable regional currencies, high GEL rates, and continued recovery in external earnings as neutralizing factors.

In 2022, G&T expects the value of the lari will appreciate compared to its 2021 level, hovering in the range of 3.0 – 3.15

GEL/USD. However, domestic and regional instability as well as pandemic-related disruptions could negatively affect this forecast.

GEL/USD and TRY/USD, spot rate



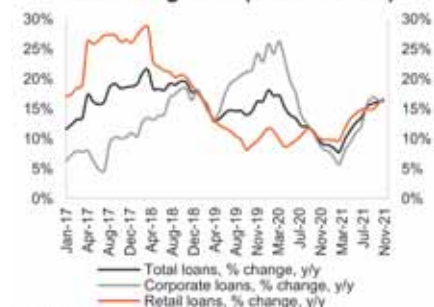
Source: NBG

THE BANKING SECTOR SEES HEALTHY GROWTH

The banking sector's loan portfolio continued to grow in 2021, registering a 16.4% YoY increase (excluding the FX effect) in November. The NBG's Financial Stability Committee introduced two new regulations for foreign currency lending in December that came into effect on January 1, 2022. These regulations, which affect the method through which banks' currency induced credit risk is calculated and limit the term of FX loans to a maximum of ten years (down from 15), are expected to make FX loans more expensive, depending on the level of dollarization in banks' portfolios. However, G&T does not foresee the new regulations having a major impact on the banking sector's loan dollarization structure in the short or medium-term, given the existing regulations already imposed on FX loans.

These stricter lending regulations combined with tightened monetary policy will soften lending growth to 11%-13% in the coming year, according to G&T's forecasts for 2022.

Bank loan growth (exc. FX effect)



Source: NBG



Startups on the move – to Georgia

GEORGIA IS INCREASINGLY POSITIONING ITSELF AS A HUB FOR STARTUPS AND DIGITAL BUSINESSES LOOKING FOR A WELCOMING BUSINESS ENVIRONMENT AND LINKS TO WESTERN CAPITAL AND MARKETS.

Georgia's open door policy means the citizens of almost 100 countries can come and play with no visa. Or work. Or found companies. And the country's welcoming business environment and budding start-up ecosystem is encouraging them to do just that. *Investor.ge* talked to three such startups who plan to grow great companies from Georgia.



Elmar Asgarzade in his lab

EXTRA MILE TECHNOLOGIES

As the world mobilizes to stop climate change, technologies to reduce greenhouse gas emissions are ever more valuable. VC investment in climate tech exceeded \$40 billion in 2021, with Q4 tripling the investment year over year, Climate Tech VC reports.

Georgia has not shown leadership

in this climate innovation but is now playing host to one technology which is a key step in that direction. Azerbaijani scientist Elmar Asgarzade discovered a breakthrough in oil chemistry which reduces friction in engines by over 30%. His startup, ThermoNorth, has relocated from Baku to Tbilisi, rebranding as Extra Mile Technologies (EMT). His vision is not just to commercialize one breakthrough technology but to work toward a research center for green technologies.

Extra Mile Technologies' breakthrough is using ionic molecular forces to reduce friction in engines. These forces can be thought of like magnets repelling each other. So rather than coating engine parts, their solution reduces friction with ionic repulsion. This can lower engine friction by 30%, which translates into 5% gains in fuel efficiency and less CO2 emissions. The additive can also extend engine life and reduce wear and tear, and could be applicable to other green fuels such as methanol and hydrogen.

While the technology is broadly applicable in transport, wind energy, and industrial uses, it is especially interesting for the maritime industry. "Long-

distance shipping is very difficult to decarbonize", founder Asgarzade told *Investor.ge*, "Electrifying long-distance shipping is not feasible and capital expenses are huge in transitioning to new fuels."

This frictionless path to decarbonization is important because the maritime shipping industry is responsible for roughly 3% of global GHGs; that's more than airplanes. The International Maritime Organization has come under global pressure in recent years to lower emissions in an industry where the task has proven frustratingly elusive.

Extra Mile Technologies could mean enormous GHG reductions for the industry, not to mention financial savings on fuel and maintenance. The company indicates its tech is outperforming everything else in the world "at a price point that's a third or a quarter as much as competing products. If that holds up as we expect it to, that will be a really significant development", Asgarzade told *Investor.ge*.

He lists the numerous reasons the company has decided to dock in Georgia: "There's really a lot that has brought us here. The startup community is active and we were connected with Colin and his team. Georgia's connections with US and Europe make it good to reach customers and funding there. The free trade agreement with Europe opens up good export potential there as we look at manufacturing", he says, adding that the ease of setting up a business in Georgia has also been a great draw. "Here, you get your tax number and away you go. In Azerbaijan, there is a lot of paperwork, and it consumes a lot of time."

The four-person team, which will include in its ranks AmCham board member and startup advisor Colin Donohue as acting CEO and two additional scientists. Immediately Donohue is focusing now on the Horizon Europe Accelerator grant

– part of the EU’s \$500 billion ‘Green Deal’. The Accelerator Program offers 2.5 million euros in equity-free grant funding plus investment of up to 15 million euros.

“Extra Mile was accepted to the Maritime Climate Accelerator run under the European Institute for Innovation and Technology and is now eligible for a ‘fast track’ into Horizon Europe.

We are one of 20 companies granted special status to skip the first stage of application and apply directly into phase two.” EMT would not be eligible for this European grant competition in Azerbaijan so moving to Georgia has already opened doors.

Elmar’s company already has experienced recognition and comes to Georgia having won international competitions and over \$100,000 worth of equity-free prizes.

The company won the status Deep Tech Pioneer by Hello Tomorrow, and Elmar even was brought to the US, to be accelerated in Houston, as a winner of the Global Innovation in Science and Technology competition supported by US Department of State and major US startup and technology players.

EMT’s move to Georgia may also serve as an interesting test case for whether Georgia can serve as a hub for IP commercialization, Donohue says.

“Countries of the post-Soviet space generally do not have strong IP commercialization systems, which means there’s a lot of research that’s out there that has never seen the light of the market. So if we can demonstrate – here’s a brilliant piece of technology that just needs some support, we can help spur the development of an environment that would facilitate the entry of local research into global markets, and Georgia stands to be a bridge between these somewhat isolated markets and Western capital market systems”, Donohue comments.



THENEO

Theneo is a fairly young startup that has already made a big splash both at home and abroad. And it started from a pain point that not many have had or will have even heard of: bad API documentation. Simply put, APIs (application programming interfaces) are a set of instructions used by developers and computers alike to bridge systems built on different platforms. More simply put – a dictionary for apps ‘speaking’ different languages.

“Some people find this API stuff boring, but we’re obsessed with it”, founder Ana Robkadize says. And there’s good reason to be: APIs are important because they’re not just read by developers. They’re read by sales teams, CEOs, and other individuals who need to know what an app or system can do, and to see if it’s integrable into other systems.

“That’s why it’s so important for API documentation to be written not only for developers, but for everyone. And at Theneo, that’s what we’re trying to do: create beautiful, interactive and accessible APIs for companies that likely don’t have the unlimited resources available to tech giants”, Robakidze says.

The concept behind Theneo arose out of necessity, Robakidze says, who has worked on more than 200 APIs. She and co-founder Maria Doliashvili, a Ph.D. student in computer science who has left her job as a machine learning engineer at Microsoft to work full time on Theneo, said they both had found it very frustrating to work with low-quality API documentation tools.

“We thought – how much time and energy could we save if there was a platform that could help us quickly generate high-quality API documentation while also allowing us to maintain it efficiently?

And that’s how Theneo was born.”

The duo first built the platform as a side project. Friends then asked them to make it available as an online platform. They realized then that Theneo had a lot of promise, and released a beta version in August of 2021. Within two months, Theneo had more than 1,000 companies and developers.

At this point, Robakidze says, she hadn’t done any market research – she simply happened to land straight on what turned out to be an enormous pain point.

API documentation is tricky because what computer engineers bring to the table with their computer-whispering skills, they often lack with people:

“Engineers, we’re awful writers. We sometimes don’t even know how to write about the things we created ourselves. And it’s expensive to hire teams to do so. So that’s the gap that Theneo wants to fill.”

Theneo’s product not only suggests documentation for a given platform – it recommends changes as your system evolves.

Financial backing and product recognition for the project has come in quickly: first a prize from GITA, then as the winners of the 2021 Apps Challenges and then finalists in the TBC annual Business Award 2021 in the category of the year’s most innovative startup.

Theneo also raised considerable resources in pre-seed funding, including from investors in Georgia. Despite the fact that the managerial team will be based out of the US, Theneo’s leaders want to retain its current developer presence in Georgia, and perhaps expand it.

“We definitely want to have developers here as much as possible. This is important to us because I remember when I was living in Georgia, I wished there were more opportunities for me. Much of the raw talent unfortunately moves either to Europe or the US. I feel like if we can give ►►

- tech workers the great work experience and a lifestyle similar to what they could expect working in a foreign company, the likelihood increases that talented individuals will be more amenable to working in a Georgian company, living here, and contributing to society”, Robakidze says.



ICORN

Among those considering expanding into Georgia is Ukrainian startup iCORN.

iCORN, a grain trading and logistics platform, aims to eliminate inefficiencies in grain markets by “cutting out the middleman and revolutionizing the way farmers and buyers do business”, company CEO Stan Kuflik says.

The platform will incorporate digital solutions to the entire supply chain process of grain trading, including online auctions that unify quality standards; smart contracts that guarantee payments and penalize contract breaches; a logistics system that locates service companies, and; an electronic document management system that adapts to any state system.

In the words of its CTO Viktor Nesterenko, iCORN is “about more than just logistics or agriculture. It is really a whole new financial tool that aims to decrease risks for buyers and farmers, lower the cost and time of delivering grains, and guarantee higher quality standards.”

Nesterenko, who is currently based in Poland, plans to move part of the company’s operations to Tbilisi in the spring of 2022.

As the chief technical officer of the

company, he says Georgia’s talent pool is a big draw for him: “It is getting very expensive to hire developers in Ukraine because of how developed the tech sector has become. In Georgia, the cost of hiring developers is much more attractive. But more important than money is attitude. You cannot buy an attitude. In Georgia, the developers I’ve met are willing to work hard and are hungry to achieve something.”

