Georgia, UAE set to strengthen economic ties

New investment mechanism readies Georgian energy sector to surge

Georgia's got a sweet tooth for artisanal chocolates


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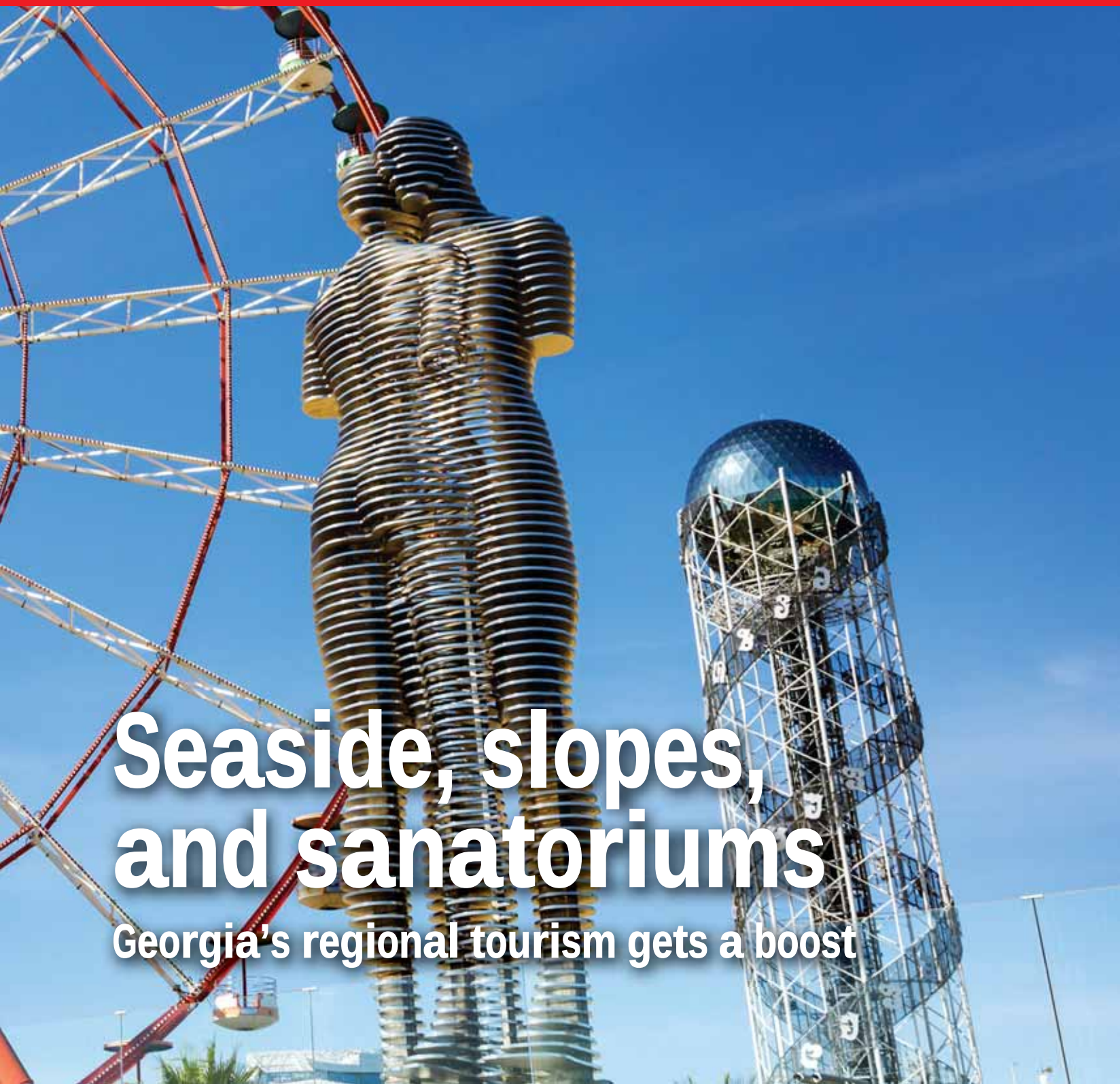

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# Investment News

*Investor.ge* provides a brief update on investments and changes in government policy that could impact the business environment. Information in this issue was taken from *Agenda.ge* and other sources.

## FDIs in Georgia hit record of $2 billion in 2022

Foreign direct investments in the country exceeded $2 billion in 2022, setting a "historic high," Economy Minister Levan Davitashvili announced in a statement on March 13, noting that the European Union was the primary source of funds. "FDIs from the European Union increased by 142.5% and amounted to $859.6 million," the minister said, adding that 43% of total FDI had come from the bloc's states in 2022.

Figures released by Geostat also showed the United Kingdom as a major FDI source in 2022 at a value of $428 million, followed by Spain with $367 million and the United States with $164 million.

Overall, FDI increased in 2022 by 61% compared to 2021, with increases in equity and reinvestment of earnings cited by Geostat as the "main reason" for growth. The largest share of FDIs was registered in the financial and insurance sectors ($526 million) followed by real estate ($407 million).

## Georgian Railway hits "record-high" profits in 2022

Georgian Railway hit a "record-high" profit of ₾283 million ($106 million) in 2022, with its freight marking a 22% YoY increase, Director General Davit Peradze told Prime Minister Irakli Garibashvili in mid-February at a meeting to discuss the company's agenda for 2023.

At the meeting, Peradze told government officials that the company was currently capable of carrying 27 million tons of freight per year, adding that the figure would reach 48 million after the completion of its modernization project by the end of 2024. He also noted that "large-scale" works were being carried out to update the company's fleet of carriages and improve infrastructure.

The official also discussed the Baku-Tbilisi-Kars railway project, which facilitates the transport of passengers and goods between Azerbaijan, Georgia, and Turkey, outlining that the route is expected to become "fully operational" next year, with 87% of the project completed at this stage. Plans for 2023 also include reforming the railway transport sector of Georgia in a bid to make it "more competitive" and bring it in compliance with European standards, Georgian Railway representatives noted at the meeting.

## Government announces $500 million kindergarten rehabilitation program

The Municipal Development Fund of Georgia's Ministry of Infrastructure will announce a tender for the reconstruction and renovation of hundreds of kindergartens across Georgia this spring, the fund announced in late February during a meeting with construction companies.

Within a larger ₾1.3 billion ($500 million) government program, the tender will involve the construction of 135 new kindergartens and renovation of 100 facilities. Fund Director Davit Tabidze said ₾100 million ($38 million) of the budget had already been allocated for this first phase of the works, which are scheduled to commence later this year.

The overall program aims to build

300 new kindergartens and renovate 585 existing facilities across the country. The works will include setting up indoor and outdoor spaces for use as recreation zones, with the buildings to be fully adapted to children with special needs.

## External trade up 12% in January & February

Georgia's external trade turnover amounted to $2.89 billion in January and February 2023, posting a 12% YoY increase, the Georgian National Statistics Office revealed on March 13.

The value of exports rose by 20% and equaled $915 million, while imports also grew by 9%, amounting to $1.98 billion in the reporting period. The trade deficit reached $1.06 billion, and the share of trade turnover hit 37%.

## EU to give €21 million in budget support to back "key reforms" in Georgia

The European Union will give €21 million in budget support to back the implementation of "key reforms" in various sectors of the Georgian economy, from economic and business development to rural advances and food safety, the EU Delegation to Georgia announced in February. Supporting development of the labor market and contributing to regional development and agriculture are also under the scope of the package.

The aid was approved last year in the form of budget support, which is only disbursed when agreed conditions for results are met, the EU Delegation explained. After assessing implementation of reforms in sectors of the Georgian economy, the EU decided to issue disbursement packages for: economic and business development (€5.67 million); skills development and matching for labor market needs (€7 million);the EU 4 Integrated Territorial Development program (€5 million); and the European Neighborhood Program for Rural Development and Agriculture (€3.2 million).

## Georgia's aviation sector gets accolades, new destinations

Tbilisi International Airport and Batumi International Airport in the country's Black Sea Adjara region were selected among the best 10 airline facilities in Eastern Europe in the Skytrax World Airport Awards in Amsterdam on March 16. Tbilisi Airport was selected in the category for the 10th time in a row, while the Batumi facility was selected for the second time, TAV Georgia, the company operating the two venues, said in a statement.

In addition to gaining recognition, Tbilisi International Airport announced in early March that several airlines will be adding flights and new destinations. Turkish-German airline SunExpress will start operating flights between Tbilisi and Antalya on May 28, while flights from Izmir and Turkey's capital city of Ankara will start on June 2 and June 5, respectively. Aegean Airlines, Greece's largest airline company, will launch new direct flights between Thessaloniki and Tbilisi. Flights will carry passengers twice a week, on Tuesdays and Fridays, between May 22-October 5. And Air Moldova, which entered the Georgian airline market in 2022, announced that it will increase the frequency of its flights to Chișinău and add a new connection between the Moldovan capital and the western Georgian city of Batumi. Flights between Chișinău and Tbilisi will be operated daily between March 26 and the end of October.

In the west of Georgia, Kutaisi International Airport announced that it served 75,733 passengers in February, marking a 63% increase compared to the same month of last year. Five airline companies currently operate flights to 28 destinations in 17 countries from the airport, with Hungarian airline Wizz Air slated to station its third jet at the facility and add five new European destinations this year. Kazakh airline FlyArystan will also begin operating regular flights from Kutaisi Airport to Shymkent starting in July.

## Annual inflation to decrease to 5% in April – TBC Chief Economist

Annual inflation will decrease to 6% in March, and could go as low as 5% in ▸▸

April, TBC Chief Economist Otar Nadaraia told media outlet BMG on March 17. According to Nadaraia, the economy is ready for a gradual easing of the monetary policy. "In our assessment, the decision to cut the monetary policy rate has already matured with the argument that the rate and other measures unfortunately cannot replace past inflation. The main thing is the forecast for the next twelve months, and in this regard, the inflation forecast is quite promising," said Nadaraia. The annual inflation rate stood at 8.1% in February 2023.

## Georgia becomes chair of World Wine Trade Group

Georgia will lead international wine industry experts in discussions relating to global wine trade issues over the next 12 months as part of the country's newly assumed status as the Chair of the World Wine Trade Group (WWTG), the National Wine Agency (NWA) announced on March 16. The country's representation was officially awarded the position at the annual WWTG meeting in Brussels in early March, with its status set to commence on May 1.

The state body for promotion of Georgian wine called the result "another recognition of Georgia as a wine producer country," with NWA Chairman Levan Mekhuzla noting that the position will "contribute to the promotion of Georgian wine and the growth of exports, including among the member countries of this WWTG."

The WWTG is an informal grouping of government and industry representatives from wine producer countries including Argentina, Australia, Canada, Chile, Georgia, New Zealand, the United States, South Africa, and Uruguay. Georgia last chaired the WWTG in 2014.

## Money transfers to Georgia up 103% YoY

Georgian recipients received ₾986 million ($372 million) in remittances from abroad in February, marking a 103% increase YoY, data from the National Bank of Georgia shows. Russia ($187 million), Italy ($39 million), and the United States ($30 million) were the countries with the highest levels of money transfers. In the same month, $27.6 million was transferred from Georgia to recipients abroad - a 3.2% increase compared to the February 2022 figure of $26.7 million.

## EBRD allocates €19 million for waste management in Adjara

The European Bank for Reconstruction and Development (EBRD) has allocated €19 million for better waste management and disposal in western Georgia's Black Sea region of Adjara, the IFI announced in early March.

The first committed tranche of up to €3 million will be used to purchase new solid waste management equipment, while up to €16 million will be used to build a new waste treatment plant in the second phase, allowing the Adjara Solid Waste Management Company to recover recyclables and divert waste to a new sanitary landfill.

The IFI also revealed the investment would address the priority needs of Batumi, as identified by its Green City Action Plan, as well as the wider Adjara region. "This includes stopping the disposal of waste at existing dumpsites in Kobuleti and Batumi. These dumpsites are active sources of land, water, and air pollution, impacting the ecosystem of the region and the Black Sea in general," the EBRD statement read.

Georgian Finance Minister Lasha Khutsishvili said the project would help transform Batumi into a "more attractive" tourist destination for local and foreign visitors. This initiative is the latest of more than 280 projects undertaken by the EBRD in Georgia that have amounted to over €35 billion in investments.

## Average salary up 21% in Q4 2022

The average monthly nominal earnings in Georgia increased by 21.2% in the fourth quarter of 2022 compared to the same period of the previous year and reached ₾1,773 ($688), the National Statistics Office of Georgia announced on March 17.

The highest monthly earnings were

observed in the following sectors: information and communication: ₾3,672 ($1,423); financial and insurance activities: ₾2,726 ($1,056); construction: ₾2,535 ($983); and professional, scientific, and technical activities: ₾2,455 ($952).

Deputy Economy Minister Vakhtang Tsintsadze said the increases in nominal monthly earnings and employment indicators reflected economic growth trends in the country. "The fact that the real salary increases, excluding the effect of inflation, is about 10% is particularly noteworthy, indicating that the disposable income of the population and their purchasing power are increasing," said Tsintsadze.

Tbilisi and Mtskheta-Mtianeti were the leading regions for average earnings, the figures also showed.

## Georgian wine gives strong showing at Vinexpo New York

At the international exhibition of wine and alcoholic beverages Vinexpo New York in the United States, 26 Georgian wine companies showcased their products with the financial and organizational support of the National Wine Agency (NWA), the agency announced on March 11.