In addition to a workforce that Nesterenko sees as more “employable,” iCORN’s CTO says that Tbilisi offers just the right balance of opportunity and innovation for tech startups.

“When looking for a place to develop, you want an environment where things are not perfect but where you see a lot of growth happening. For instance, in Georgia, you have a government that is very supportive of business. You have great tax incentives. An emerging tech scene. All of these factors make it an attractive place to move to.”

OPEN DOORS FOR ALL? STARTUP ECONOMIES DEPEND ON FOREIGN FOUNDERS

While many startups are making the move to Georgia successfully, some are leaving with a sour taste in the mouth. Startups and tech companies coming to Georgia from Iran, Pakistan and other locations have faced challenges. A recent example of a team from Lebanon has attracted attention.

“I was visited by a very dynamic founder from Lebanon. He had an app that was very fast growing in user base, a solid technical team and a vision for growing his company very large. I encouraged him to move the team to Georgia as a place to grow his company in a safe and calm environment instead of Beirut”, Donohue recounts.

Having secured venture capital from a British VC firm and other investors, the

team was on its way to Georgia to grow the company.

“But soon after, the CEO contacted me and said they were moving away to Istanbul. Their cofounder had gone to a business meeting in Istanbul, and was denied entry back to Georgia. He cannot even get back in to terminate the lease on his apartment and collect his things.”

This example illustrates why it is so important for Georgia to be committed to a consistent and clear policy when it comes to startups and the country’s business environment, Donohue says. “It’s great to have a visa-free regime but it is not creating the clarity businesses need. It’s better to have a startup visa where founders are screened before-hand and then can come and go freely without surprises”.

Startup economies depend on founders for the influx of new ideas and experience. While people think of America as the land of startup ‘unicorns’ [ed. billion-dollar private companies], it’s more of a melting pot of global founders and technical talent. Nearly half of all “unicorn” companies [ed. 44%] are founded by immigrants, such as Space X by South African Elon Musk, or Google co-founded by Russian-born Sergey Brin. Many of these iconic companies in the US exist because talented founders moved there from other places.

Even American-born founders like Steve Jobs and Jeff Bezos were children of immigrants (Syrian and Cuban), so a majority of founders are first or second generation immigrants.

“It is widely understood that attracting top talent from around the world is a key to being a top tech ecosystem. Indeed Silicon Valley had little going for it until it became ‘the place’ for brilliant technologists and entrepreneurs. Hopefully”, Donohue says, “Georgia can follow suit and make sure the doors remain open to all.”

Help Wanted. Hotels are open, but where are the staff?

There have certainly been layoffs, but there has been no Great Resignation in Georgia since the start of the pandemic. Covid exposed the population to such a degree of economic vulnerability that most workers have clutched anxiously at their jobs.

Unless, of course, you're talking about the hospitality sector, which was the first to take a hit in employment levels as Covid began its advance, and which has been struggling ever since to recover.

The slow gains in employment are not due to a lack of workplaces. Borders have reopened. Flights have been restored. And while tourist metrics are still a ways off from their peak in 2019, the flow of visitors has been steady. Help is definitely Wanted in Georgia's hotels, but former hospitality industry workers aren't so sure whether they want to return to their old jobs.

AmCham member hotels and the chamber's Tourism Committee have been closely following the situation. In the coming months, the committee will be looking at ways to lend support to member companies in resolving the labor and skills shortage, and promoting the attractiveness of the sector to job seekers.

Hotels say they are operating well below their staffing needs. This table below illustrates the total number of employees employed in the HORECA sector between 2018 and 2021, split between accommodations (hotels) and food and beverage (cafes and restaurants). Surprisingly, un-

employment lows in the HORECA sector were reached not in 2020 as might be expected, but in 2021, and are still far from recovering to their peaks of 2019.

Employment in the hospitality industry remains depressed for a number of reasons.

Former workers have lost faith that the sector can offer them a steady, reliable job. This is the result of the sector having been hit by multiple closures, AmCham's Tourism Committee Head and Marriott General Manager Cameron McNeillie points out. There was the uncertainty of the breakout of the pandemic in early 2020, when staff preferred to #stayHome rather than face the unknowns of the virus. This was followed by worker layoffs as revenue collapsed. Periods of uncertainty during numerous Covid 'waves' have further contributed to the feeling of the lack of security and high staff attrition rates. Many former or potential employees, it would seem, now look at the prospect of going back to work in the people-facing hospitality sector as a losing bet.

McNeillie of Marriott Hotels says it is challenging to see the reticence of staff to return to their former workplaces "[because] Marriott and other hotels have invested a lot of time and energy into training staff over years. Many people have gone on to find other jobs, realizing their on-job and specific trainings were transferable to other roles even in totally different types of industries."

Not helping matters, Covid has only exacerbated a pre-existing stigma in Georgia, as a part of which "families believe that their children and grandchildren are better off working in junior positions in the financial sector for example, rather than at perhaps better remunerating jobs in hospitality," Jordi Kuijt of Silk Road Hospitality (Radisson Hotels) told Investor.ge.

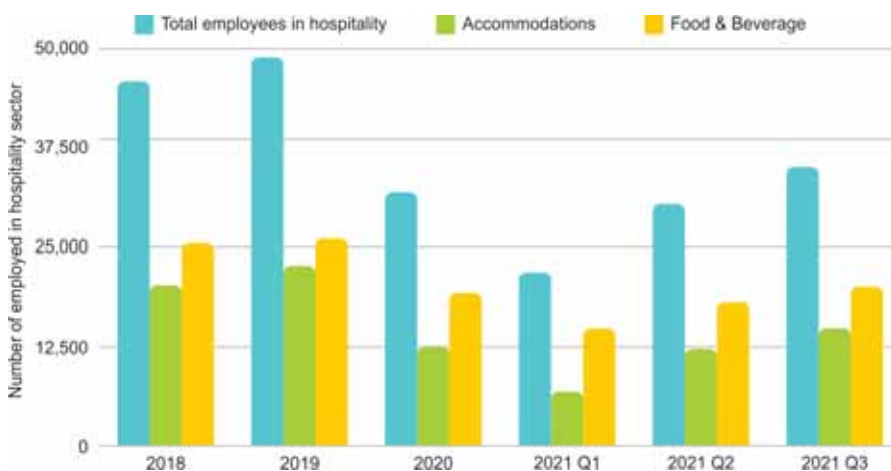
Which is a shame, Kuijt points out, because this stigma is a 'mismatch' with the Georgian culture of hospitality at home, and this stigma could be overcome with awareness raising campaigns. For now, however, the stigma persists, "creating a vicious circle in which a lot of young people get trapped. [I say] trapped because young people are deprived of the chance to see that the hospitality sector has so much more to offer," Kuijt says.

And there are plenty of opportunities to be had in hospitality. It is one of a handful of industries in Georgia in which dedicated workers can rapidly advance up the promotional ladder. Manager at Moxxy Tbilisi Nano Urushadze is just one of the many Georgians in hospitality who have had this experience. "I started as a front desk associate, and am now a multi-property cluster manager for Tbilisi Marriott, Courtyard by Marriott and Moxxy Tbilisi", Urushadze told Investor.ge. Her experience of the hospitality sector is not unique; dedicated employees can expect to move quickly through the ranks of the hospitality establishments at which they work.

Covid fears aside, the hospitality sector is also facing challenges attracting talent because entry level positions often pay less than what one could earn working at, say, a call center (considered a fairly prestigious job in Georgia) or other similar jobs.

But there are (literal) payoffs to pursuing a career in hospitality, where there is tremendous opportunity for upward movement and promotion; these may be more limited when talking about call center or similar BPO jobs. Moreover, the hospitality industry generally also has a culture of hiring from within; this can be a strong source of inspiration to employees to stay committed to their workplace, who can work with the satisfaction of knowing that their talents will be recognized if the hard work is put

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Solar is taking Georgia by storm, but is the grid getting burnt by the sun?

INTEREST IN SOLAR POWER IS ON THE RISE IN GEORGIA JUST AS THE COUNTRY IS IMPLEMENTING NEW REFORMS. THESE REFORMS ARE NEEDED TO MAKE GEORGIAN POWER MARKETS MORE COMPETITIVE, BUT MAY JEOPARDIZE THE VERY INCENTIVE MECHANISMS CURRENTLY IN PLACE WHICH HAVE HELPED THE WEST AND OTHER DEVELOPED ECONOMIES TAKE THEIR FIRST STEPS TOWARDS PRIVATE POWER GENERATION AND PROSUMPTION.

JOSEF GABMANN

The sun shone unexpectedly bright on Georgia's nascent private solar power sector in 2021. Data compiled by the country's power regulator show growth of 335% (Table 1) in installed capacity of rooftop solar over the past year. But there are concerns that upcoming competitive power market reforms and questions of grid stability could bring this solar flare to an abrupt halt.

Self-proclaimed 'renewable energy enthusiast' Tornike Darjania certainly hopes this won't be the case. When he opened his solar panel installation business Helios Energy in 2017, he did so 'for fun, because we loved this technology.' The company's motto 'Here comes

UPTAKE OF PRIVATE SOLAR ELECTRICITY IN INSTALLED KW CAPACITY AND INDIVIDUAL UNITS BETWEEN 2016-2021.



the sun' was anything but a forecast of explosive growth some five years down the line. "But now that the industry is on the cusp of developing something really special, to lose our momentum would be a real shame", Darjania says.

It would be a shame. Georgia has been struggling to maintain a high share of renewables in its domestic power consumption mix. Data from Georgia's Electricity Market Operator (ESCO) show that in 2016, approximately 81% of the country's consumed electricity came from hydro. By 2020, that number had sunk to 65%, mostly due to growing imports and thermal (gas) power plant production. And while private solar isn't the panacea to the country's energy woes, it can have a sizable role to play in the country's sustainable future.

Ongoing debates about what that energy future should look like are at the heart of what fueled last year's growth in solar. Many companies placed their bets on the future of energy being a cheaper one after electricity price hikes in Georgia in the beginning of 2021 practically doubled the energy tariff for commercial consumers to more than 30 tetri / kWh. Interest in private solar power as a cheaper, more sustainable alternative has since soared amongst firms.

Households meanwhile have been less tempted. For them, solar PV units still entail substantial investments and the financial incentives are not strong enough; residential power consumers remain shielded from 2021's price hikes (which raised the tariff from around 20 to 26.5 tetri) by a government subsidy.

Yet another group of solar buffs hope the energy future is a participatory one. To encourage the use of privately owned renewable energy sources, Georgia employs a net metering mechanism, a system in which microgenerator owners can sell their surplus energy onto the grid, and are credited in kind or cash at the end of a 12-month cycle. Owners of solar power units with a generation capacity of up to 500 kW are allowed to participate in the net metering scheme, and this too has encouraged uptake, particularly among large businesses.

However, these benefits were paused last summer without much warning, and there is talk of a further scale-back of the benefits of the net metering system. While the system of credit in kind has since been restored and a new price schedule for prosumers will be announced in the coming months, solar power unit owners have expressed disappointment at the lack of clarity governing the fate of the mechanism, even leaving some questioning the benefit of their investment. Meanwhile businesses in PV unit installation are warning that over-regulation could crush the industry

before it has the chance to get off the ground.

IT'S NOT ALL SUNSHINE AND REIMBURSEMENT

Changes to the net metering system are a part of a series of changes surrounding ongoing power market reforms, Georgia's obligations to the EU's Energy Community Secretariat and concerns of grid safety.

As Georgia moves towards the introduction of competitive power markets, a consensus on how to incorporate the net metering system has yet to be reached.

The most immediate problem faced by net metering has been 'unbundling', a process which seeks to create a more competitive, less vertically-integrated power market.

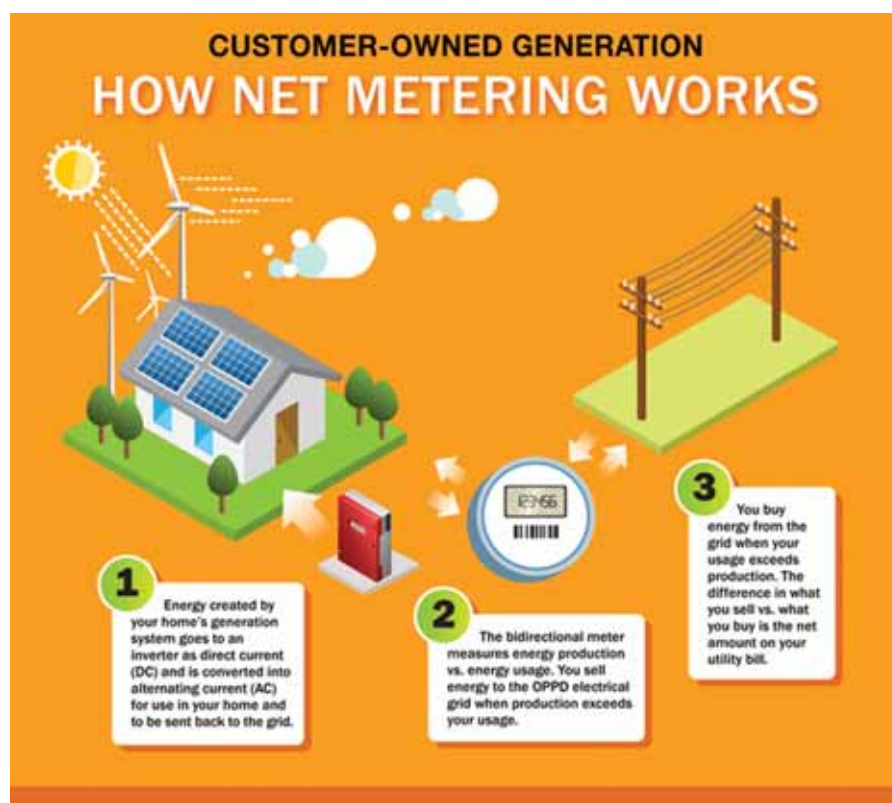
Unbundling has obliged the country's two distribution system operators (DSOs, Telasi and Energo-Pro Georgia) to separate the management of their supply (purchase and sale) and distribution activities. Unbundling took place in the summer of 2021, and the new market rules have it that only supply companies have the right to purchase

and sell electricity, leaving distribution companies wondering how they will be paid for shuttling energy back and forth between microgenerators and energy supply companies.

Moreover, energy market prices for the commercial sector will soon be deregulated, and there is as of yet no agreement what the rate of compensation should be for prosumers (i.e., owners of microgenerators who sell their excess energy back onto the grid), given the new costs that will be shouldered by DSOs. The former rate was the average price of electricity on the regulated wholesale market. This impasse has left the system in limbo, causing much discontent amongst private microgeneration owners. One such owner, founder of the Bazaleti Green Engineering Center Zaal Kheladze, told Investor.ge that since these changes, his organization has lost out on compensation he claims is due to him given his PV unit's excess yearly production.

"But it's not just about the money. It's about the lack of communication, and not knowing what I can expect. As a power project advisor, how can I tell a client to invest in this technology, not knowing how it will operate in the future?" Kheladze asks.

How these issues will be addressed remains to be seen. The Georgian Energy and Water Supply Regulatory Commission (GNERC, mercifully, for short) says it is now beginning work on a long-term vision of what 'self-consumption' might look like in Georgia, noting its readiness to engage with all stakeholders in the process. But there are legal challenges which will also be faced by net metering, GNERC warns. Georgia is obliged to implement the Energy Community Secretariat's Fourth Clean Energy Energy Package, which holds that "net metering schemes...[negatively impact] the trans-





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► parency and cost reflectivity of network charges [...] and should be available only as an incentive to boost small-scale renewable self-consumption during the initial phase of its deployment and for a limited period of time.”

The deadline to harmonize with this legislation is January 2023, though GNERC says it is hoping to retain the net-metering system until 2026 as an exemption.

The list of issues to be addressed goes on: self-consumption as a trend may test the financial viability of DSOs, who are faced with the prospect of collecting fees from less customers over time for their distribution services. This could in turn translate into price hikes for other customers to cover DSO costs. Grid stability and balancing capacity also need to be addressed due to the element of unpredictability added to grids by renewables. This will entail still more investments in new, stronger transmission lines. These concerns have already become very real for sun-rich locations such as Cyprus, Greece and California.

THE SUN ALWAYS RISES

These questions are technical, but the issue is of no small importance.

A USAID Securing Georgia's Energy Future program spokesman told Investor.ge that self-consumption is a trend that cannot be ignored, and will have a role to play in the future of the country's energy security and independence.

“The concept of ‘energy citizens’ has received increased attention in recent years, especially in the EU, where the potential for private and community generation has alerted states to the need to prepare for significant percentages of their population becoming ‘energy producing citizens’, which will entail serious legislative action and grid investment”, the spokesman said.

The challenges private generation will pose to the energy system are real, businesses in the sector conceded while speaking to Investor.ge, but noted it is too early to be imposing limitations as the grid's capacity to absorb private solar power generation is nowhere near its potential. In the meantime, they say, the benefits to be had from the renewable energy source should be encouraged.

In Georgia the limit to microgeneration capacity on the grid currently stands at 4% of peak load. In Tbilisi, peak load is about 550-600 MW, while there is about 10 MW of installed solar capacity in Tbilisi (a tad less than 2%). Without the use of battery storage systems – which would increase the resiliency and capacity of the grid but remain financially non-viable for Georgia at this point in time – grids can accommodate up to 10-12% of peak load generation coming from microgeneration resources.

“We should tread with caution at this point in the development of the sector”, electricity solutions company Insta General Manager Sandro Bakhsholiani says, as “[the sector] is just getting off the ground, and private use solar can meaningfully contribute to the country's goals of energy security and independence.”

An important step to ensuring the smooth integration of the burgeoning private microgeneration industry, Bakhsholiani adds, will be partnerships of public and private investment in making the renewable energy future a reality.

“It will, of course, have to make commercial sense. But the government should be involved in this endeavor on some level. This is what already happened in Germany nearly two decades ago when solar was just taking off there, and the government was really able to kick-start the process. Talk about foresight! Who will ultimately shoulder this responsibility is clearly an issue which needs more

attention”, Bakhsholiani told Investor.ge, noting that interest in solar is only likely to grow as electricity prices do, which may occur at a rate of as fast as 10% every two years on average, he forecasts.

“Hopefully we will find agreement on these issues in the coming months. We have great momentum right now and I hope Georgia can keep it up. Georgia can be one of the leading countries in the world in terms of sustainable and green electricity generation. We have the abundant natural resources to do so. It's very important for us not to drop the ball now”, Bakhsholiani says.

Helios' Darjania concurs, and adds that it is important not to lose sight of the ways in which renewable energy sources such as solar can also contribute to strengthening the grid. For example, they could increase electricity supply in local rural areas, relieving transmission lines of the tension which comes from having to transmit electricity long distances with too little power.

Darjania stresses that regulation should be gradual and slow, so as not to stifle the emergence of the sector, and should be fact and figured-based.

“‘Solar is good’, they say, ‘but can be a problem if there's too much of it.’ Well, what does ‘too much’ mean? That is the question. We will be happy to sit down with all stakeholders and talk, but without imagination, without numbers that exist only on paper”, Darjania says.

Tidings on the market remind Darjania of a Georgian proverb: “‘A man was afraid of wolves, so he killed all his sheep.’ The situation is the same now: we are rightfully cautious, but because of that we are saying no to development. I understand we are now in the new reform process. But it's important for micro generation, net metering, solar, wind and all of these technologies to find their place within it.”



Bakuriani betting big on international winter sports events

ANI MEZVRISHVILI

Georgia's ski resorts have not had it easy in recent years. 2019 was a dry spell. 2020 was lost to Covid. 2021 saw numbers depressed for a mix of both reasons. As the country's mountain resorts opened their doors this season, there has been both curiosity about what this year's ski season might hold and abiding caution. Despite this, one of the country's four ski resorts, Bakuriani, is betting big on its future by hosting a slew of international winter sporting events in the coming years.

Bakuriani has a lot to get ready for and has thus been at the epicenter of development efforts. The resort town will be hosting several stages of the European Cup in February 2022 in giant slalom and parallel snowboarding slalom, and is also getting ready to host the 2023 Freeski and Snowboard World Championships. Bakuriani will be hosting the Winter Youth Olympic Games in 2025.

Repairing and upgrading local infrastructure has been at the focus of preparations. Water supply problems have caused shutdowns in recent years, due to a lack of drinking water and snow creation capacity. However, this problem seems to be solved after the United Water Supply

Company of Georgia did an overhaul of the town's water systems in a 10 million GEL project in 2021.