Within the scope of the exhibition, representatives of the NWA discussed the strategy for the promotion of Georgian wine with Georgian wine importers and representatives of local distribution companies. "In recent years, the measures implemented with the support of the Georgian government have helped to increase awareness of Georgian wine in the U.S., which has been reflected in concrete results," the agency noted.

The "steady growth" of Georgian wine exports to the U.S. market, which reached its "historical high" in 2022 with one million liters of wine exported from the country, was also highlighted by the state body. According to the agency, by participating in Vinexpo New York, the Georgian companies have had the opportunity to get acquainted with new trends and challenges in the world wine market and to explore new markets in the U.S.

## Georgian startup ecosystem needs growth, adaptation – ADB

The Georgian technology startup is seeing an ecosystem emerge in the country; however, it needs "growth, refinement, and adaptation," noted a new report by the Asian Development Bank released in early March.

The report by the IFI, entitled *Georgia's Emerging Ecosystem for Technology Startups*, offers an overview of the emerging sector in the country. Financial technology and e-commerce startups in Georgia overshadow development of "high-impact" startups in education, healthcare, agriculture, and environmental protection, it said, adding the latter were developing at a slower pace but were "especially important" for their contribution to human capital development, agricultural productivity, and climate change mitigation.

The ADB acknowledged the importance of government programs that provide grants for early- stage startups; however, it also emphasized that venture capital and non-financial support in Georgia are still in their "infancy."

"Research and development of new technologies must be strengthened so that startups can commercialize new ideas," Paul Vandenberg, ADB Principal Economist and the report's co-author said, noting that local startups need to conduct market research to better understand and anticipate what products or services are in demand. ■

# Veli: the Georgian e-commerce startup delivering a better online shopping experience

Veli CEO Archil Piriashvili

**Launched in early 2022 with Adjara Group among its primary backers, Veli is the latest e-commerce startup to vie for a chunk of Georgia's expanding e-commerce market. *Investor.ge* recently sat down with CEO Archil Piriashvili to hear how Veli's customer-centric approach and Amazon-esque fulfillment model aim to transform online shopping in the country.**

MARIAM TSINSTABADZE

The prospect of inadvertent run-ins with moped-riding delivery drivers repping the likes of Wolt, Glovo, or Bolt Food has become a daily reality for drivers in Georgia's capital, offering a visual reminder of Tbilisi residents' growing obsession with online delivery services – a trend that jumped three-fold in value to 167 million GEL in the first year of the pandemic alone.

Despite this visual indication that the online shopping revolution has made its way to Georgia's front door, other figures paint the country's e-commerce adoption as still in its nascent stages. A report published by Galt & Taggart in 2021 put Georgia's e-commerce penetration rate at a measly 1.1% of retail sales. This, compared to an average penetration rate of 12% in Europe and 18% worldwide, the publication argued, is largely due to the lack of user-friendly, efficient online shopping experiences currently available on the local market.

## Customer service at its core

Enter Veli, the latest e-commerce startup in Georgia that has been steadily gaining market share with its offer of "free delivery in as little as three hours" since its inception in February 2022. Coming in as the current #1 e-commerce site in Georgia according to web analytic company Similarweb's traffic ranking system, the platform is backed by Adjara Group and has already delivered more than 50,000 orders.

CEO Archil Piriashvili says the company's success and average 20% MoM growth in sales over the last year is predominantly due to its customer-centric approach. "We all have our own horror stories from the pandemic," says Piriashvili on why he founded the startup. "We were stuck at home needing to buy something, so we ordered it online. And it was a disaster – delivery was unreliable and disorganized, sometimes we didn't even get the product we had ordered."

"So Veli," he continues, "was created out of a need we identified ourselves as customers. We felt like one of the main barriers to e-commerce growth in Georgia was poor customer experiences, so we set out to offer our own solution."

To address issues around reliability, the e-commerce platform adopted a model akin to that of Amazon and a first on the Georgian market - constructing their own fulfillment and distribution center on the outskirts of Tbilisi.

"Having our own warehouse has allowed us to centralize the fulfillment process and eliminated issues that many third-party delivery companies in Georgia experience," says Piriashvili. "We can see in real-time what products are available and update the site accordingly," he explains, noting that semi-automated processes track inventory and keep customers from making an online purchase only to receive the dreaded call that "the item you ordered is out of stock."

On the delivery end, Veli employs their own fleet of drivers for delivery throughout the capital, which is how Piriashvili says they are able to offer such timely delivery services. "We offer free delivery for all our customers, with same-day delivery in as little as three hours within Tbilisi, as well as the ability to schedule delivery times. Our customer base is predominantly young and busy – so we wanted to take the guesswork out of trying to plan your day around when a delivery may or may not come."

Capping off its approach, he says, is the company's liberal return policy. "One of the major complaints we had during

Inventory is housed in Veli's distribution and fulfillment center on the outskirts of Tbilisi.

our market research was how difficult it was to return products bought online." To ease this often opaque and convoluted process, the site offers a 14-day, no-questions-asked return policy, sending couriers to pick up the returns and guaranteeing money back within five working days.

This policy, quite generous in a country that is still in early days of implementing consumer protections laws akin to that of the U.S. or EU, is part of the reason Piriashivili says customers keep coming back. "We weren't sure at first if this return policy would be costly for us as a business. But we're happy to say that so far, we've got a low return rate. More importantly," he adds, "is our customer retention rate, which is above 40%. These repeat customers help lower our customer acquisition cost and tell us that we're doing something right."

## What's on offer

Much like Amazon, the site operates under a B2C model, offering both self-operated and third-party products to its customers.

This means that it sells directly to customers but also works with local retailers to sell their products in a similar way to other local e-commerce platforms like Vendoo.ge and Extra.ge. Unlike those competitors, however, Veli requires third-party sellers to house their inventory in its warehouse, which "keeps fulfillment and delivery in-house, allowing us to ensure the best customer user experience from start to finish," explains Piriashvili.

Also unique to the platform is what's on offer, with the platform's 15 categories and 40,000-plus products ranging from everyday household consumer goods to niche brands and exclusive products. "A large part of our sales is in fast-moving consumer goods - household products that you could pick up at the local store," he says.

The rest of their sales comes from brands and products, predominantly imported from abroad, that "can't be found anywhere else in Georgia." In a move that is set on taking a portion of the estimated 459 million GEL market for cross-border e-commerce in Georgia, Veli hopes to become the go-to for consumers who typically order products abroad and use freight forwarders like USA2Georgia or KiwiPost to ship them into the country.

"A lot of our market research has gone into understanding what these consumers are ordering abroad. Based on this,

we are constantly expanding our product offerings to try and meet that demand with the idea that if we can provide these goods at competitive prices, Veli will become the obvious choice for consumers instead of waiting weeks for something to arrive from the U.S. or Europe."

## Tech-driven solutions

As with any start-up in its early stages, Veli has encountered its fair share of bumps in the road during its first year of business. In addition to the challenge of customer acquisition, Piriashvili says creating a great online user experience requires constant attention and technical adaptation.

"One of the struggles in trying to create a unique platform that works with the particularities of the Georgian market is that there is no standard third party solution that we can just copy and paste. We've had to invest a lot in the tech side to make sure we're constantly improving the user experience."

And with its growing in-house team of web developers, Veli has been able to roll out several new features already in 2023. "We launched a B2B service in February, which allows businesses to register on the site and order products through a business account. We also launched an English language version of our website in early March, and in April, we'll be hard launching our mobile app," says Piriashvili.

Looking ahead, Veli's CEO says the company plans to keep expanding as the market does. With Galt & Taggart predicting the e-commerce market in Georgia to reach a value of 2.2 billion GEL by 2025 and local e-commerce expected to grab more than half of total online retail spending, he says he looks forward to new actors entering the market.

"More competitors entering the market indicates that the market is growing, which is what we want to see," he says. "On our side, we plan to keep expanding our product categories on an ongoing basis. We also foresee opening a second distribution center in Western Georgia by the end of the summer, which will allow us to start offering same-day delivery in other Georgian cities."

"Our investor, Adjara Group, is always looking for business ideas that are scalable, and we are certainly looking to expand regionally – probably sometime in 2024," he continues. "We understand that with scale comes increasingly complicated logistical and technological challenges, but we have a great team and are working to build out the Veli platform in a way that will allow us to scale to a regional presence soon." ■

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TBC CAPITAL

# Tbilisi residential real estate market's outlook strong, stable for 2023

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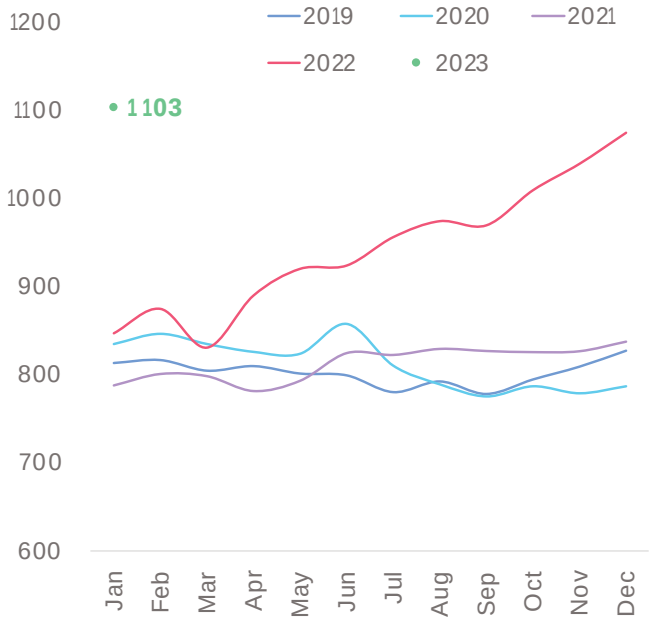
## Transactions, price, and yield

Tbilisi's residential real estate market started 2023 with no signs of faltering after a year characterized by unprecedented growth in both rental and sales prices, says TBC Capital's latest market watch released in March. January figures show seasonally adjusted MoM growth in transactions came in at 14%, while MoM sales prices were up 2.7%. Annual growth proved even more substantial, with average sales prices coming in at $1,103 per square eter,up30% compared to January 2022.

**Average asking sale price** ($/SQM)




This growth in both transactions and sales contributed to a 54% YoY increase in the size of the market, amounting to $210 million – growth that TBC Capital Senior Research Associate Giorgi Mzhavanadze says is due to several factors. "On the one hand, we do have a low base effect when comparing January 2022 to January 2023," he says. "The end of 2021 and beginning of 2022 were still part of the post-Covid recovery, meaning transactions hadn't yet recovered to their 2019 levels."

"On top of that," he adds, "was the impact of war-related migration. While we didn't see many migrants active in the sales market (about 5% of total transactions) last year, the significant uptick in demand in the rental market caused rental prices and yields to surge in the second part of 2022. This, in turn, led to higher demand in the sales market – predominantly from domestic buyers."

And data from January shows that rental prices and yields continue to remain high. Average rental prices were up 119% YoY and 3.3% MoM in January, with rental yields coming in at 12%. "The current rental yield is unusually high," says Mzhavanadze. "The average for the Tbilisi market since 2016 has been 8%, and we are currently 4 points above it - that's nearly as high as the long-term deposit rate for GEL."

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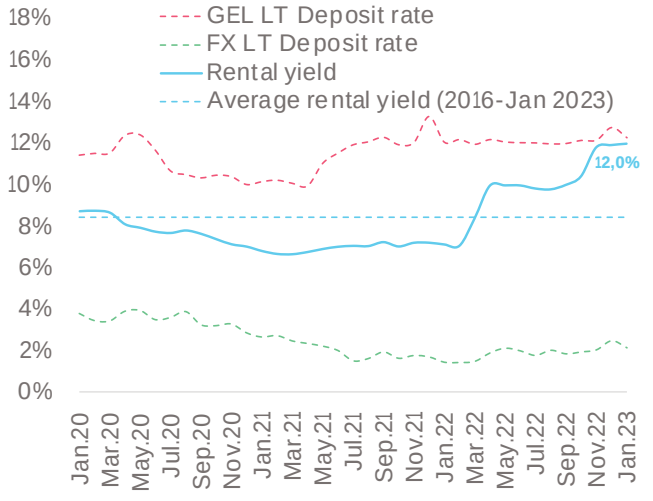
## Rental yield and deposit rate dynamics




## Consumer Preferences

Buyers in Tbilisi continue to overwhelmingly seek out apartments with an area of less than 75 square meters, with 74% of January purchases falling into that category. Figures from the first month of 2023 showed a higher bump in transactions and prices for old apartments compared to new ones, with older apartments seeing a 19% YoY increase in transactions and prices up 2.6% MoM; in comparison, transactions for new apartments registered an increase of only 8% YoY and a slight decrease of .2% MoM in price. TBC Capital's Mzhavanadze says this trend could also be related to the influx of migrants. "We classify new apartments as those sold within three years of when their building permit was granted," he clarifies. "When a large number of migrants moved to Tbilisi last year, they were looking for completed and furnished apartments to move into immediately, which is why we think demand for older apartments has increased."

As for locale preferences, Tbilisi's Saburtalo district came in first in terms of registered sales transactions for January (20% of total transactions) with Didi Dighomi in a close second (18% of total transactions), while Mtatsminda and Vake registered the highest sales prices, both coming in above $1700 per square meter, on average.

## Market to stabilize in 2023

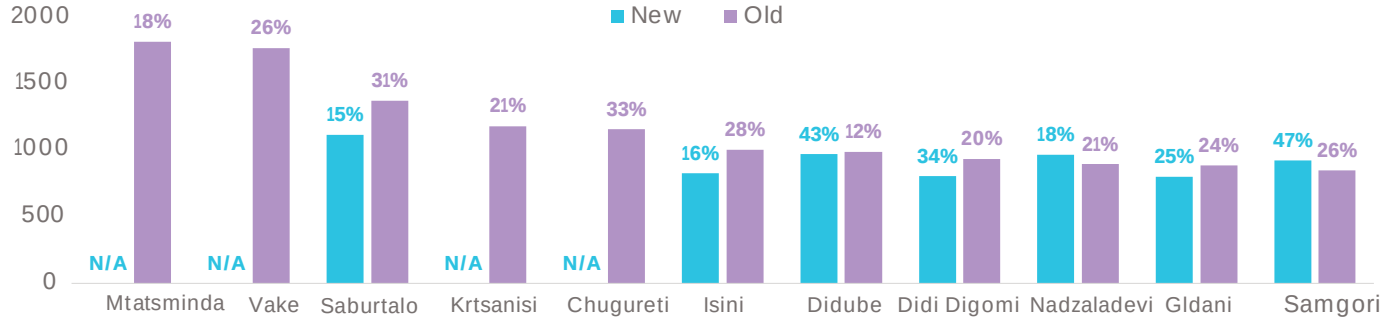
Tbilisi's residential real estate market should remain strong but stable for the remainder of 2023, according to TBC Capital's projections. Forecasts for December 2023 indicate that only minor annual growth is expected by the end of the year, with a 3.9% YoY increase in sales prices and 1% YoY growth in rental prices predicted.

"Several factors will continue to impact sales prices," TBC Capital's Mzhavanadze explains. "One is the high rental yields we noted, which drive up demand in the market. Inflation is also still generally high and construction costs are currently elevated, with emigration-related labor shortages in the construction sector having driven up labor costs by 30% in USD terms compared to a year ago. And, of course, the appreciation of the lari has also had a positive impact on sales prices in USD terms," he adds. "But interest rates are also high now, which is having a small, but negative, effect on the mortgage market. Based on all these factors, we expect sales prices to continue to grow - albeit much slower than last year - throughout the rest of 2023."

Looking at the rental market, Mzhavanadze says the impact of war-related migration has largely been absorbed. "We estimate that around 30% of the short-term migrants that came to Georgia last year may leave this year; of those that remain, we estimate 10% may purchase property and leave the rental market. This will ease demand on the rental market, and likely cause minor MoM declines in rental prices within the second half of 2023."

Most importantly, he notes, is that Tbilisi's residential real estate market looks to be in a healthy position. "We are monitoring the market closely, and our indicators show that we don't currently seem to be at risk of a price bubble. The factors that contributed to high economic growth in 2022 have carried into 2023, with continued high levels of trade, remittances, and foreign investment coming into the country. We also don't see an uptick in construction permits that would indicate we may soon face an oversupply issue. Based on all these factors, we would categorize the market as healthy with a positive outlook for the rest of 2023."

## Weighted average sale price ($/SQM) and YoY change (%), New vs Old apartments, January 2023



# Seaside, slopes, and sanatoriums - Georgia's regional tourism gets a boost

**As Georgia continues to benefit from a post-Covid tourism boom and high value travelers increasingly flock to the country, its regional tourism industry is gaining increased interest and investments. *Investor.ge* takes a look at the latest developments and how a USAID project is working to help raise the sector's service standards.**

Georgia's tourism sector has been the subject of much international chatter as of late. It hosted the world's largest tourism trade fair, ITB Berlin, putting 80 Georgian companies from the industry in front of an audience of 90,000 attendees from more than 180 countries. On top of that, it also held a skiing world championship – and those are just in March alone.

This push for wider recognition abroad comes on the back of an impressive post-pandemic recovery of the sector. Data from the Georgian National Tourism Administration (GNTA) shows that tourism revenue in the country reached $3.5 billion in 2022, a 107% increase compared to 2019. And with higher revenue has also come new tourism trends for the country. Travelers to Georgia in 2022, on average, spent more and stayed longer than visitors before the pandemic, GNTA statistics show.

But as guests increasingly flock to the country for longer, higher value stays, they are also seeking out sights beyond Tbilisi's old town. With only one-third of total international visits to the country in 2022 to Tbilisi, Georgia's regional tourism industry is seeing increased interest - and investments.

## From the seaside...

Coming in as the second most visited region in Georgia in 2022 with 39% of all international visits, Adjara was aptly

Khikhani Fortress, located in Adjara, had long been difficult to access before new hiking paths were forged.

Adjara's Kapnistavi Canyon

described by a 2022 *Euronews* article as "the Black Sea region where beaches and snowy peaks collide."

With its wide-ranging offers of natural attractions – among them, its Colchic Rainforests and Wetlands recently named as UNESCO World Heritage sites - the region is now marketing itself as more than its former designation as a seaside spot – but also as an 'adventure tourism' destination.

Headlining the launch of an exhibit dedicated to adventure tourism at the ITB Berlin fair in March, head of the regional government of Adjara Tornike Rizhvadze noted that a budget of $6 million had been allocated for tourism in the region in 2023, with "a number of projects and programs" already in the works to build tourist infrastructures this year. Among those recently completed are the construction of a 1,750-meter zipline, dubbed "the longest in Europe," in the Shuakhevi municipality; newly unveiled hiking trails and canyoning attractions in Kapnistavi, and the development of hiking trails near the popular tourist destination of Khikhani Fortress.

In Batumi, which was named the world's "leading emerging destination" at the World Travel Awards in October 2022, plans to create an artificial palm-shaped island featuring hotels, recreational areas, shopping, and restaurants off the coast of the city were announced in 2021. The estimated $100 million investment in the Dubai-like Ambassadori Batumi Island project, labeled "the largest investment in the region" by the Georgian prime minister at its groundbreaking ceremony in the fall of 2022, is expected to take between 7-10 years to complete.

In addition to its seaside attractions, the local government is also investing heavily in garnering greater international attention through sporting events. One investment that seems to have paid off is the $30 million development of the ▸▸

Rendering of the Ambassadori Batumi Island project.

new Adjarabet Arena football stadium in the city, completed in 2020, which is set to co-host the 2023 European U21 Football Championship.

## To the slopes...

Seemingly unknown to the wider world only a decade ago, Georgia's ski towns have been the subject of increased international attention in recent years as efforts to improve infrastructure and attract international sporting competitions have helped put them on the map.

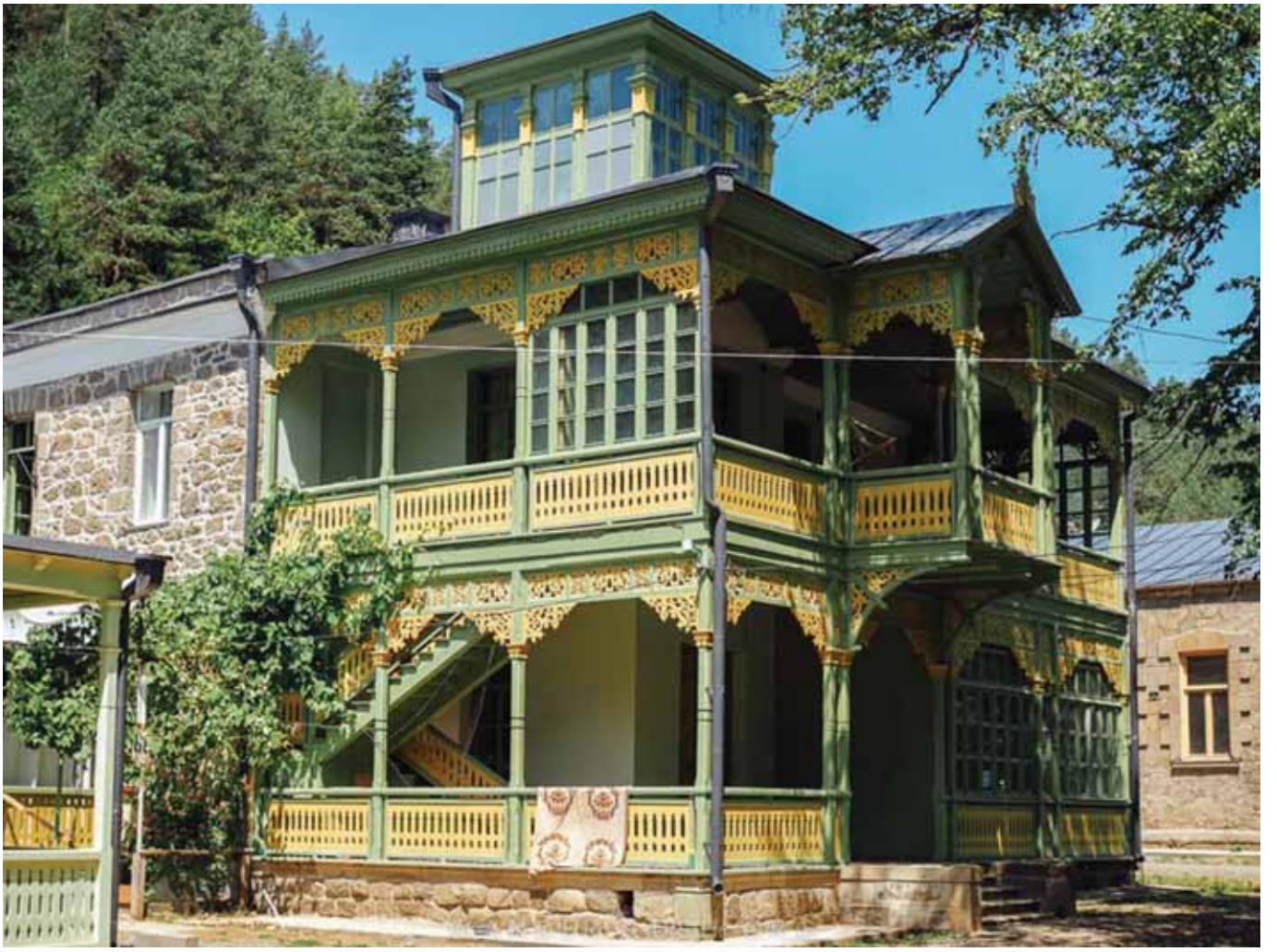
The town of Bakuriani, located in Samtskhe-Javakheti, has gained the lion share of that recognition lately after it successfully hosted the Freestyle Ski, Snowboard, and Freeski World Championships in February and March of this year. The event brought around 700 athletes from 42 countries to compete in 30 categories between February 19 and March 5, with the Secretary General of the International Ski Federation (FIS) Michel Vion praising the championships as having a "very good outcome," adding that Georgia has "everything" needed to become a winter sports destination.

In preparation for the event, Bakuriani received some much-needed upgrades to its infrastructure, including three new cable cars, a new 30-km snowmaking system, and six additional new tracks, all completed within a ₾270 million (about $101 million) project. And those improvements seem to still be paying off. Another announcement in March formalized the city's position as host of the European Youth Olympic Festival, which has it set to welcome thousands of the best young winter sport competitors to the Georgian resort town in 2025.

Georgia's other well-known winter resort town of Guduari in the northern Mtskheta-Mtianeti region is also in line for some important infrastructural improvements. In addition to news of technical updates to the ski facilities

Popular ski destination Gudauri is expected to get new ski infrastructure and major updates to its water system before 2025.

Bakuriani hosted the the Freestyle Ski, Snowboard and Freeski World Championships in February and March of this year.



The restoration of Abastumani's wooden houses was just one of several major development projects in the former spa town.

announced in December 2022, which include plans to build a new ropeway at the ski resort and install snowmaking machines on an additional two tracks, the city is also set to have its water system overhauled. With demand growing as the ski town becomes increasingly popular among Georgian and international holiday-goers alike, $8.5 million has been allocated by the government to ensure a continuous water supply by the start of the ski season in 2025.

## ...and sanatoriums

Abastumani is a small but renowned former spa resort town located in Georgia's Samstkhe-Javekheti region. The town, which is located less than 100 kilometers south of Kutaisi, has a rich history that rivals the vibrant (and recently restored) facades of the wooden houses lining its main street. First put on the map in the 1890s when the younger brother of the last Russian tsar was sent there to soak up the healing powers of its hot springs against a tuberculosis diagnosis, the town maintained its popularity throughout the Soviet era before falling into an unfortunate state of disrepair in the 1990s.

Notable among the recent major investments in the town is the $14.5 million joint venture of the U.S. International Development Finance Corporation (DFC) and Adjara Group to develop Rooms Hotel Abastumani. Slated to begin welcoming guests in 2024 on the 100th anniversary of its initial opening, the project envisages the revitalization of the historic Arazindo sanatorium into a health and wellness-centered hotel.

This, in addition to the $69 million construction of a four-star Autograph Collection hotel set to open later this year, as well as road and sewer modernization projects, the construction of a new Bagdati-Abastumani road (expected to open this year), and a 10 million GEL rehabilitation project of the town's nearly 100-year-old astrophysical observatory have all given hope that the spa town will soon return to its former glory.

Much like the rejuvenating qualities once touted at its many balneological resorts, Tskaltubo in Georgia's western Imereti region is too getting a fresh breath of life, according to government officials who unveiled major development plans for the former resort town in the summer of 2022.

Western Georgia's former balneological resort town Tskaltubo is also set for a major development in the coming years.