As for artificial snow creation, systems are also being installed for the 2023 Snowboard World Championships. The creation of two artificial lakes nearby will ensure a steady supply of water to the resort's artificial snow creation capacity.

"World championships of this level are not held without artificial snow, therefore, a new snow system will be installed on Kokhta Gora, along a total length of 30 kilometers, and artificial lakes will be built to supply this system," said Zura Darchiashvili, head of the organizing committee of the Mountain Resorts Development Company.

Three new ropeways have also appeared in Bakuriani in time for the 2022 season. The ropes were built by the world-leading Austrian-Swiss company Doppelmayr-Garaventa Group. The capacity of all three new ropeways is 5,400 passengers per hour in the first phase, which can be increased to a total of 7,200 passengers.

In addition, for the 2023 championship, it is planned to set up new ski trails and ice rinks in Bakuriani, and most importantly the resort's ski jump, which has lain derelict for nearly 40 years, will be repaired.

Projects worth 71 million GEL have been completed in the last two years for

the urban renewal of Bakuriani on major roads, including the Bakuriani bypass. The three-km access road to Mitarbi and the Kokhta ropeway and Didveli parking have been expanded. Parking spaces at various locations in Bakuriani have been opened at three locations at the entrances of Bakuriani to ease traffic jams during the peak periods of the season. Lighting and pedestrian projects have also been implemented.

Bakuriani recreational zones are also planned to be renewed before the championship. In January 2022, the Municipal Development Fund announced a tender for the rehabilitation of Bakuriani Central Park. The amount allocated for rehabilitation is 10.5 million GEL. A tender has been announced for the rehabilitation of Bakuriani Park twice, but so far no winner has been selected.

Rooms Hotel Kokhta is hoping the speed and quality of infrastructure development in recent years will do much for the economy of the region, and is looking forward to serving guests in 2022, when the hotel plans to establish itself as "the favored stay for those searching for serenity in a fast-paced life." With all that is going on in Bakuriani as it gets ready to host a series of international sporting events, that sure sounds appealing.



ROOMS HOTELS™

— KOKHTA —

SKI SEASON AT ROOMS KOKHTA: *the scents of winter*

The times are high: standing on the pair of skis, we anticipate a sense of freedom, heightened near the white quilted, evergreen forests. Rooms Kokhta certainly keeps this feeling persevering as a crackling fireplace adds a wintertime sentiment to it - all to create the most outstanding ski-in ski-out resort in the area.



Borough Bakuriani, 1204 Borjomi Region, Georgia
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US IDFC investment to boost Georgian Healthcare system

To accelerate the pace of advancement, you ought to have an image of the goal. A good example that others will imitate. A new point above the limit that awakens competitors and develops the whole field in consequence.

Last year, American Hospital Tbilisi opened in the center of Tbilisi. While the Covid-19 pandemic was pushing the Georgian healthcare system to the limits and casting a glaring spotlight on its shortcomings, in the right place and moment, AHT began operations.

The hospital, which has state-of-the-art facilities and medical equipment, was founded with the investment of the United States International Development Finance Corporation (DFC). The project is the result of a \$50 million foreign direct investment implemented based on an agreement between the United States and Georgia where the stakeholders are the Georgian Ministry of Economy and Sustainable Development, the US Agency for International Development Finance Corporation, together with a number of medical institutions interested in medical and scientific research.

The United States International Development Finance Corporation (DFC) invests in various industries of US-friendly countries, including healthcare. The projects supported by the DFC are distinguished for their high level of CSR. They are eco-friendly and make a point of protecting workers' and human rights.

The multi-profile hospital with five 'Centers of Excellence' including Heart, Vascular, & Lung disease Center, Neuroscience & Neurology, Advanced & minimally invasive surgery, Orthopedic center, and ACC, follows the concepts of western hospitals and provides patient-centered, high-quality services. The centers are headed by high-class professionals of Georgian medicine and with their involvement, the hospital cooperates with Georgian, and US university clinics.

AHT has aimed to be fully accredited by the Joint Commission International (JCI), an independent, non-profit

organization that evaluates healthcare organizations around the world and grants accreditation to high standardized ones.

AHT WAY TO MAKE DIFFERENCE

The AHT outpatient department is oriented on patients' comfortability and short hospital stays. The doctor's lounge allows physicians to rest and relax isolated from the concerns of the ward. AHT's Laboratory and radiology is equipped with advanced technologies and provide a full range of diagnostic procedures. In addition, it delivers one of the biggest check-up departments in the region, with a large spectrum of examinations, including post Covid-19 health checks.

The operating theaters of the hospital are not only provisioned with ultra-modern technology but there is a comfortable environment for the surgical team. The views of Georgian nature decorated on the walls of the OR create a comfortable atmosphere. But one of the most remarkable points in inpatient care of AHT is the nursing team which creates an excellent service tailored to each patient's needs. Modern practice shows that continuous monitoring, high quality of care and attention, the satisfaction of the patient's needs, and, in general, the patient's good experience in the hospital is a key to good clinical outcomes. Nurses have frequent and close contact with the patient.

So, the AHT Nursing Department is structured according to JCI standards and fully responds to the eight 'essentials of magnetism' theory. Also, the hospital has the AHT academy to train nurses according to this principle.

Similarly, AHT has the Conference Hall and Training Center to provide continuous development of doctors. AHT Chief specialists collaborate with physicians forefront in the medical field worldwide. They often conduct masterclasses, hold conferences, and perform surgical operations together.



NBG offers sunnier outlook on inflation in 2022

at the country's imported inflation rate supports the argument that inflation in Georgia is largely being driven by external factors. It also rules out the GEL foreign exchange rate as a major factor driving inflation. "Annual imported inflation in December was over 20%, while the lari

AS AUTUMN TURNED TO WINTER AND COLDER TEMPERATURES SET IN, PRICES IN GEORGIA ONLY CONTINUED TO HEAT UP. THE COUNTRY ENDED 2021 WITH AN ANNUAL INFLATION RATE OF ALMOST 14%, ITS HIGHEST LEVEL SINCE 2010. BUT WHILE THIS STATISTIC HAS CAUSED UNEASE AMONG SOME ECONOMISTS AND A STRAIN ON THE WALLETS OF MANY GEORGIANS, THE NBG'S LATEST MONETARY POLICY REPORT ATTRIBUTES THE MAJORITY OF GEORGIA'S INFLATION PROBLEMS TO EXOGENOUS ONE-OFF FACTORS, OFFERING A FORECAST OF LOWER INFLATION STARTING IN THE FIRST QUARTER OF 2022.

MACKENZIE BALDINGER

WHAT'S CAUSING INFLATION IN GEORGIA?

Georgia's inflation problem can be more easily understood by making a distinction between the rate's core and headline components. Headline inflation, which measures total inflation in the economy and includes prices of commodities that are often volatile, amounted to 13.9% in December. However, the NBG's Head of Macroeconomics and Statistics Shalva Mkhattrishvili says that this inflation is largely based on temporary and external factors. "The predominant reason we see inflation acceleration right now is due to the international price of commodities. If you net out the more volatile components of inflation like food, fuel, and tobacco prices, you see that core inflation is around 6%. It's this core inflation rate that gives us a better idea of where the economy is going in the medium term."

Supply-side factors, like an increase in global transportation and logistics costs, have significantly increased the prices of imported goods for Georgians. The NBG estimates that these factors accounted for more than 5% of December's 13.9% annual inflation rate.

One of the largest supply-side factors contributing to the current inflation rate

HEADLINE AND CORE INFLATION. SOURCE: NBG



is the global spike in food prices over the last year. According to the United Nations Food and Agriculture Organization, September 2021 food prices in international markets increased by 33% in USD terms compared to the same time in 2020. While people all around the world have been impacted by inflation, consumers in certain countries like Georgia have felt the pinch more due to the higher share of food in their consumer basket (currently 29%) compared to more developed economies.

Mkhattrishvili contends that a look

registered an annual appreciation since last December. This indicates that it is not the exchange rate that is significantly contributing to inflation but the prices of commodities, which we can see have increased in the international markets in terms of USD." In its monetary policy report for 2021 Q3, the NBG put the exchange rate's estimated effect on inflation at just half a percentage point, a figure that has continued to decline throughout the winter months.

So, if Georgia's inflation is largely a result of external factors, why has domes-

IMPORTED AND DOMESTIC INFLATION. SOURCE: NBG



tic inflation increased as well? This can be ascribed to supply chain issues felt by Georgian producers as well as their use of commodities as inputs.

“Domestic inflation is higher than we’ve seen previously but still much lower than imported inflation. Part of the reason it has grown is because of the open nature of our economy, meaning global supply disruptions and higher costs of intermediary inputs have pushed up the prices of domestically produced goods,” says the NBG’s Mkhatriashvili.

Another surprising factor that’s impacted inflation significantly in the last few months? Utility fees. This dramatic price differential is the result of a subsidy program introduced by the Georgian government during the winter months of 2020 to alleviate financial pressure on the population after Covid-19 majorly disrupted the economy. The program, which covered the natural gas costs of more than a million households and the electricity fees for more than 600,000 households, deflated Georgian residents’ utility prices for four months, starting in November 2020. A year later, as the cold set in and Georgians switched on the heat in 2021, the jump in prices created a base effect, which was reflected in higher headline inflation. According to Geostat, utility fee prices contributed 3.6% to inflation in December, a statistical factor that the central bank anticipates will continue to have a substantial impact on inflation until the spring of 2022.

WILL WARMER WEATHER BRING A COOLDOWN IN PRICES?

As the winter cold thaws and spring emerges, so should price stabilization, according to NBG forecasts. The NBG noted in its 2021 Q4 monetary policy report that the utility subsidy’s base effect is expected to expire one year from its conclusion in March 2022.

Mkhatriashvili also says economists are expecting that commodity prices won’t continue to increase like they have been. “Even if commodity prices don’t go back to pre-pandemic levels, we don’t anticipate them to continue increasing at this rate. If that’s the case, then inflation will decline.”

The NBG’s Head of Macroeconomics and Statistics also emphasizes that monetary policy can only address part of the country’s current inflation challenges, not-

INFLATION DECOMPOSITION. SOURCE: NBG



ing that attempting to tackle supply-side shocks like global price increases in fuel and food can do more harm than good for the economy.