The project, appropriately dubbed "New Life for Tskaltubo," aims to restore the favored former Soviet sanatoriums into a modern spa resort destination. In July of last year, the government announced that that town, which is located just seven kilometers outside of Kutaisi, was expected to receive an estimated 500 million GEL ($170 million) in private investment as well as "tens of millions of GEL" from the government to make it "a modern, European-level, world-class spa resort" similar to the likes of Baden-Baden in Germany and Karlovy Vary in the Czech Republic.

In addition to the unveiling of the new development program in July, the government also announced the auction of 14 sanatoriums at an estimated value of 50 million GEL. While the project is still in its early stages, several sanatoriums have already been sold, the latest being to Qatari investment group Golden Tower, which plans to build several hotels and spa facilities in the area.

## Setting the standards

As Georgia's tourism sector continues to diversify and expand, so too must the standards of service that it offers. With this in mind, AmCham launched the *Best Practices and International Standards to Hospitality Industry Initiative* in 2022 with the support of the USAID Economic Security Program. The project, implemented in partnership with its hotel partners Silk Hospitality, the Sheraton Grand Tbilisi Metechi Palace, and GMT Group, aims to reinvigorate Georgia's hospitality workforce through a skills training program.

Beyond the training program, the project is also focusing its efforts on promoting higher standards of service in Georgia's regional hotels. In March 2023, it launched the first of six workshops aimed at bringing together hotels from around Georgia to share experiences and best practices on topics such as hygiene, food safety, food waste management, energy efficiency, and supply management. Led by practitioners from Georgia's international brand hotels, these workshops offer both regional hotel representatives and local VET colleges the ability to learn about and train in international hospitality standards.

"Post-pandemic, we see new trends for tourists visiting the country," noted USAID Economic Security Program Chief of Party Mark McCord, speaking about the project at the November graduation ceremony of its first cohort of trainees. "High value tourists are increasingly coming to Georgia who are willing to spend money, but they expect a high standard of service," he added. "Raising that level of service and, most importantly, making sure it is consistent throughout the industry will be key to the sector's growth and success." ■

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

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# New investment mechanism readies Georgian energy sector to surge

**Georgia's renewable energy (RE) sector may be in for a windfall of investment. A new mechanism to encourage interest in renewables, contracts for differences (CfDs), will seek to resolve years of disagreement between the state and private sector about who should bear the risk of project development.**

ARI NEUMANN

The recently announced government contracts for difference (CFD) mechanism is coming at a time when new energy investment is desperately needed. Georgia's power consumption matrix has been looking less and less green since 2016, when renewables accounted for more than 80% of consumption, falling to a three-year average of 70% over 2020-2022, data from the country's electricity market operator ESCO shows. The shortfall in green power is largely due to uncertainty concerning the state's stance on power purchasing agreements (PPAs), another investment support mechanism offered to investors until 2016-2017, at which point a de facto moratorium on PPAs was put in place over fears the national budget had accumulated too many liabilities on its balance sheet. CfDs are also being offered in Georgia at a time when the EU is proposing their wider use, with the European Parliament mulling over the idea of mandating that all public support for new renewables be provided in the form of CfDs.

Exactly how the new mechanism will affect the market and what new trends might emerge in the sector will become more apparent in late May or June, when the results of the first CfD auction are revealed. Until then, the private sector has lauded the move to offer CfDs, but asks whether there is room to further refine the mechanism.

## What are CfDs and what problem do they solve?

The new mechanism differs substantially from PPAs. The latter fixed a price for a set volume of power over time (*Investor.ge* covered the issue with PPAs extensively in this article: bitly.ws/BFTI). CfDs do not contract for volumes, but instead fix a strike price: if the market price of power falls below the strike price, the state guarantees to bridge the gap between the market and strike price. Conversely, the developer agrees to pay back any income generated by market prices above the strike price.

The strike price is determined by a developer's winning (i.e. lowest) bid at auction. The first of such auctions was announced in mid-February for 300 MW (150 MW of hydro, 70 MW of wind, 70 MW of solar, and 10 MW of geothermal and other sources). An auction for another 400 MW is expected to be announced later this year.

CfDs address concerns that PPAs saddle budgets with liabilities that could come knocking during a strong economic downturn. Covid-19 threatened to be just one of these events. Head of the Fiscal Risk Management Department at the Ministry of Finance Shota Gunia told *Investor.ge*: "the pandemic showed us just how vulnerable PPAs can make the budget. Had it not been for strong residential consumption and recovery, the budget could have faced serious obligations to make up for the unconsumed, excess power. This was a lesson for us, and why we decided to pursue a more market-based mechanism."

## Disagreement in the details

Interest in participation in the CfD auctions has been high, says Georgian Renewable Energy Development Association Director Giorgi Abramishvili, "but we have several reservations about the details of the mechanism in its current state." Above all, Abramishvili is concerned that price alone will serve as the deciding factor in awarding development contracts, especially when it comes to the participation of developers that do not have a proven track record in the industry.

"Many of our concerns were taken into consideration in the latest version of the auction decree. But what remains an issue for us is that low price alone will determine who gets to build what. We, as a country, want projects implemented along high technical, safety, environmental and social standards. Inexperienced developers that do not understand the 'price' of these standards can thus underbid. This could leave us with projects of a lower quality, or projects that will be on indefinite hiatus," Abramishvili says, worrying "this could place a serious drain on natural resources and clog up the development pipeline. Without a proper monitoring system in place, this is a significant risk."

In response to these concerns, officials from the Ministries of Economy and ▸▸

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Finance told *Investor.ge* that the price-only approach of awarding contracts was selected because the majority of expected auction participants are not 'new' to the market. "Presumably," the MoF's Gunia says, "many of the companies bidding for contracts will have been around in Georgia for a while now. They know what is expected of them. They will have had much communication and interaction with all kinds of government bodies. So, there's a good feel out there for what bids are real and which are not."

Resource allocation and use presents a second issue: if two competing projects propose the use of a single river resource, but offer varying tariff rates and generation capacity, projects with larger utility (i.e., with higher generation capacity) may be overshadowed (underbid) by smaller projects. Awarding smaller projects bids based on their lower cost could cause important hydro resources to be squandered.

Business Association of Georgia Director Levan Vepkhvadze comments: "The auction commission should keep this issue in mind while examining differing bids in single locations. The trade-off between price and capacity is, unfortunately, not easy to judge. What are reasonable criteria in an instance like this? How much bigger should a competing project be before it is considered more 'useful,' despite its higher tariff? It's difficult to say. That's why this first auction round is important – it is a chance for all stakeholders to explore various scenarios."

Developers point at another provision in the mechanism as problematic: projects with a negative difference between the generation capacity estimated by the pre-feasibility study and the feasibility study will face a penalty in the form of a decreased contract price.

This is an especially contentious point for wind developers. Tornike Bakhturdize, founding principal at Infinite Energy LLC, a company developing a large-scale wind plant in Imereti, says this provision threatens to wipe out project profitability, decreasing strike price by as much as 10%-30% depending on the scale of the difference between the feasibility studies. This is unfair, Tornike says, because "in the pre-feasibility stage, wind developers rely on wind and weather maps to estimate generation capacity for a given location. Meanwhile, the feasibility stage entails the use of on-the-ground equipment, which is a costly process and takes upwards of a year to generate data. The likelihood there will be a difference is not insignificant, and even a 10% penalty reduction in the tariff can threaten the bankability of the project. 30% makes it entirely impossible."

These issues in mind, it is still early to make conclusions about the fitness of the new mechanism without the results of the ongoing auction. The spread of bids, the array of auction winners, and observed bidding behaviors revealed in late May / June will offer a clearer picture of how the CfD mechanism can be improved upon. ■

# Why Georgia wants to build the world's longest underwater transmission line

JOSEF GASSMANN

There has long been talk of building an underwater transmission line to connect the shores of Georgia and the EU, but ambiguity over whether there were clear benefits to the project has led to questions of its viability. That's changing following Russia's invasion of Ukraine, which has the EU scrambling to secure more green power both at home and with its neighbors. EU Commissioner for Neighbourhood and Enlargement Olivér Várhelyi announced at the end of December 2022 that as part of a new €17 billion economic and investment plan for the countries of the Eastern Partnership, the EU would financially back the €2.3 billion submarine transmission line. If built, it would be the largest in the world.

A little bit of squinting is necessary to see the utility of the cable in the short term. Spanning 1100 kilometers from Azerbaijan through Georgia, under the Black Sea and into Romania and Hungary, the primary purpose of the line for the EU is to secure green energy partially from Georgia but primarily Azerbaijan, a country which aims to generate 30% of its power consumption from renewables by 2030 – a figure that currently comes in at just 17%. Azerbaijan intends to carry out this ambitious upgrade to its grid through a recent agreement with the UAE's state-owned energy developer Masdar, which foresees the development of 4 gigawatts (GW) of onshore wind and solar projects in the near term. For Georgia and Azerbaijan, the line would open up European export markets.

The prospects for the long term are somewhat less fuzzy. The Norwegian Water Resources and Energy Directorate, a Norwegian government agency, estimated that in exploiting all its hydro resources, Georgia could produce between 30-56 TWh / year, more than four times the volume of electricity the country currently consumes. Azerbaijan, meanwhile, is eyeing the potential of the Caspian Sea, which the World Bank said in its *Offshore Wind Roadmap for Azerbaijan*, published in June of 2022, has "technical offshore wind resources of around 157 GW" - about 20 times more than the country currently has in installed capacity.

Varying capacities between 1-3 GWs are being discussed for the cable. At 1 GW of capacity, the line could transmit approximately 8.76 TWh (if in constant use) per year. To contextualize – the EU's total net electricity generation in 2021 was 2,785 TWh. Romania currently consumes about 60 TWh of power annually. Translated into gas, the potential power transport capacity of the proposed line is equivalent to about 220 million cubic meters of natural gas, of which Azerbaijan already exports about 20 billion cubic meters per year. For reference, Romania consumes 12 billion cubic meters per year.

So while for the Caucasus these volumes are large, for the EU these numbers are but a drop in the bucket of the extra power the bloc needs to bring online to reach its net-zero carbon emission goals. But something is better than nothing, and power from the Caucasus is a great deal cheaper than Europe's current energy sources, making the €2.3 billion a not-so-hefty price tag to make a bet on access to power that isn't entirely there yet. Financially, the cable may thus best be viewed as a proof of concept of tapping energy sources further afield on Europe's periphery.

Geopolitically, there are aspects to the cable which make the project more interesting. For the EU, pulling in closer the countries of the Eastern Partnership secures its political investments of the past decade and contains Russian influence. Most importantly for Georgia, perhaps, is the symbolic importance of a direct, physical connection with the EU. Political commentator and director of the Georgian Institute for Politics Korneli Kakachia summed this up succinctly in a recent interview with RFE/RL, noting "[geography] has always been considered Georgia's Achilles' heel...and this project significantly reduces that vulnerability." ■

# Stable, yet speculative
## - a guide to Georgia's credit rating

SALLY WHITE

Georgia has a BB credit rating, most financial market websites show. While actually a 'junk' rating, this is in fact not so bad as it sounds. While this rating may leave most readers none-the-wiser, for the financiers, it is the first point to check as it is assigned by the world's major credit vetting agencies. For the rest, there is a decided preference for sussing out investment prospects via more familiar numbers - such as 10% economic growth rate and a 155% rise in remittance inflows in 2022, or February's 8.1% inflation rate (down from January's 9.4%).

This seemingly obscure letter code is key to Georgia's credit costs in international markets and does it all: gives lenders and investors the complete picture on the risks and opportunities. The strength of this system is that agency analysts look at just about every aspect of a country – financial, economic, social, political and environmental. For Georgia, the agencies' rating has not changed much for several years now.

The rating gives a steer to help secure cheap and long-term concessionary loans from the major international institutions such as the World Bank, the IMF, the Asian Development Bank, the European Investment Bank, and so on (though so does, the agencies say, Georgia's good relations with most of the world's major lenders). While it does indicate a high level of risk, it is not the worst - the ratings go from AAA right down to D. To be considered non-risky, the grade must be at least BBB, at which level the country or company's bonds are considered "investment grade." So, BB is speculative.

These letters are part of the language of the all-powerful international credit ratings agencies – Moody's, Standard & Poor's, Fitch, and Scope. The letters relate to Georgia's unsecured debt in local as well as foreign currency and currently come qualified by the phrase "Stable Outlook," which shows that the agencies see the risks as balanced. Another qualification used is "negative," which means the rating may be lowered in the near future, or that the issuer may underperform its peers.

A BB rating is a second-best non-investment grade. However, while it implies that Georgia can pay obligations on time over the next 12-18 months, it signals that problems could arise in the future due to possible changes in economic or financial conditions. And bonds rated "BB" fall within the category of speculative instruments that have to carry relatively high interest rates.

To give some perspective, others on the same ratings as Georgia include Vietnam, Oman, and Paraguay. Interest charged is lowest for AAA countries, such as on Fitch's rating this year: the U.S., Germany, Australia, Denmark, Luxembourg, Singapore and Sweden. Both France and the UK have fallen to mere AAs. At the other end of the scale, with CCCs and thus carrying substantial risk are Pakistan, Mozambique, and Turkmenistan.

### Commentaries and concerns

In researching Georgia, the rating agency experts quote positive points in their latest 2023 commentaries - as well as concerns. Their assessments take

the view that money will continue to flow into the country as a result of Russian immigration and capital flight. The waves of Russians and Belarussians fleeing their countries to Georgia are not expected to reverse significantly and the migrants will become, says Fitch, "somewhat more integrated into the Georgian economy." Fitch also believes that Georgian Dream is likely to continue as the largest single party, but in an election will "likely require coalition support."