“When looking at inflation from a macroeconomic perspective, we have to ask, ‘Is this something that is caused by monetary policy and is there something monetary policy can do to alleviate the situation?’ From this perspective, there is not much monetary policy can do to affect international prices. If we were to tighten monetary policy too much to try and address this, it could really hurt the productive capacity of the country.”

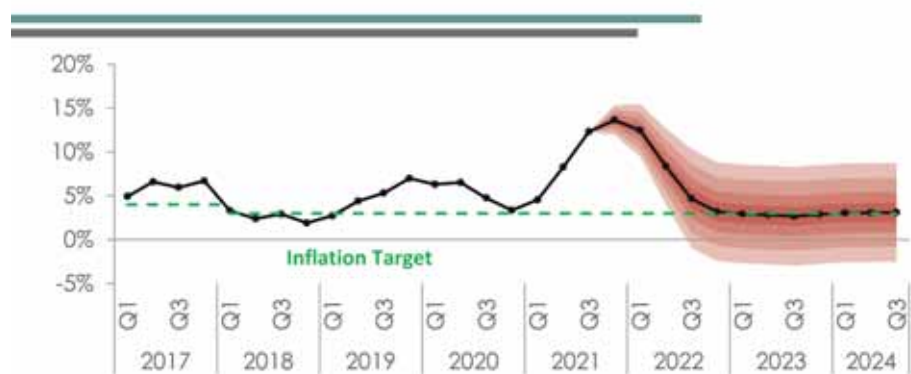
“However,” he notes, “when these one-off factors affect prices the way they did, it can affect medium and long-term expectations for inflation.” To combat these second-round effects and “address the associated risks to the economy, it is

necessary for the NBG to tighten its monetary policy, which it did when it raised its benchmark interest rate to 10.5% in December [up from 8% at the beginning of 2021].”

Mkhatriashvili says these two combined factors - anticipated stabilization of exogenous factors and tightened monetary policy - have led the NBG to predict that inflation will start to decline in Q1 2022.

In its October 2021 monetary policy report, the NBG projected that after a continued decline in inflation during Q2 and Q3, the country should hit its target rate of 3% in Q4, according to the central bank’s baseline forecast. With this will come a gradual decrease of the benchmark interest rate, which is expected to hit 8.0 - 8.5% at the end of 2022, offering hope that sunnier days will bring more stable prices.

NBG’S INFLATION FORECAST FOR 2022 - 2024. SOURCE: NBG’S MONETARY POLICY REPORT Q4 2021





Can organic Georgian produce cultivate new markets at home and abroad?

GLOBAL DEMAND FOR ORGANIC PRODUCE IS EXPECTED TO REACH MORE THAN \$150 BILLION BY 2025, WITH AN INCREASING NUMBER OF ECO-CONSCIOUS CONSUMERS LOOKING TO MAXIMIZE THE HEALTH BENEFITS OF THEIR FOOD AND MINIMIZE THEIR ENVIRONMENTAL IMPACT. INVESTOR.GE TAKES A LOOK AT HOW GEORGIA'S ORGANIC MARKET IS FARING AT HOME AND ABROAD.

ANA MEZVRISHVILI

There's been a fair amount of speculation in recent years as to whether Georgian agriculture can benefit from going organic. In the run up to the Covid-19 pandemic, the Georgian government announced the development of organic agriculture as part of its Green Policy, with then-Prime Minister Mamuka Bakhtadze telling young farmers "organic produce...this is exactly our niche." This sentiment has been further reinforced by the millions of donor dollars poured into supporting farmers in this effort, claiming this can 'unlock the potential of Georgian agriculture.'

And unlocking the potential of Georgia's agricultural sector remains an essential task, with almost two-fifths of those employed working in a sector that is dominated by low yield subsistence farming and which contributed only 8% of the country's GDP in 2020.

However, is going organic the answer

to solving Georgia's agricultural conundrum? While industry experts note that it likely won't remedy the entire problem, a slow-growing number of niche exporters and local marketplaces suggest that there is room for Georgia's green market to expand - both at home and abroad.

Investor.ge took a look at where organic may make sense, and where the sector still has room to grow.

GEORGIA'S ORGANIC EXPORT MARKET

Nestled in the Alazani River Valley of Georgia's eastern Kakheti region sits the village of Ruispiri and the marani of biodynamic winemaker Giorgi Aladashvili. His vineyard in the heart of Georgian wine country has taken an approach different from surrounding winemakers by incorporating organic methods into his agricultural process. He does not use agrochemicals in his vineyard, and instead utilizes composted fertilizers, horse-powered plowing, and a harvest

schedule based on the lunar calendar - all of these make for a more labor-intensive and expensive process than standard agricultural practices.

Despite the extra work, Aladashvili, who sells his products in Switzerland, says his organic endeavor is paying off. "I produce about 7,000 bottles of wine a year. My bio-certified Saperavi, Kisi, Khikhvi and Kakhetian Mtsvane are sold under the Biovinia brand," says Aladashvili. He says his wine costs 70 euros a bottle, a steeper price than most of his Georgian bio-wine counterparts charge but indicative of the lucrative market for some organic products in Europe.

Aladashvili is part of a slow-growing movement among Georgia's agricultural producers using organic practices to cash in on lucrative export markets. Data provided by CaucasCert, Georgia's largest organic certification company, shows that bio-wine's success abroad is growing, with its certified producers exporting 4,000 liters in 2019 and 5,600 in 2020. Other notable organic exports reported by CaucasCert in recent years include tea, blueberries, blackberry leaves, wild apples, and seeds.

THE COST OF GOING ORGANIC

But despite the variety of products and success of niche products like bio-Saperavi, Georgia's market for organic exports remains minor, due in part to the prohibitive costs of getting to external markets as well as the tendency of eco-conscious consumers to seek out locally sourced food.

To be certified organic in Georgia, CaucasCert estimates that the initial process costs between 1500 and 2000 USD. The organization, which is accredited in Germany and recognized by the European Commission as in compliance with EU regulations regarding organic standards, requires all applicants to undergo

a conversion process and pass a series of inspections to legally label their products as “bio,” “organic,” or “ecological.”

The organization’s quality manager, Zurab Nadareishvili, says each farm must undergo a minimum of two inspections a year during the conversion process, one being scheduled in advance and the other conducted without notice. They are then required to submit to annual inspections to retain that certification. “Farms in Georgia are often less than 10 hectares. In such cases, the inspection takes about three hours. At a cost of \$120 / hour, the average cost of one inspection alone is about \$400-450.”

Tamaz Dundua, who is the director of Elkana, an NGO that promotes sustainable farming and the development of organic cultivation and marketing in Georgia, says that the small scale of most farms makes official certification cost prohibitive. “Most of the people employed in agriculture in Georgia do not produce enough products for export and it is difficult to pay for the certificate, so many of them refrain. They prefer to find customers in the local market themselves.”

SHOP LOCAL, SELL LOCAL

One such farmer that has chosen to

go organic and focus on the local market is Nina Petrova-Dzneladze, whose farm is located near Lisi Lake in Tbilisi. She uses organic fertilizer made from plant waste and produces a variety of organic crops, but says exporting is currently out of the question. “It is a very difficult task for us: there is no subsidy or assistance, in addition to bank loans, a faulty insurance system and most farmers cannot switch to biologically pure products. Organic fertilizer is very expensive, and it is even more expensive to fight insects and pests,” says Petrova-Dzneladze. “We cannot even think about exporting products to Europe, because there are huge costs associated with getting an ecologically clean product to market.”

Instead, she chooses to focus on the market in Tbilisi, where her main crop, organic tomatoes, is highly demanded, and a lack of certification does not seem to deter local consumers. A study of the market by Ekoconnect found that direct contact with producers is valued highly for local consumers, providing “confidence that these foods are grown without mineral fertilizers and chemical pesticides and are therefore healthy.”

Due to the informal nature of many small-scale producers, sector insiders say it is hard to estimate just how many

organic producers there currently are or how fast the sector is expanding. But a glance at the growing number of local organic marketplaces in Georgia’s largest cities clearly indicates that there is local demand for eco-friendly food.

In Tbilisi’s central Vera district, Sunflower Health Food Store offers customers a range of organic vegetables, bio-honey, and a number of other organic products produced in-house by the store’s operator. Just down the street, shop and café Au Ble’d’or sells fresh-baked breads made from locally-sourced heritage wheats, as well as an array of vegetables and fruit sourced from an organic farm in Kakheti.

In an effort to satiate growing demand for e-commerce options, Soplidan.ge was launched in 2015 with the goal of “connecting the city to the village” by delivering fresh produce from individual farms to customers in Tbilisi. While the website currently only offers two organic suppliers, its success provides proof that there is a sector of the population seeking out a farm-to-table element in their grocery shopping. For those even more organically minded, Ecomarket.ge was launched by Elkana in 2020 to provide an organic-only online marketplace for products like fruit, honey, tea, and wine.

Hans Gutbrod, the head of the agribusiness committee at AmCham and a regular contributor to Investor.ge, is a frequent customer of Tbilisi’s organic food stores. Noting that organic-conscious consumers value locally sourced products, he says he appreciates that organic fruits and vegetables are available. “It’s really important that more people in Tbilisi find out what great organic food is available already, so that the sector overall can grow and develop further.”

This article was prepared with the support of the USAID Economic Security Program.



TBC CAPITAL'S MONTHLY TOURISM WATCH:

RECOVERY ON TRACK DESPITE SEASONALITY EFFECT

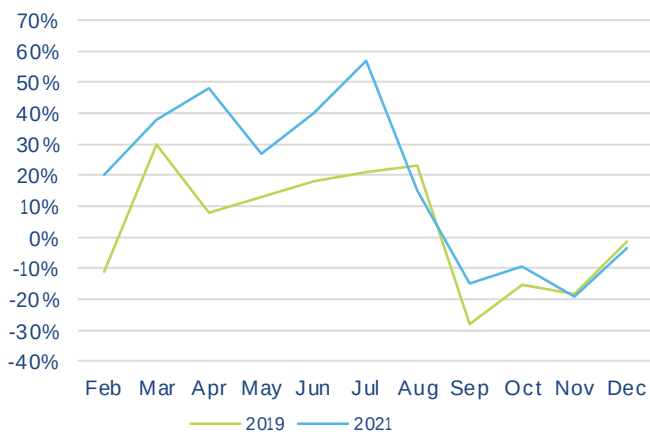
www.tbccapital.ge

A look at tourism statistics in TBC Capital's latest report from the end of 2021 presents a mix of MoM declines and yearly highs. While recovery of visitor numbers and hotel occupancy rates slumped slightly in December compared to previous months, air travel and travel revenue reached their highest levels of recovery all year, leading analysts to conclude that the sector's recovery is on track despite the seasonal downturn.

ORIGIN AND NUMBER OF VISITOR TRIPS

The visitor trips of December registered a 226% YoY increase of visitors but remained 70% lower than 2019. Despite a decrease in December's visitor numbers relative to November, the rate of decline closely mimicked 2019 trends, pointing to seasonality and not major sectoral disruptions as the culprit.

MoM Change of International Visitor Trips

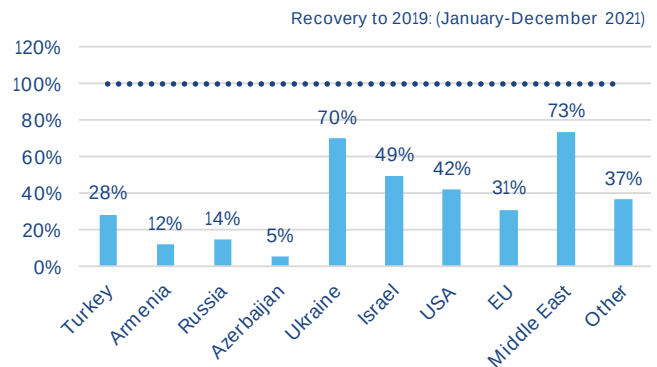


Sources: Interior Affairs of Georgia

The largest share of international Visitor trips in December came from Turkey (20%), a 5% increase from the same period in 2019. However, visitor numbers from most of Georgia's neighboring countries remained far below their pre-pandemic levels. From January to December 2021, visitor trips from Armenia amounted to only 14% of their 2019 level while Azerbaijan registered only 5% compared to two years prior.

The countries/region with the highest level of recovery in 2021 compared to 2019 were the Middle East (73%), Ukraine (70%), and Israel (49%).

Recovery of Total International Visitor Trips Jan-Dec 2021 Relative to Jan-Dec 2019

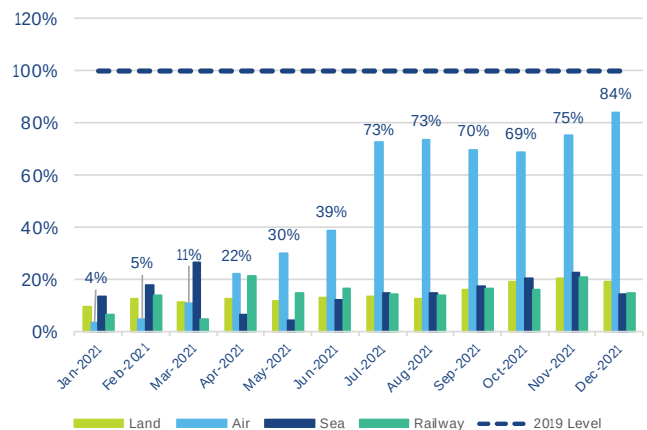


Source: The Ministry of Internal Affairs of Georgia, TBC Capital estimates

BORDER CROSSINGS

In December, visitor trips via air travel reached their highest level of recovery in 2021, down only 16% compared to the same month in 2019. Travel by land borders and sea both remained significantly low, registering less than one-fifth of their levels two years prior. The high recovery of air travel and slow return of border crossings by land and sea is attributed to the shifting origins of visitors, with more travelers coming from non-neighboring countries in 2021 than in 2019.

International Visitor Trips by Borders

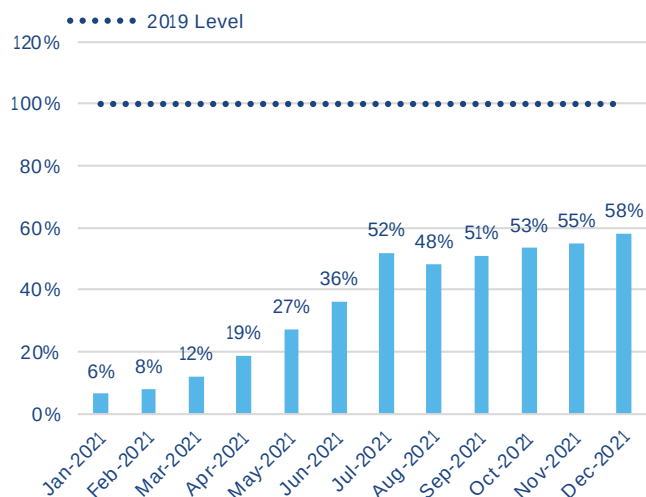


Sources: The Ministry of Internal Affairs of Georgia

REVENUES FROM INTERNATIONAL TRAVEL

International Travel revenue continued its gradual return to pre-pandemic levels in December, down 42% compared to 2019. Overall revenue during 2021 was still 64% lower than in 2019, but consistent MoM growth throughout most of the year indicates a continuous recovery.

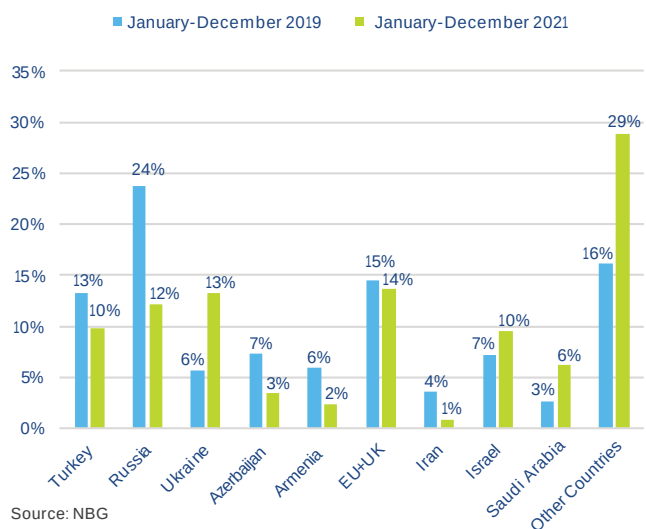
Recovery of Revenues From International Travelers in 2021 Compared To 2019



Source: NBG

An examination of 2021 shows that the share of countries in revenues generated by international travelers looks markedly different than in 2019. While travel from Russia contributed the largest share of revenue in 2019 at 24%, Ukraine and the EU+UK held the top spots in 2021 at 13% and 14%, respectively. Saudi Arabia's share in revenue doubled compared to two years prior, and Israel's share of revenue outperformed its 2019 level as well, amounting to 10% (previously 7%).

Share of Countries in Revenues Generated by International Travelers



Source: NBG

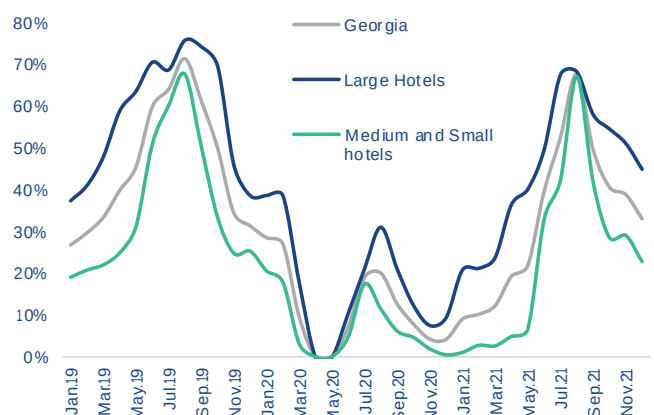
THE HOTEL INDUSTRY

Hotel occupancy rates at the end of 2021 seemed to follow the same broad seasonal downturn as they did before the pandemic, registering lower numbers compared to the summer season. However, December 2021 figures showed that on average, occupancy rates in large hotels (more than 80 rooms) were at 45%, a 16% increase compared to the same month in 2019. Average daily rates (ADR) in those large hotels also hit their peak for 2021 in December, registering only 5% lower than in 2019.

While hotel occupancy rates in the last month of 2021 registered 4% growth in Tbilisi compared to 2019 levels, most notable was the 41% occupancy rate of hotels in the Kakheti region, a 116% increase compared to two years prior.

TBC Capital's Head of Research Irina Kvakhadze notes that this increased occupancy in Kakhetian hotels could be attributed to higher levels of domestic tourism around the holiday season. Asked if she thinks this trend will continue into the coming year, Kvakhadze responded, "In 2022, we expect stronger outbound tourism; hence, domestic tourism may weaken compared to 2021. However, Kakheti is expected to continue enjoying high levels of occupancy as it has become one of the most developed touristic areas in Georgia, favored by not only local but also international tourists."

Average Hotel Occupancy



Source: TBC Capital survey;

*Large hotels: more than 80 rooms; Medium and small hotels: less than 80 rooms

Looking into the winter months, TBC Capital predicts that the opening of ski resorts and winter holidays in January could boost both domestic and international tourism in the early part of 2022. However, analysts warn that low vaccination rates in the country combined with green passport regulations limiting access to winter resorts for unvaccinated travelers could dampen domestic tourism numbers. Furthermore, staff shortages caused by the highly contagious Omicron Covid-19 variant could provide a significant challenge for service providers as case numbers soar throughout the country.

See more at www.tbccapital.ge and subscribe to our newsletter for more information: <https://tbccapital.ge/?subscribe>



Why it's worth saving Georgia's indigenous wheat varieties

ANCIENT GRAINS LOCAL TO GEORGIA CAN OFFER MORE SUSTAINABLE AGRICULTURE PRODUCTION, AND ENHANCE ADAPTATION AND PRODUCTIVITY IN STRESS-PRONE ENVIRONMENTS THAT WILL BE ABLE TO COPE WITH CURRENT CLIMATE CHANGES. BUT IT WILL BE AN UPHILL BATTLE TO CONVINCE FARMERS AND THE STATE TO EMBRACE INDIGENOUS VARIETIES AS VIABLE ALTERNATIVES.

SALLY WHILE

Slowly but surely, Georgia's unique native wheat varieties are gaining recognition. Not all (an Ilia State University study lists 150 forms of wheat registered in the 1940s), but increasing attention is being paid to safeguarding a heritage going back thousands of years, with some landrace varieties named in the Bible (Asli, Dika and Ipkli) still growing in Georgia.