Another expectation is that inflation will fall right back to below 6% this year and 4% next. And also on the economy, average unemployment is thought likely to stay at about 14%.

Fitch, which along with Standard & Poor's and Moody's, controls 95% of the rating market–these U.S. groups owe their position to the international dominance of the U.S. banking network–lists Georgia's positive rating drivers as follows:

- Very strong GDP growth – up 10.2% in 2022, helped by rising tourism and transport business as goods are diverted through Georgia, boosting transit trade.
- A rise in international reserves – up $0.6 billion to $4.9 billion, helping create a "buffer" to protect the lari, which last year rose 11% against the Euro and 6% against the U.S. dollar.
- Fiscal outperformance in 2022, driven by a rebound in tourism that boosted tax revenues.
- Large migrant and capital inflows from Russia, a sizable part of which Fitch now expects will endure – creating last year an 86% rise in money transferred from Russia.
- Macro-fiscal policy that has remained sound, with relatively tight monetary policy keeping interest rates high.
- A sharp fall in the public debt/GDP ratio in 2022, while the IMF Stand-By Arrangement (SBA) augments confidence in policy settings and reduces downside risks.
- A strong record of fiscal discipline and advancing reforms to improve the transparency and corporate governance of state-owned enterprises.

## Looking ahead

Fitch forecasts that GDP growth will moderate to 4.5% in 2023, returning to just above the trend rate of 5.0% in 2024, and much stronger than the projected 'BB' median of 3.2%.

However, on the negative side, its researchers observe Georgia's exposure to geopolitical risk because of the unresolved territory conflicts with Russia. Post Ukraine: "The government's efforts to manage its relationship with Russia potentially represents a further complication to its aim of gaining EU candidate status."

Fitch is also concerned about the chances of pre-election instability and Georgia's falling governance performance – the latter having a large weighting in the credit agencies' rating systems. However, it says it sees an established rule of law and (only) a "moderate level of corruption."

Standard & Poor's has not published anything on Georgia for some time, and Moody's does not release its findings publicly, but Europe's growing Frankfurt-based Scope Ratings is a regular follower of Georgia, its latest comment being in February 2023.

Scope's view is similar to Fitch in seeing Georgia doing better than expected, and giving it a BB rating. It states: "A resilient economy and improving fiscal prospects, alongside reforms addressing external vulnerabilities such as elevated loan and deposit dollarization and the resilience of the banking system, are credit positive. Nevertheless, our ratings are at this stage constrained at present BB levels as a result of longer-run political and geopolitical risk."

"After Ukraine, Georgia is assumed as being our most geopolitically at-risk sovereign of our publicly-rated sovereign universe of 38 countries, having to navigate a brittle environment affecting Eastern Europe after Russia's actions since 2022. This accounts for the present status of Georgia outside of the European Union and NATO, its geographical proximity to Russia, and latent tensions around the regions of South Ossetia and Abkhazia after the war with Russia in 2008."

Scope expects inflation to moderate to 5.7% this year and 3.7% next, with the interest rate lagging at 8.5% by year-end 2023 and 6.5% for year-end 2024. The economy is expected to remain robust, aided by "recovery in private demand, tourism services, and the trading sector."

Commenting on the environment in Georgia, Scope sees substantive risks "associated with elevated air pollution in its main cities, illegal logging, as well as cattle grazing in protected areas." This is only partially mitigated by coordinated countermeasures "such as reductions of air pollution and carbon emissions and the setting up of legislation and enforcement around waste management."

Another Scope concern is net migration, although it expects the current 0.7% annual decline in the working population over the last ten years to ease to 0.6% from 2023-2027. It, like Fitch, notes the influx of around 90,000 Ukrainians, Russians and Belarussians as, "in the short-run at least, a boost for the labor market."

A plus, however, despite the many challenges faced by Georgia's small economy, is that it has established "a strong track record of engagement with its multilateral partners (such as with the IMF and the European Union), which has anchored a constructive reform agenda during the previous decade. We expect the government to remain committed to prudent policy making and fiscal discipline in the medium run." ■

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# Beyond the wit of GEORGIAN TAMADA

## *Legislative Efforts Made for Gender Inclusion in Georgia*

It's well-established that gender inclusion has a major positive impact on economies - boosting productivity, innovation, and growth. And with gender equality outlined as one of the UN's 17 Sustainable Development Goals in its 2030 agenda, a study done by McKinsey found that equal participation of women in the economy could add as much as $28 trillion to global GDP by 2025. In the words of famous civil rights activist Jesse Jackson, "Inclusion is not a matter of political correctness. It is the key to growth."

In Georgia, discussions around gender inclusion have been growing in recent years as several legislative initiatives have been passed to promote women's economic empowerment. BLC has outlined some of those key legislative efforts.

Gender equality is promulgated and guaranteed by Article 11 (3) of the Constitution of Georgia, and since 2017, Georgia has taken significant steps to promote gender equality through changes in legislation or policy, including measures to implement the country's international obligations. The state made significant changes to the Georgian Labor Code in 2020 to bring legislation in line with the standards set by the European Union and the World Trade Organization, particularly in the area of gender-based discrimination. For instance, prior to the 2020 amendments, the Labor Code of Georgia did not include the principle of equal pay. Another essential step forward was the adoption of a new regulation within the labor code that directly provides for paid parental leave for fathers. Giving fathers parental

leave allows women more flexibility in rejoining the workforce and promotes their prolonged participation in the labor market.

To support the equal representation of women in management, the National Bank of Georgia (NBG) approved a Corporate Governance Code in 2018 that mandates at least 40% of the supervisory board of commercial banks must be female. Also, it recommends, albeit not mandates, that at least 33% of the management of commercial banks are female. The code further provides that remuneration must be based on objective criteria like education, qualification, and responsibilities of the office.

Within the framework of 2020 electoral reforms, the Georgian Election Code introduced a mandatory gender quota for parliamentary elections until 2032 and for self-government elections until 2028. The Election Code has been amended to ensure that every fourth member on political parties' lists of MP candidates for the 2024 parliamentary elections is female; it also stipulates that every third member on the candidate list must be female for the 2028 parliamentary elections. At the local self-government level, the distribution of female candidates shall be every third member of the list for all elections until 2032.

Most recently, in February 2023, Georgia adopted the Law on Public Procurements, which introduced the possibility of announcing procurement limited exclusively to providers of goods or services that are inclusive of socially and professionally vulnerable groups, including women. To be eligible for such procurement, at least 30% of all employees of such entity must be a member of said vulnerable groups. This is, by all means, an excellent incentive for the entities to be mindful of inclusion and reap not only the benefits of inclusion and diversity but also benefit from a competitive advantage in public procurement.

While Georgia still has a long way to go to achieve gender inclusion and equality, legislative efforts made throughout recent years demonstrate the commitment of Georgian policy makers to this issue. True societal change requires a change of culture over time. However, policy makers play an important role in setting standards and accelerating social change that can create equal opportunities and access to education for women.

In the words of Indra Nooyi, former Chairman and CEO of PepsiCo, "We need the talent and insights of girls today to lead our businesses tomorrow. That's why expanding educational opportunities for girls isn't charity. It's a smart investment in a stronger global economy and in our future." Indeed, any incentive, regulation, or policy adopted by Georgia in pursuit of gender equality and inclusion is an investment in our future - a seed that will grow into a beautiful garden.

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SPONSORED CONTENT

# Georgia's got a sweet tooth for artisanal chocolates

Around the world, at least a billion people eat chocolate every day, and Georgians are starting to consume more, on average, too. From imported international brands to specialty chocolatiers popping up around Tbilisi with their Instagram-worthy offers of artisanal sweets, local consumption and the value of the chocolate market in Georgia both seem to be on the up.

Georgians have some eating to do to catch up in this $206 billion global market, consuming only 4.1 kilos a head annually, according to market data published by Euromonitor Research, against 6.8 kilos a head in Europe and 5.4 kilos in the U.S. But Georgia was eating only 3.8 kilos a head in 2016, so the growing availability of choice seems to be having an impact.

Helping increase Georgian sales are the expanding displays and product ranges of chocolate in supermarkets and online as well as boutiques. "Sustained investment in new product development and promotional activities should strengthen consumer interest in this category, which is still some way off maturity," according to Lina Sidorenke of Euromonitor International in an interview with BMG on World Chocolate day last year. Packaged chocolate as a present is the fastest moving sector.

This market opportunity has been seized by several of Georgia's highly entrepreneurial women who are catering to it from pretty little shops. They are targeting several growth sectors, not just plain packaged chocolates in elegant boxes, but also craft and artisanal chocolate, a market which is forecast to grow by 3% a year to reach $800 million globally by 2028. And many of their products are made with dark chocolate, which is increasing in popularity because, antioxidant-rich, it has been linked to lowering blood pressure and cholesterol levels.

# Chicolli

**33 Abashidze/79 Paliashvili**

One Tbilisi chocolatier that opened in recent years is Chicolli, a retailer of artisan chocolates that operates a shop and workshop in Vake. It has been launched by friends, designer Tea Tskipurishvili and public management specialist Tamta Benashvili, who say they were inspired by the chocolate shops they had seen when wandering through little streets in Paris. There was nothing like that in Tbilisi!

Tea and Tamta started off by attending a chocolate masterclass at Culinarium, and followed up with online courses, they said when telling their story to website *Culinartmagazine.com*. Gaining confidence, they took part in a Tbilisi confectionary festival and found themselves practically mobbed by customers, many asking if they had a store. So they went into business from home. They soon had to hire staff to boost production, and engaged Tatuli Vateshvli to help with the branding.

"The concept of the brand involves the introduction of novelty in the confectionery market in the city, the creation of a product that is loved by everyone. It should be focused on taste and not on sloppy packaging, which in many cases costs more than the product," explained Tampta, describing their strategy.

"The name Chicolli was chosen as the result of research on the etymology of chocolate. It turns out that it originated many centuries ago – in the Aztec Empire, chicol was the name of a hooked stick with which cocoa beans were beaten," added Thea.

There are several kinds of chocolates on sale in the shop all the time. Initially they decided to dedicate only weekends to making chocolates and wanted to have a chocolate workshop where quality chocolate could be made in small quantities. But there was such great demand that they came up with the idea of opening a small shop in front of the workshop, where freshly made chocolate would be sold. Now Chicolli is open every day.

They are heavy readers of books, magazines, and the internet looking for recipes. "We ourselves mix, taste, search - it's a continuous process - what goes well with what, and often we come to interesting conclusions," says Thea.

"We make chocolate classically, but the flavours, different contents and design are ours. Many ideas are born in the process of work. It's very important to get your hands dirty, because it takes a lot of time, of course. The chocolate itself is Italian, and all other ingredients are Georgian: nuts, various fruits, dried fruit," explained Tamta.

They no longer have free time, but, they say, they "enjoy what we do!"

# Chocolaterie Artisan

**Abashidze 10 and Tsintsadze 8**

Another outlet which is growing is Chocolaterie Artisan, to be found in both Saburtalo and Vake. They use Belgian and Italian chocolate, blending them to form over 30 different chocolate bonbons with different flavours, and they offer six types of hot chocolate – even one with mulled wine.

# Chocotella

Barnovi 73

**Chocolates that come from a more recently opened chocolatier, Chocotella, are absolutely fulfilling its founder's ambition of "producing chocolate art." Its beautiful creations sell from its little location in Vera, not far from the UN circle. There is also a cafe and an open space where chocolate is produced. This is the creation of Mariam Kapanadze, who secured 120,000 GEL in start-up capital to build and develop it by winning an offer on a Shark Tank-like show, which aims at linking investors with start-ups and small businesses.**

**She opened her shop just over a year ago. She learnt her craft online and by experimenting. The chocolates she turns out are absolutely beautiful, and artistically wrapped, reflecting her love of art, culinary knowledge, and her consummate skill with colour. She is nothing if not ambitious, wanting to form a whole chain of shops, or at least to sell her chocolates around the world with a large MADE IN GEORGIA label on them.**

Georgia is already exporting chocolates, according to research from *selinawamucii.com*. Pre-Covid, the main markets were Iran, Azerbaijan, Singapore, Turkey, and Iraq, and export revenues totaled $1.5 million. Imports, meanwhile, come from all the major international brands.

While scope for growth in Georgia and the Caucasus may be limited, there are some good international growth role models, and lots of scope for exporting. One great chocolatier success story is the UK chain Hotel Chocolate, which started in 1993 by selling online. Today it has 126 outlets, as well as cafés, restaurants, outlets, and factory stores. International operations include over 40 stores in Japan, a store in New York, and a luxury eco-hotel on its working cacao farm in the Caribbean. Quoted on the London stock market, it is valued at just under £300 million.

Hotel Chocolate is pushing the bar out beyond chocolates and has established a Tasting Club. This does not leave consumer purchases to impulses – subscription to the club ensures a monthly delivery of a curated selection.

These local and western brands are becoming popular in a market where Russian chocolate was regarded as the premier product and Russia is still the main source. Georgian imports from Russia of chocolate and other food products containing cocoa was $32.5 million in 2022, up $23 million in the previous year. So far this year, total chocolate imports have reached $53.8 million in value and 14,800 tons in volume of chocolate and other ready-made food products containing cocoa. While volume is up 3.6%, value is 36.4% higher. These figures, and the queues at Georgian chocolatiers, indicate that no added impetus is needed to persuade consumers to buy! ■

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# PMC Research: Georgian labor market tightens as concerns of labor shortage grow

**Georgia's labor market continued to exhibit positive signs of a strong post-Covid recovery in the beginning of 2023, but concerns around a growing mismatch between labor supply and employer needs remain, analysis from PMC Research in its latest Employment Tracker shows.**

## Job numbers

The monthly publication, which tracks job openings through popular recruitment site *Jobs.ge* and gathers data on average salaries through Georgia's Revenue Service, noted in its latest report that total job postings on the site for the last six months (August 2022 – January 2023) were up 24.3% compared to the same period a year prior. PMC Research Analyst Sopho Basilidze says this is a positive sign of growth but also may be indicative of increasing inefficiency in the labor market.

"On one side, the increase in job postings over the last six months is indicative that companies are expanding," says Basilidze. "On the other hand," she adds, "there is some concern that these numbers may be slightly inflated by re-postings of the same jobs, which supports our understanding that Georgia is currently facing a labor shortage."

This labor shortage, notes Basilidze, is due to several factors. "In a recent survey conducted for the BAG Index, we found that 66% of companies in the last quarter of 2022 were having trouble recruiting staff, which is up almost 15% compared to a year prior," she says. Of those surveyed, the majority reported issues in recruiting highly skilled staff; notably, the proportion of companies that struggled to fill low-skilled positions was also up nearly 17% compared to the previous year.

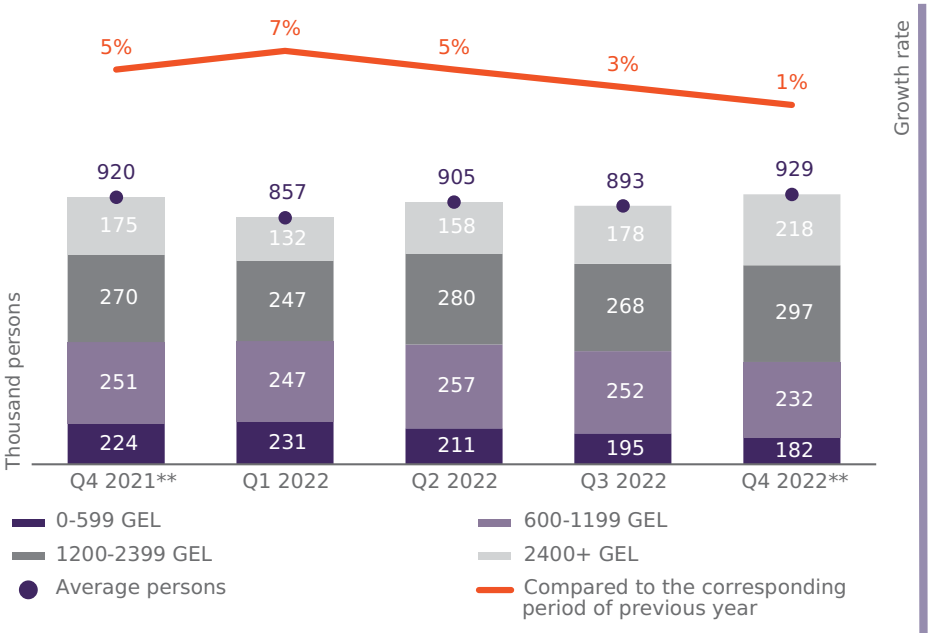
This, she adds, is a result of both a

## LABOR MARKET INDICATORS

| | 2020 Q2 | 2020 Q3 | 2020 Q4 | 2021 Q1 | 2021 Q2 | 2021 Q3 | 2021 Q4 | 2022 Q1 | 2022 Q2 | 2022 Q3 | 2022 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of people in the labor force (thousands) | 1515.0 | 1528.9 | 1505.7 | 1447.2 | 1559.1 | 1592 | 1536.1 | 1490.7 | 1551.5 | 1609.4 | 1554.7 |
| Number of employed people (thousands) | 1237.6 | 1269.1 | 1197.9 | 1129.7 | 1214.6 | 1281.2 | 1244.2 | 1201.1 | 1269.9 | 1358.6 | 1305.2 |
| Number of hired employed people (thousands) | 839.5 | 845.3 | 805.1 | 782.8 | 831.7 | 861.9 | 841.1 | 817.7 | 867.9 | 913.8 | 884.1 |
| Number of self-employed employed people (thousands) | 397.6 | 423.1 | 391.9 | 345.7 | 381.8 | 418.6 | 402.4 | 382.3 | 401.2 | 444.3 | 420.4 |
| Number of unemployed people (thousands) | 277.4 | 259.8 | 307.8 | 317.5 | 344.6 | 310.8 | 291.9 | 289.6 | 281.6 | 250.7 | 249.5 |
| Labor force participation rate (%) | 50.3 | 50.3 | 50.0 | 48.3 | 51.4 | 52.8 | 51.2 | 49.9 | 51.5 | 53.5 | 52.7 |
| Employment rate (%) | 41.1 | 41.8 | 39.8 | 37.7 | 40.1 | 42.5 | 41.5 | 40.2 | 42.2 | 45·2 | 44.2 |
| Unemployment rate (%) | 18.3 | 17.0 | 20.4 | 21.9 | 22.1 | 19.5 | 19.0 | 19.4 | 18.1 | 15.6 | 16.1 |
| Average nominal monthly salary (GEL) | 1150.1 | 1239.5 | 1314.7 | 1256.2 | 1328.0 | 1368.5 | 1463.8 | 1446.5 | 1541.3 | 1595.0 | 1773.7 |

Source: National Statistics Office of Georgia

# AVERAGE NUMBER OF PERSONS RECEIVING SALARY




Source: Revenue Service*

- In February 2023, the number of persons receiving a monthly salary increased by 4.9% compared to the corresponding period of 2022 and by 11.6% compared to the corresponding period of 2021.
- In February 2023, the share of persons receiving a monthly salary up to 599 GEL amounted to 19.2%, which was 5.3 percentage points less than the corresponding period of 2022, and 9.0 percentage points lower than the corresponding period of 2021.
- In February 2023, the share of persons receiving a monthly salary of 2,400 GEL and more amounted to 20.0%, which was 7.9 percentage points more compared to the corresponding period of 2022, and 7.1 percentage points higher than the corresponding period of 2021.
- In February 2023, the number of persons receiving a monthly salary of 9,600 GEL and more, increased by 32.6% compared to 2022 and 44.2% compared to 2021. The share of persons receiving a monthly salary of 9 600 GEL and more amounted to 3.0% in February 2023.

* The data provided by Revenue Service is not final and might slightly increase. (Last viewed on 20.03.2023). The data represents gross salaries.

** The decrease of the share of 0-599 GEL and 600-1199 GEL categories in the Q4 of 2021 and Q4 of 2022 was largely due to a notable number of people receiving the 13th salary in December.

lack of qualified workers for in-demand positions, as well as a byproduct of large-scale labor emigration. "We've certainly seen the labor market become more inefficient post-Covid," she notes. "There is a growing mismatch between the skills needed and the applications companies are receiving. Issues in filling low-skill jobs may be coming from emigration as people are no longer willing to work for the wages offered in Georgia for these positions."

## Salaries

PMC Research's wage report tells a similar double-sided story of both growth and concern. In January 2023, the number of persons receiving a monthly salary was up by 2.5% compared to the corresponding period of 2022 and 10.7% higher than the corresponding period of 2021.

By wage bracket, January figures also show a 6.5% YoY decrease in the number of people receiving a gross salary of less than 600 GEL ($233), paired with a 4.2% YoY increase in the number of people receiving a salary greater than 2,400 GEL ($932) and a 26.9% increase in the number of people receiving a salary greater than 9,600 GEL ($3729).

More salaried workers and higher average salaries are both positive trends, notes Basilidze. However, these positive results are partly mitigated by the impact of inflation. "Inflation stood at 9.4% in January, meaning that the growth of real wages is much less impressive. Furthermore," she adds, "even though the number of people receiving a salary of 600 GEL or less is shrinking, it still makes up a significant portion of the labor force – around 26%. This means a quarter of the labor market is still working for very low wages, which have effectively become even lower due to high inflation."

## Sectors in demand

Looking at the vacancies posted on *Jobs.ge* from August 2022 – January 2023, PMC Research's Basilidze says there is a clear upward trend in demand for jobs in sales and procurement (up 135% YoY) and finance (up 142% YoY). Demand for IT/computer programming work, she notes, is also increasing, with huge salary growth potential. "In the last quarter of 2022, we saw salaries in all sectors increase by an average of about 20%," she says. "But wages in the IT sector jumped massively – around 65%."

Overall, the labor market continues to be active as Georgia's economy continues to grow, says Basilidze, with unemployment hitting a ten-year historic low of 15.6% in the third quarter of 2022. "That being said," she cautions. "Unemployment of 15% is still considerably higher than we would like, and it will be crucial moving forward to address these inefficiencies in the labor market so that we have a workforce with the skills needed to meet demand." ■

# Carpets of the Caucasus

## – a look at the region's rich textile weaving history

**With a history as rich and complex as the region itself, the time-honored tradition of carpet weaving spans the whole of the Caucasus - from Armenia, Azerbaijan, Dagestan, Turkey, Iran, and beyond. *Investor.ge* explores the growing popularity of these carpets in Georgia, as well as the history and artistic inspiration behind these pieces - and modern efforts to revive them.**

SALLY WHITE

Maybe it reflects the hectic growth in Tbilisi apartment numbers and the sharp rise in new residents, but it is hard to miss the increase in carpet shops around Tbilisi, their colorful wares spilling out onto pavements and squares. Tbilisi's Old Town, especially, seems to be reviving its ancient role as a carpet trading center, though sadly not from the historic locations of the splendid but long disappeared caravanserais.

It may come as a surprise to shoppers discovering the provenance of the carpets on display, antique as well as new, to find out how few have been made by Georgians. The carpets are still produced by weavers in locations which have been for hundreds of years the main sources but, as of old, the carpets in Tbilisi come from the whole Caucasus region – Armenia, Azerbaijan, Dagestan, Turkey, Iran and from even further distances. Only a few of the weavers have ever been from Georgian tribes, although many weavers, Azeri, Armenian, and Kurdish, resided in villages within the country's borders. Now most carpets on display in Georgia are imported, though notable efforts are being made in Kakheti, in particular, to revive local production.

Another startling fact is how many different carpets have been made in the Caucasus – various forms of piled carpets and flat woven kilims, in different colors, patterns, yarns, depth of pile, makers, dates, purpose, and so on. Identifying them is a major challenge. Even the august international textile authority, the Textile Society of America, says so: "A key problem in dealing with textile arts of the Caucasus, however, as rich and diverse as they are, is that one is rarely, if

ever, able to attribute a particular group of carpets or textiles to a particular group of people who made them."

So experts try to match a carpet with an "anchor" one, for which the provenance is proven, to arrive at possible identities. Marketplace lore and details of pattern are also deployed in fixing dates and locations. The written and photographic records of pre-revolutionary Russia are commonly used to provide witness, state Richard Wright and John Wertime in their book, *Caucasian Carpets and Covers – the weaving culture*.

## Georgia's carpet culture

With such a diverse choice and long history, Caucasian carpets inevitably provide scholars with copious opportunities for theories. One, offered by Wright and Wertime, was that the utilitarian flat-woven rugs (a Georgian specialism) "many of them spectacularly graphic and colorful, are the true traditional products of Caucasia's weaving culture."

Tbilisi carpet shops used to number five or six, but that has at least doubled. Probably most well-known, and certainly most conspicuous, is "Origin Carpets – the Caucasian Carpets Gallery" at the end of Erekle II St., just next to the Sioni church. Owned by Manana Aranea and run by Patima, the shop has old and new carpets and kilims from all over the wider Caucasus region, Turkey, Afghanistan and even North Africa. Prices range widely, of course, depending on the carpet's rarity. Attractive carpets (not antique ones, but certainly not straight off a production line) can be bought for several hundred dollars.

However, at the other end of the scale and in international markets and auction rooms, the highly collectible and sought after small 19th century Qazax rugs (this name is given to rugs made in villages in western Azerbaijan and in a number of towns and villages in northern Armenia and the adjacent southern part of Georgia) sell for $5,000 - $60,000 and more. An indication of top end prices can be seen on the website of New York dealer Nazmiyala Rugs.

Pile carpets have dominated the market historically, but in recent years, flatweave kilims have become very popular. Describing Georgian rugs, Manana Aranea says: "For Georgian carpet-rugs, the tradition of kilim weaving is more widespread here. Carpets were also woven though in limited quantities in Tusheti, Pankisi, Kakheti, Kartli and Pshav-Khevsureti."

Higher quality and larger numbers of pile carpets were made by women in the villages of Marneuli (Borchalo) region (Karachop, Lambalo, Borchalo, Lori-Bambak) and the Akhaltsikhe region where Armenians displaced from Turkey were ▸▸

Qazax rug. Retails for $8,500 on New York dealer Nazmiyala Rugs website.

Borchalo carpet made by women in Marneuli. Photo by Tata Shoshiashvili, OC Media

living. "The patterns of those carpets seemed to be influenced by Armenian traditional ornaments," she says.