Recognition of these heritage grains is extremely important for the growers of Georgian wheats. Verification and certification are steps on the route to attractive pricing, grants and international product markets.

And there is an expanding consumer market out there as heritage grains are increasingly popular both for the tasty bread they make as well for their nutrition value and digestion-friendly, naturally balanced, simple gluten structure—in contrast to industrial grains used worldwide.

However, without commercial success, campaigns to save them will fail, says the founder and chair of the Georgian

Wheat Growers Association (GWGA) Lali Meskhi, who started to push this cause in Georgia seven years ago and set up the association in 2017.

Historically, before giant US grain corporations' domination of global trade, farmers would trade or exchange grains between themselves, knowing which suited different terrains or weather, and which had differing harvest times. However, in Georgia (as in most developed countries) Meskhi points out, there are now legal restraints on what grain seeds can be traded. "Certification is now obligatory by law for selling seeds and only the species that are registered in the National Catalogue can be certified."

This catalogue, which houses all the species (indigenous and imported) that have been tested and proved to be good for use in Georgian soil, now includes two heritage grains, Dika and Tsiteli Doli. "The advantage of certification for heritage grains, I believe, is that the high-quality seeds will give higher yields, and thus farmers' interest will grow, as will concerns for safeguarding the purity of the species", says Meskhi.

WHY RECOGNITION IS SO IMPORTANT

The extent to which ancient grains are growing in popularity among consumers internationally is borne out by research from New York's Cornell University and North Dakota State University, which have a heritage grain project started in 2012 that has spread across the whole north-east of the US: "After a century of markets dominated by a few types of wheat and white flour, ancient and heritage wheat varieties are making a comeback," the study states. "Restaurants and bakeries that promote organic and local agriculture have sprouted across the country in the last decade, meeting a rising consumer demand for tasty and nutritious foods that support an ethic of sustainability."

In addition to higher yields, these heritage landrace grains offer another major advantage – their stable yield capacity. Evolving as they have naturally over millennia in fluctuating local weather conditions and in a wide range of habitats, these grains are able to offer vital clues to scientists on plant resistance to the stresses of climate change and diseases. For this

reason, there is increasing interest among not just scientists, but breeders and farmers in most western countries and advocacy of them by consumer groups - such as the Slow Food Movement and Slow Grains!

However, it will be a long time before Georgia's heritage grains might help with the national wheat short-fall problem. In Georgia, the pace of regeneration is currently being held back by the small amount of grain available to be shared among Georgian farmers, seed banks and others. "Regeneration is hindered by absence of recognition of its value by the state; hence, there are no support programs; it cannot compete with high yield industrial wheat. Imported wheat and flour (from Russia) accounts for more than 85% of consumption and influences prices and wheat growers do not enjoy subsidies or insurance schemes," says Lali Meskhi.

Farmer numbers are growing. GWGA membership has risen from seven to 100 in the last four years and the number of hectares planted with heritage wheat varieties have tripled since 2017. But only time will make any major difference to this supply problem as campaigns build momentum.

SAFEGUARDING GEORGIAN GRAINS

Key steps have been taken, led by the GWFA, to promote Georgian heritage wheat classification internationally and (along with qvevri wine-making, polyphonic singing and the three writing systems of the Georgian alphabet) it is now on UNESCO'S list as a National Monument of Intangible Cultural Heritage. Thus, Georgian wheat cultivation (endemic species and landraces) and associated "artisan baking and cultural traditions" are now officially recognized.

The next step has been taken, and a submission for Georgia wheat culture has been made for UNESCO nomination as an Intangible Cultural Heritage in Need of Urgent Safeguarding. "We have to re-submit the amended text by March 2022. UNESCO experts advised to focus more on traditions and customs than on wheat itself. It will take them a year or so to come back, then the committee of 24 countries has to vote, perhaps by the end of 2023," says Lali Meskhi.

Regeneration of the grains is listed as a priority in Georgia's Biodiversity Strategy and Action Plan and Agriculture Development Strategy. Meanwhile, action plans

are being prepared under the initiative of the Scientific-Research Center for Agriculture of the Ministry of Environment and Agriculture (MEA). This envisages the creation of a geo-information base of genetic resources of the grains stored in gene banks in Georgia and abroad.

There is a safeguarding plan as a part of the UNESCO submission, to mark the Government's obligation for safeguarding. The safeguarding group consists of the relevant Government agencies including the Scientific-Research Center, GWGA (initiator), and other NGOs including the Georgian organic organisation Elkana and private sector/farmers.

WHY NOW?

The importance of bringing the land races out from the marginal land and field edges to which most have been side-lined, into the mainstream of crop production, is emphasised by researchers at Italy's Research Center for Cereal and Industrial Crops in Foggia (known as the granary of Italy) in a report "Importance of Landraces in Cereal Breeding for Stress Intolerance".

They, as do reports from scientists generally, regret the land races' disappearance as a source of diversity as a result of aging rural populations and mass migrations to cities which have resulted in the abandonment of traditional agricultural practices.

"The renewed focus on cereal landraces is a response to some negative consequences of modern agriculture and conventional breeding which led to a reduction of genetic diversity. Cereal landraces are still cultivated on marginal lands due to their adaptability to unfavourable conditions, constituting an important source of genetic diversity usable in modern plant breeding to improve adaption to abiotic or biotic stresses, yield performance and quality traits in limiting environments.

The researchers add: "Traditional agriculture production systems have played an important role in the evolution and conservation of wide variability in gene pools within species. Today, on-farm and ex-situ conservation in gene bank collections, together with data-sharing among researchers and breeders, will greatly benefit cereal improvement."

Introduction of the landraces into plant breeding programs will, they sug-

gest, increase "more sustainable agriculture production, particularly enhancing adaptation and productivity in stress-prone environments to cope with current climate changes."

Yet the path of landrace wheats back into the mainstream of agriculture is far from easy, as a not atypical story from Turkey shows. Academics at Izmir and Istanbul universities, in a paper titled "Seed politics in Turkey: the awakening of a landrace wheat and its prospects" detail the struggle to extricate the now highly popular Karakilçık landrace and others from the ramifications of a new Seed Law. While in general wheat production in Turkey "as in most countries relies on the use of high-yielding hybrid varieties" following 1970s programs to commercialise and commodify agriculture, older subsistence farmers in poor mountain areas stuck with local landraces, for food and bread.

However, a 2006 Seed Law outlawed the commercial trade of landrace seeds in an attempt to commercialize a formal seed system. This created widespread criticism and discontent, not only among small farmers but also the strongly health-minded Turkish middle-class which was "active in creating linkages between rural producers and urban consumers through small-scale food trade". And many particularly liked the taste of bread made from the Karakilçık and other landraces.

Political platforms sprang up all over Turkey to defend the landraces, local campaigns by scientists, politicians and consumer groups linking with international ones against international industrial farming, genetically modified crops and in favour of local produce, local seed-swap fairs, organic food and sustainability. A first seed-swap festival was organised in 2010 and more followed, along with protests, in the coming years.

As a result of the continuing furore, in 2018 Turkish law was relaxed, although only a little. But it did mean that traditional seeds could be produced and cultivated in the region where they originated. So far the actions of the GWGA and Elkana and others, both local and international, have begun to give protection to Georgia's landrace grains. To check on the product as a consumer you can taste the bread from them at Jean-Jacques little shop in Vera's Mikheil Zandukeli Street, Au Blé, and bakeries 'Kakhelebi' at Akaki Beliashevili Street or Purista at Berbuki Street.



Excellence IN WHAT WE DO

New Law on Entrepreneurs –

What You Should Know

A new law on entrepreneurs has come into force as of 1 January 2022 after being adopted by the Georgian parliament in August 2021.

As opposed to its previous version, which allowed the relevant parties to agree (through the company charter or otherwise) on major aspects of corporate relations, the new law takes a vastly different approach, regulating even the minor aspects of day-to-day life for a corporate entity.

Because the new law will influence every business operating in Georgia, BLC has created a guideline outlining some key legal changes that every businessperson or manager should be aware of.

The law has a transitional period that needs to be treated carefully

The new law states that existing entities will be given two years to bring their respective registered data into compliance. However, there are important conditions to this rule! If an entity wishes to change its existing data or intends to register/change any information currently subject to registration, the public registry will request submission of a new charter in compliance with the new legislation. Therefore, the full two-year transitional period will only apply to entities that do not have active operations or do not intend to make any entries in the register over this period.

Founding shareholders are liable for obligations borne prior to the company's registration

The new legislation specifies that company shareholders are personally and jointly liable for the entity's obligations born prior to corporate registration unless the relevant obligations have been passed on to the entity itself after registration and the creditor(s) do not object.

This will be relevant particularly for joint ventures or special purpose vehicles, which are often created for a specific project and take material steps before the company is officially registered.

Selection of a company's name is now limited

The new law prohibits the existence of two entities with the same name. Therefore, it is required to ensure that two entities having similar names are differentiated and, in some cases, an addition/modification must be made to the firm's name to reflect this. The latter shall be done in the Georgian language only. The firm's name is prohibited from being misleading or containing any improper words, and it also may not coincide with the name of a well-known enterprise in Georgia.

Letterhead and webpage

The company letterhead shall contain the company name, legal address and identification code. If a company is under liquidation or in an insolvency regime, the letterhead shall also contain a clear indication in this regard. The same information shall be (i) contained on a letterhead of a foreign entity's branch office; and (ii) shall be available on the company webpage. Failure to do so can result in administrative liability.

Relationship with the company auditor

The company directors and supervisory board members are now jointly liable for the preparation, submission and publication of financial statements as provided under the Law on Accounting, Reporting and Audit of Georgia. In addition, the company shareholders are not authorized to terminate an agreement with an auditor without having a good reason for doing so. Disagreement on interpretation of certain financials shall not be considered a valid reason. If termination

does occur, the parties are obliged to notify the Service for Accounting, Reporting, and Auditing Supervision under the Ministry of Finance.