## Caucasian carpets - a complex history

The history of carpets in the Caucasus reflects the complex history and ethnic mosaic of the region itself and goes back millennia. Much has not changed, with the carpets woven mainly by women in villages near where the sheep are raised. Compared to earlier history, much more is known of the last two hundred years during which time the pastoral story was transformed. Production was ramped at the turn of the nineteenth century when Russia sought to build a commercial industry in the Caucasus to raise living standards (and discourage revolutions). That took what had been a modest local activity to one that by 1911 employed 200,000 women at the looms and, due to the good Russian rail links, exported rugs to Europe as well as Russia, and then on to the U.S. This industrialization collapsed in World War I but was revived in the 1920s. However, the industry has diminished since the end of the USSR and the expansion of Iran's carpet production.

Historically, over 350 different tribes resided in the Caucasus, to a great extent in the mountains - many of them nomadic and all with their individual weaving and textile traditions. The Turkic population have been the main weavers, according to an *Encyclopedia Iranica* section: "The main weaving zone was in the eastern Transcaucasus, south of the mountains that bisect the region diagonally - the area that comprised the Azerbaijan SSR; it is the homeland of a Turkic population known today as Azeri." However, other scholars point to the importance of Armenia.

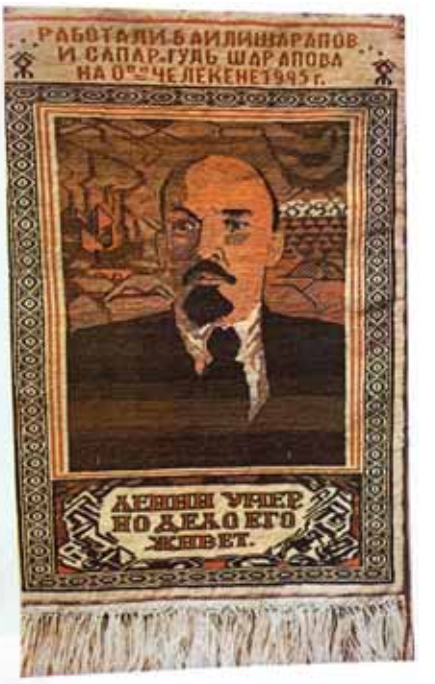
The Caucasus People points out that brisk demand for carpets across the whole region would have been generated for insulation and well as to decorate the otherwise austere dwellings, be they yurts, tents, caves, village houses, or palaces, and to reflect religious beliefs. So the Caucasus, with plentiful materials available like hemp, wool, and silk and dyes being in good supply, was an excellent location. "Regardless of where the items were produced, they became the subject of flourishing trade and were, according to Arabic references, exported to all parts of the world by numerous caravans. The same was true of the weavers themselves – the whole manufacturing quarter would often be relocated by shahs and sultans."

Clues to where weaving took place historically are the names of the most well-known styles, as described by merchants Nazmyal in New York: "Chief areas of origin were Kuba, Dagestan, Sharan, Talish and Baku in the East, and Gadjah, Kazak (thought to derived from Cossack), and Karabagh in the southwest."

## Music for the eyes

Californian specialist carpet merchant, Claremont Rug Company, comments: "The weavings of the numerous Caucasian tribal groups enjoy a universal popularity among collectors of antique Oriental rugs today. Both the thick-pile carpets from the most mountainous regions of Kazak, Karabagh and Gendje, and the thinner, more closely shorn Kubas, Shirvans, and Daghestans, from the lower slopes descending toward the Caspian Sea, are equally enchanting." These are the last remnants of an ancient weaving tradition which has now all but vanished.

"What is most striking about an an-




Carpet propaganda began in the 1920s. These theme rugs became a popularity of the Soviet Union.

tique Caucasian rug is its daring use of color. Balance of color is achieved here not by shading, but rather through contrast. The predominant reds, blues, greens and yellows would seem clashing to the mind; yet in actuality, the unerring confidence of the Caucasian craftsmen created color combinations so harmonious that they have been marveled at and studied by Western artists for centuries."

"Music for the eyes"is the description given to the carpets of the Caucasus in one Belgian exhibition catalog. Due to the Caucasus's proximity to that major source of international textile trade, the Silk Road, its rug makers were influenced by every rug-making tradition from Egypt to China. The Caucasian tribespeople, working small, portable looms, took the designs of more sophisticated antique tribal rug weaving cultures. "By transforming these designs into simple geometrical proportions, they have brought to them a new freshness and spontaneity," says Claremont.

However, carpet production has always been flexible in choice of designs, responding to the prevailing markets. Dealers have been bemused by early 1930s carpets, when production shifted from homes to organized workshops. Carpet Production of the Transcaucasus by MD Isaev at the Scientific Research Institute, Caucasus Academy of Science in Tbilisi, states that seeking sales, low cost materials were used; the weavers' traditional creativity diminished and "Theme Rugs" were introduced. These offered "portraits of Lenin and Stalin and views of the Baku oil fields..."

Collectors, however, now want the traditional rugs, states The Caucasus People, a catalog written for a major Belgian exhibition. Highest prices go for those that have "retained their original character in methods of weaving, color palettes and pattern."

Rather than the 19th Century innovations brought in by the Russians, collectors prefer rugs influenced by Shah Abbas who ruled the Caucasus in 1586-1628 when it was part of one of the greatest Iranian empires, the Safavids. A rug connoisseur, he did much to develop pile carpet weaving in Azerbaijan, summoning thousands of peasant girls to learn pile weaving and new patterns of Iranian origin. Or the Karabagh rugs, with their roses and other floral motifs. As The Caucasus People explains, "this came about because rug weavers from Karabagh were invited to the court in the 16th century to teach French manufacturers pile weaving, and were inspired to use floral patterns on their return home." Karabagh girls chose these floral patterns in the 20th century when making flat-weave rugs as part of their dowries.

## Georgian weavers revive textile traditions

Tradition is also preferred in the current rug-making renaissance in Georgia - projects in Kakheti run under Clusters 4 ▸▸

Karabagh carpets were known for their floral designs.

Kizikian carpet weaving at Pesvebi Studio in Kakheti. Photo by Georgia Today.

Development with EU and German government funding are reviving Kizikian carpet and Tushetian feltwork production. These are only possible because in 2005, at Zemo Alvani, the father of Dito Arindauli, founded Georgia's first wool processing facility in modern memory.

Dito has continued the business, now processing Tusheti wool single-handedly to provide pure-wool yarns. His factory processes between 30,000 and 35,000 tons of wool every year, all sourced from Tush shepherds.

Using its wool are weavers at the Tusheti Crafts Workshop Mzemoe, where a group of local women are making felt wall hangings and other products. Further into Kakheti is Pesvebi Art Studio in Dedoplistskaro which is reviving traditional Kizikian carpet weaving. Eight women work with Pesvebi, and as the director, Nino Bakhutashvili, explains: "The products created here are distinguished by density of weaving, the color and high artistic level of the composition of the ornaments. The workshop is the only one in Georgia,which has considerable experience in dyeing with natural dye."

At the ReWoven project in the Kartli and Kakheti villages of Kosalri and Yourmuganlo, Azeri weavers are reviving the making of the famous Borchalou and Karachop carpets. These can be made to order, every rug being handmade by a woman in her home, and every knot tied with hand-spun, naturally dyed wool.

Nomads and villagers in the Caucasus have always used their resources of time and materials to produce textiles with which to furbish their lives and to trade for items they could not produce. In Georgia, as can be seen by the latest weaving projects, rug making and textile art continues to reflect the strengths commented on by Wright and Werkman: "While Caucasian textile art was a traditional one, part of the tradition was a receptivity to ideas from the outside." ■

At ReWoven, Azeri weavers are reviving the making of the famous Borchalou and Karachop carpets. Photo by ReWoven.

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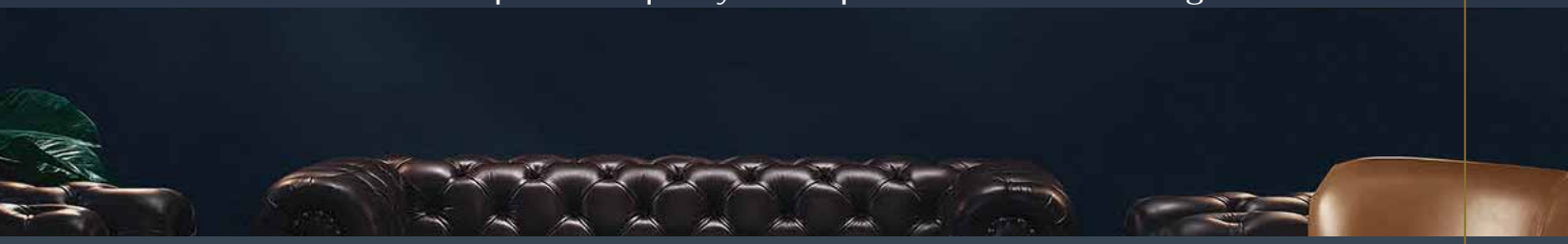


13, Rustaveli Avenue, Tbilisi Marriott

# Georgia, UAE set to strengthen economic ties

**A new visa-free travel regime announced in 2022 now allows citizens of Georgia and the United Arab Emirates to travel freely between the two countries for up to 90 days at a time. But a new holiday destination isn't the only thing Georgia stands to gain from its growing ties with the Gulf state. A free trade agreement between the two countries, finalized in March, is set to offer Georgia increased foreign investment opportunities and access to a new market of nearly 10 million consumers.**

MARIAM TANIASHVILI

## Free trade negotiations

Georgia and the United Arab Emirates are set to enter a "new era" of economic relations after the conclusion of its third and final round of trade negotiations held in Tbilisi from March 15 -17. In a joint statement signed by Georgian Minister of Economy Levan Davitashvili and Emirati Minister of State for Foreign Trade Thani bin Ahmed Al Zeyoudi on March 17, the two sides announced that negotiations had successfully been concluded, with the free trade deal slated to be officially signed later in the year.

The move to increase trade relations, which was first announced by then Georgian Economy Minister Natia Turnava at Dubai Expo 2020 in the fall of 2021, marks a further step towards solidifying Georgia's competitiveness as a regional trade hub at a time when Russia's invasion of Ukraine in 2022 has left northern land-based trade routes connecting Europe and Asia effectively nonviable for many transporters.

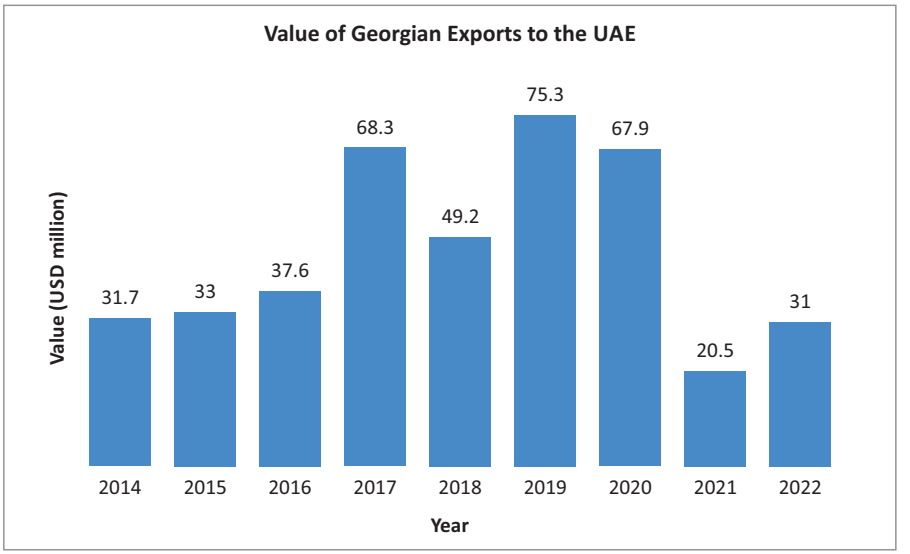
And for the UAE, these free trade negotiations represent part of their newly unveiled foreign trade agenda, which seeks to diversify away from oil and gas and double the size of the country's economy to $820 billion by 2030. It follows recent trade agreements signed by the country with India, Israel, and Indonesia and the announcement of free trade talks with the Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia) and Ukraine in December 2022.

## Georgia's trade history with the UAE

Georgian Deputy Minister of Economy Genadi Arveladze opened the final round of talks on March 15, noting that a free trade agreement would open the UAE market and its 10 million consumers with "high purchasing power" to Georgian exporting companies in a move that Minister of Economy Davitashvili added would be "mutually beneficial" for both countries. But what has the two countries' trade history looked like previously?

In 2022, bilateral non-oil trade between the two countries reached $468 million, a 110% increase compared to the same period in 2021. This comes on the back of a 52% increase in non-oil trade the year before, with the trade delegation of the UAE to Georgia estimating that trade between the two countries now accounts for 63% of Georgia's total trade with the Arab world.

And while up 51% YoY in 2022, Georgia's exports to the Gulf state seem to still be recovering from a post-Covid slump, amounting to only 41% of their 2019




figures. This is likely due to pandemic's border closures and supply chain disruptions, which had a devastating impact on Georgia's auto re-export business in 2020 and hit its largest export to the UAE: cars.

Prior to the pandemic, however, Georgian exports to the UAE had been on a steady incline, with auto re-exports consistently holding the top spot. In 2019, for instance, car re-exports made up 60% of the country's $75.3 million value of exports to the UAE as Georgia's geographic location, low import tax rates, and relatively low cost of automobile services enabled it to become something of a used car market hub. And with the effects of the pandemic subsiding [Georgia's auto re-export market hit a record $904 million in value in 2022] and the signing of the free trade deal, auto exports to the UAE seem poised to resume their growth trajectory.