Removal of and exit by a shareholder

Due to the absence of clear legislative guidance, the possibility of removing a shareholder was previously one of the most heavily debated issues in the Georgian corporate world. The new law explicitly regulates this issue and stipulates that if there are substantial grounds, the court may take a decision on removing a shareholder from a limited liability company. Sufficient grounds can be met if a partner materially prejudices the company's interests or if maintaining a partnership prejudices future activities thereof, on the condition that the partner has been warned of such possibility and the default continues.

Furthermore, a partner has a right to exit a limited liability company if the company management or other partners significantly prejudice the partner's interests. Such examples of prejudice include significant changes made to the business, a failure of the company to distribute dividends for more than three years despite accumulated reserves and existence of favorable financial conditions, and other partners approving additional contributions which apply to that partner as well.

Removal or exit of a shareholder shall be made based on fair valuation of the relevant shareholding interest owned by the departing shareholder.

If you operate as a joint stock company, chances are you want to reorganize into a limited liability company!

The new law on entrepreneurs has introduced the possibility of having a complex capital structure in an LLC, which was not previously permitted. LLCs can now have authorized capital and issue new shares.

While the new legislation provides more possibilities for LLCs, JSCs are conversely now subject to extreme regulation, reinforcing the idea that only large, public corporations and certain financial institutions with established reporting and transparency systems shall exist in this form.

Here are a few reasons to consider reorganizing into an LLC:

1. Shareholders of an LLC can agree to deviate from certain statutory rules, while there is no such possibility in a JSC. The rules included in the law apply to a JSC notwithstanding the stance of shareholders on relevant matters.
2. Unlike an LLC, having subscribed capital (the amount agreed upon by the founding partners and indicated in the founding agreement) is mandatory for 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 the statutory capital, legal capital, or charter capital of an entity. The law sets the minimum capital requirement for a JSC at 100,000 GEL (roughly USD 32,800). No such statutory minimum is established for an LLC.

3. Capital is formed by way of initial and additional contributions. The term "contribution" is defined as property transferred to the entrepreneurial entity in exchange for a share (participation interests) in that entity. Having said that, in-kind contributions are also regulated for a JSC and the law states that it shall be evaluated by an independent auditor / valuator prior to contribution to the capital, while provision of services or performance of work cannot be used for paying-up capital in a JSC. The limitation is due to the difficulty in objectively determining the monetary equivalent of the services/works performed.
4. The new law introduced an important, although not compulsory, mechanism for capital protection in the form of reserve capital, which serves to cover losses. A JSC must have reserve capital that amounts to at least 10% of its subscribed capital. Until the reserve capital reaches the above threshold, the JSC must retain 5% of its annual net profit and direct it to the reserve capital.
5. Reduction of subscribed capital in a JSC is a complex procedure, which includes the obligation to publish the relevant decision. In addition, cash outflow is not allowed from a company until six months after publication. In general, taking cash out of the company becomes extremely challenging in the case of a JSC.
6. In the case of both JSCs and LLCs, distribution of dividends is allowed if the net asset value of the company is positive. 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 subscribed capital (the net asset value must exceed the subscribed capital). However, JSC dividend distribution is subject to additional preconditions, including the following: (a) 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 should not be less than the aggregate amount of the subscribed capital of the company and its reserves; (b) the aggregate amount of the distribution must exceed the financial indicators calculated in accordance with the law.

Although the new law was published well ahead of its enactment, number of complications and difficulties have arisen in practice due to the magnitude of the changes made. Therefore, be sure to obtain legal consultation and ensure that your corporate document, as well as internal document flow, complies with the new rules to avoid any unnecessary obstacles or delays.

Tamta Ivanishvili

Partner | Corporate and Finance

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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AND ADVISE
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AMCHAM MEMBERS PRESENT AT TBILISI DATAFEST

For five days in December, tech-enthusiasts from around the world met at (or logged on to) the fifth edition of DataFest, hosted this year at the headquarters of Georgia's Innovation and Technology Agency in Tbilisi. The conference brought together hundreds of data professionals from around the world, and featured local and international speakers who offered their views on a range of data-centric topics, including business and startups, data visualization, and its role in activism and governance.

Three AmCham members shared their expertise at DataFest – here are some of the main takeaways.

HANS GUTBROD – INDIVIDUAL MEMBER



Hans Gutbrod, an active AmCham member and head of the chamber's Agribusiness Committee, highlighted lessons from an international campaign he worked on to increase the transparency of funding that goes to policy research. He noted that research and lobbying are often mixed up, contributing to widespread cynicism about expertise. In order to change this, one key step was to make transparency measurable with a simple five-star system that was easy to understand and communicate. Through sustained engagement, and with the prospect of public scrutiny, many think tanks decided to increase their disclosure. In the end, a campaign with limited funding, based out of Tbilisi and conducted

part-time, helped to make more than \$100 million of research funding around the world more transparent. Noting that transparency is an integral part of communicating confidence in the integrity of one's work, Gutbrod suggested that some of these approaches could be used to tackle other problems, such as helping people to find lifestyles that contribute to their long-term health.

WILLIAM DUNBAR – ZINC NETWORK



AmCham member Zinc Network's William Dunbar is the Deputy Chief of Party of the USAID's Georgian Information Integrity Program. Dunbar presented the winners of the inaugural Counter Disinformation Innovation Competition, a joint project of the Program and Startup Grind Tbilisi. The competition, which sees Georgian tech companies compete for USD 42,500 in funding to design tools that will help NGOs better research and combat disinformation, aims to forge partnerships between the world of tech and civil society to more effectively tackle disinformation together. The competition's three winners, Pulsar.ai, MetaMine, and WaveTech.ai, each presented their ground-breaking tools to a wider audience for the first time at DataFest.

On show were two sophisticated transcription tools (capable of converting Georgian video and audio content into searchable text and performing

rudimentary narrative analysis), as well as a public database aggregation software (capable of pulling and tracking open-source data such as donations and business registrations). Disinformation monitors from outside of Georgia were especially impressed with the potential of the winning entries, whose technology could make a difference to those fighting disinformation all over the world.

IRAKLI GOGATISHVILI – BANK OF GEORGIA



Irakli Gogatishvili, who is the Head of the Data Research Lab at Bank of Georgia, opened the final day of the event with his talk entitled "Cognitive Architectures for AI: towards Creative Problem-Solving Systems". In his presentation, Gogatishvili discussed cognitive-emotional architectures for AI endowed with creative problem-solving capabilities. He touched on both the embodiment and autonomy dilemmas in the creation of AI, challenging the audience to discuss the merits and drawbacks of equipping AI with human-like psycho-emotional characteristics. Central to his discussion was the thesis that it is crucial to maintain a balance between human dominance of the systems they create while also giving those systems sufficient freedoms to fulfill their purpose and make human lives better. Otherwise, humanity could face a scenario in which AI systems can claim human rights for themselves and try to assert AI supremacy over mankind.

AMCHAM BACKS US – GEORGIA FREE TRADE DEAL

In December, eight U.S. Congressmen penned a letter to US Trade Representative Katherine Tai, urging her to 'strongly consider' strengthening bilateral trade and investment ties between Georgia and the United States in the form of a free trade deal.

In a show of support for the initiative, AmCham President

Sarah Williamson sent a letter to Ambassador Tai as well, in which she endorsed the idea of a Georgian-American free trade deal and offered the support and assistance of AmCham Georgia in facilitating further trade cooperation between the United States and Georgia.

Text of the letter:

I am writing to you now, as the President of the American Chamber of Commerce in Georgia. We were recently made aware of a letter that was sent from eight Congressmen to your office, supporting efforts to enhance US-Georgia trade and investment relations. AmCham Georgia would like to support this letter and express our hopes that this may precipitate the beginning of negotiations on a U.S.-Georgia Free Trade Agreement.

Opening negotiations on an FTA would be a powerful signal of continued support for Georgia at a time when Russia continues to pressure Western governments to abandon their friends. It could also support Georgia's reform agenda and provide an ideal commercial partner for US companies while helping to combat Russian, Chinese and Iranian influence in an important region.

This FTA could enhance US trade. US exports to Georgia, at \$540 million in 2020, are largely concentrated in cars and machinery. However, in recent years we have seen significant increase in US-hotel franchises, as Georgia's tourism sector has grown dramatically, as well as fast food chains like Wendy's, Dunkin Donuts, Domino's Pizza, Burger King, Taco Bell, KFC and Subway. Clothing retail is also rapidly expanding with U.S. brands such as GAP, Banana Republic and Tommy Hilfiger opening storefronts in Georgia.

Large infrastructure projects and government procurements also offer sizeable opportunities for U.S. firms. International Financial Institutions have supported billions of dollars of infrastructure improvements in recent years and while U.S. investors have been involved in some, Asian and European firms have won the majority of contracts, mostly as a result of low awareness on the part of US firms.

Opening negotiations on a US-Georgia Free Trade would make it easier to expand existing exports and would raise awareness of opportunities that exist in other areas. This would be an economic and security win for all concerned.

A US-Georgia FTA would also create opportunities beyond Georgia's borders. Georgia is a gateway for the wider Eurasia region, offering a business environment with low corruption, a simplified tax system, bilateral trade ties with its neighbors and a business-friendly legislative environment. It is, therefore, an ideal location for US-companies that want to trade regionally.

It has also demonstrated itself as a transit corridor. Georgia's economic and strategic importance as a transit route for oil and gas supplies has never been so important. The country offers the only route for natural gas from the Caspian Sea to Europe that does not go through Russia. A BP-led consortium recently finished a gas pipeline upgrade that represented a \$2 billion investment in Georgia alone. Georgia's transit and production potential goes beyond energy. The country is part of a 'New Silk Road' transit route that offers the only land-based transit corridor between Europe and China that is not dependent on either Russia or Iran. This route is further enhanced by Georgia's free trade access with the EU and visa-free travel regime with the block. Georgia is supporting the development of this route through heavy investment in port, road and rail infrastructure.

An FTA with Georgia is also unlikely to create any significant new competition for U.S. companies. Manganese makes up more than 80 percent of the \$78m goods that the U.S. imported from Georgia in 2020. This is mined and processed in Georgia by a U.S. company and does not compete with U.S. producers.

Politically, opening negotiations on a FTA would offer a strong signal of support at a time when Georgia is feeling increasing pressure from an assertive Russia and China. Economically, it would provide a framework for wider US commercial engagement in the region. It would open up opportunities for US companies and boost the argument for Westernization, just when Georgia needs it the most.

We appreciate your consideration and stand ready to support this vital effort in any way we can.



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