Other major exports to the UAE in recent years included gold and semiconductors, though gold exports have continued to decline in both value and share of total exports. In 2016, for instance, gold made up 21% of total export value to the UAE. In 2019, it was 16% of exports, and by 2020, it had dropped to just 6%.

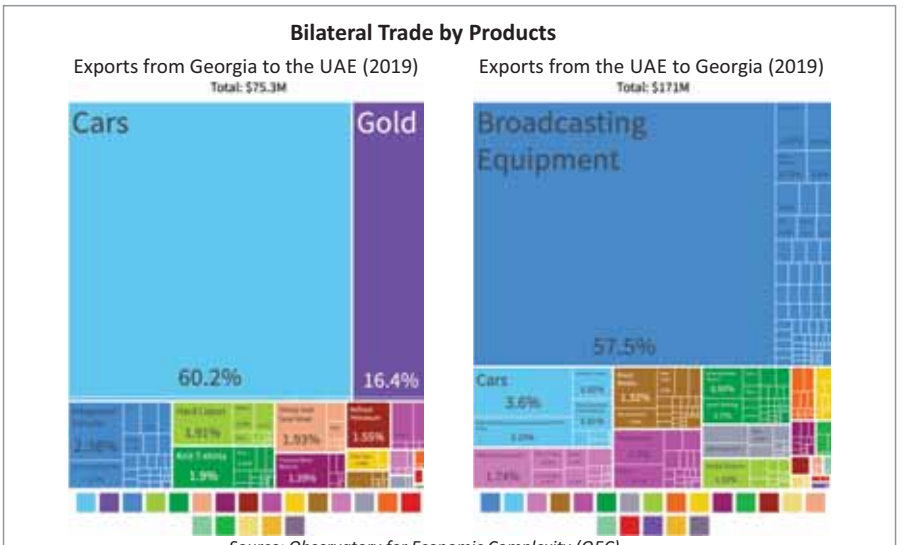
Georgian imports of goods from the UAE have fluctuated over the last ten years, largely bouncing between a value of $150 million and $200 million in annual value. Topping the list since 2014 has been the import of mobile phones, which equaled $155 million in value alone in 2022. Other major imports in 2022 included tobacco products ($20 million) and computers ($12 million).

## Investment prospects

In addition to official trade delegation meetings in early March, the UAE-Georgia Business Forum was held in tandem in Tbilisi to jump start new cooperation and the "deepening of economic ties" between the two countries. From the UAE delegation, representatives of the Ministry of Economy, the UAE International Investors Council, the Sharjah Chamber of Commerce and Industry, and leading business representatives joined the more than 250 attendees, which also included leading Georgian business representatives of sectors like agriculture and hospitality, food product distributors, transport and logistics, real estate, and information technologies.

Among the topics of discussion was the prospect of increased foreign direct investment in the country as a trade delegation representative from the UAE noted that "mutual direct investment exceeded $1 billion by the end of 2021, with UAE investments into Georgia currently representing 5% of all FDI into the country - the sixth largest source of foreign direct investment."

With key areas of potential cooperation like agriculture, tourism, transport, and energy emphasized, the event comes a little over a year after the announcement of plans to develop a new solar power plant in Akhali Samgori by UAE state-owned renewable energy firm Masdar. The company, which has renewable development projects in over 40 countries, has called the $87 million investment and creation of a 100 MW photovoltaic farm the first step toward "further renewable energy opportunities with the Government of Georgia that will leverage our experience to support the nation's economic development." ■




*Source: Observatory for Economic Complexity (OEC)*

# Mediation of business disputes
## - a solution for court backlog

Georgia's business community should, in theory, be one of the biggest consumers of mediation - a cheaper and faster form of alternative dispute resolution than litigation. This is particularly beneficial in Georgia where there is a shortage of judges and cases are often delayed, costing businesses time and money.

Mediation allows parties to discuss their disputes in a private, confidential setting and arrive at an agreement that both sides find acceptable. In court hearings, winners and losers are determined by the court. But in mediation, parties have an opportunity to decide for themselves the best outcome, with the resulting agreement providing a partial or full resolution of the dispute.

Mediators are the main players in the mediation process. Although the mediator does not decide the outcome, he or she advises and guides the parties, helping them to understand the important issues for reaching the resolution. This is why the mediators have to meet rigorous professional development and ethical standards.

In countries that have developed systems for mediation and arbitration, the majority of commercial disputes never reach a court but are instead mediated or arbitrated. For example, in the UK, more than 16,000 commercial cases were mediated in 2020 alone with an 86% success rate, totaling approximately $21 billion in disputes. The reverse is true in Georgia.

Georgian businesses and lawyers alike have highlighted the need for more timely court procedures and provided many examples of how the delays and long timelines have damaged business and even encouraged dishonest behavior. According to the *Views of Businesses on the Court System in Georgia* survey commissioned by USAID in 2021, a large number of businesses cited extended timelines for court cases and delays in trials among the primary challenges in doing business in Georgia.

Despite these problems with the court system, Georgia's businesses rarely use alternative dispute resolution mechanisms. The main reason for this is low awareness within the business community of the advantages of mediation and arbitration. This low awareness consequently results in low trust in these mechanisms.

Georgia's government, in partnership with international donors, has taken steps to increase access to alternative dispute resolution mechanisms. For example, USAID's rule of law programming in Georgia has prioritized the development of mediation for more than a decade. It helped design the first court-annexed mediation pilot, trained judges on the referral of cases to mediation, and trained the first pool of internationally accredited Georgian mediators. The European Union has also supported training for mediators and mediation trainers to expand the number of mediators who can offer these services across the country and provided technical assistance in the drafting of the Law on Mediation.

USAID Georgia Mission Director gives remarks at the Mediation Business Forum. Photo credit USAID Georgia.

Several recent developments in Georgia pertaining to business dispute mediation should catch the attention of the business community. In September 2019, the Parliament of Georgia adopted the Law on Mediation, which had several important outcomes. It led to the creation of the Mediators' Association of Georgia (MAG), which is a membership-based self-regulatory body that develops standards for the certification and accreditation of mediators, administers the system for entry into the profession, and defines and ensures the implementation of ethical standards. MAG unites over 140 certified mediators across the country. The Law on Mediation also led to the High Council of Justice's adoption of the Court Mediation Program, which made the expansion of mediation possible. As a result, there are now 14 mediation centers co-located with regional courts throughout Georgia. The law also provides for suspension of limitation periods during mediation proceedings and the enforceability of mediated settlement agreements - two aspects that are often important for businesses and lawyers.

While courts can require parties to mediate (parties can also choose to mediate themselves), the number of cases referred for mediation is still low. However, there are reasons to be optimistic.

Statistics from the longest-standing and largest court-annexed mediation center at Tbilisi City Court show that the average settlement rate over the years has been around 60%, and that the ratio of parties honoring the agreements is over 90%. Most mediations conclude within 45 days of the appointment of a mediator, and in cases that do not end in a settlement, the judges sometimes prioritize the timely scheduling of court hearings for parties who attempted mediation.

Apart from court-annexed mediation, as soon as a business faces a potential problem requiring negotiation with a business partner, the entities themselves can suggest engagement of a skilled mediator to help facilitate the discussion before lodging a claim in court. The list of the accredited mediators can be found on the website of the Mediators Association of Georgia, which can also be asked to appoint a mediator if the parties are unable to do so on their own. Another triggering mechanism for mediation is the use of the multi-step dispute resolution clauses in contracts. The inclusion of a multi-step dispute clause makes mediation a necessary step before any court or arbitration proceedings may be filed. Such clauses often ease the process of engaging in a consensual dispute resolution process without the invitation being perceived as a weakness.

By managing and resolving their problems swiftly without lengthy and costly legal proceedings, companies can focus all their resources on their own business rather than the 'business' they are not into – dispute resolution. ■

Representatives of major businesses (transport + hospitality) attend the Mediation Business Forum in Tbilisi in December 2022. Photo credit USAID Georgia.

AmCham

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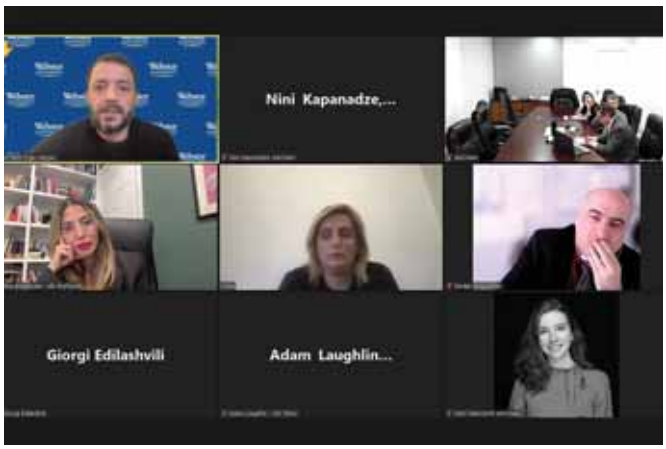
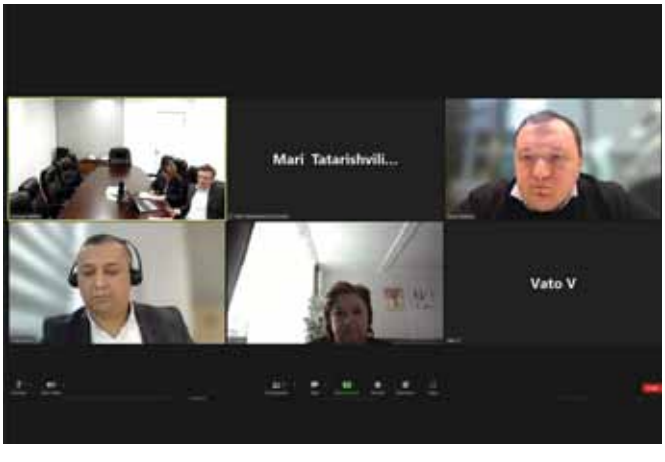


# Committee Meetings

At the **Education and Training Committee** meeting held on February 2, 2023, the committee met to discuss ongoing relevant issues of concern for the industry, including the internalization of the education system in Georgia, obtaining visas for international students, and efforts around getting online studies accredited by the Georgian government. The committee will continue working on the issues discussed throughout 2023.

At the **Construction and Real Estate Committee** meeting held on February 3, 2023, members discussed the current state of the real estate market and increasing rental and sales prices in the capital. The committee also discussed construction permits and the increasing demand for commercial areas in Tbilisi.




# Committee Meetings

At the **CLT Committee** meeting held on February 6, 2023, the committee met to discuss current obstacles for practitioners in two directions: the judiciary and public registration. The committee also discussed the tax dispute resolution and potential ways to improve the current system. The committee plans to organize a meeting with the Ministry of Finance in the coming months to further discuss these issues.

At the **FMCG Committee** meeting held on February 7, 2023, the committee discussed various regulations currently affecting the FMCG industry. Plans for a meeting with the National Food Agency of Georgia to better coordinate monitoring of upcoming regulations were also discussed. The committee also spoke about alternative routes for the transportation of goods and discussed how further development of the Middle Corridor could be beneficial for businesses operating in their field.

# AmCham Hosts Business Roundtable on the Middle Corridor

On February 16, AmCham hosted a panel discussion on the Middle Corridor with key players at the Biltmore Hotel Tbilisi. It included:

- APM Terminals Poti - Iain Rawlinson, Chief Commercial Officer
- Georgian Railway - Irakli Titvinidze, CFO
- Ministry of Economy and Sustainable Development - Rati Devadze, Deputy Head of Transport and Logistics Development Policy Department
- PACE Georgia - Irakli Kervalishvili, Managing Partner
- U.S. Embassy - Michael Honigstein, Chief Political and Economic Officer.

The panel was moderated by AmCham Executive Director George Welton. Participants had the opportunity to attend this hybrid event either in person or online.

# Social: Cocktail Reception at Moxy Hotel

On February 23, AmCham Georgia hosted a cocktail reception for AmCham members at the Moxy Hotel. AmCham President Irakli Baidashvili greeted the guests and thanked Moxy hotel for hosting the reception. Members used the opportunity to reconnect with friends, colleagues, and fellow representatives of member companies and enjoyed delicious food and drinks by Moxy.

# Members Only Luncheon with USAID Georgia Mission Director

On February 27, AmCham Georgia hosted a 'members only' luncheon with USAID Georgia Mission Director John Pennell, who discussed USAID's programs in Georgia, its plans and goals, and its current efforts to engage with the private sector. The presentation was followed by an opportunity for Q&A.

# Members Only Luncheon with Minister of Regional Development and Infrastructure

On March 14, AmCham Georgia hosted a 'members only' luncheon with Minister of Regional Development and Infrastructure of Georgia Irakli Karseladze, who discussed the current activities and future plans of the ministry. The presentation was followed by an opportunity for Q&A

# AmCham Hosts Business Roundtable on Georgia's Tourism Sector

On March 22, AmCham Georgia hosted a meeting at Hilton Garden Inn Chavchavadze with Deputy Minister of Economy Mariam Kvrivishvili and Head of Georgian National Tourism Administration Maia Omiadze, who discussed the current activities and plans for GNTA. The presentation was followed by a lively Q+A. Participants had the chance to attend this hybrid event either in person or online.

NEW MEMBERS

**Communal Technology LLC**
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Communal Technology LLC was established in Georgia in 2009. The mission of the company was to introduce new technologies in Georgia, export forensic and other special purpose equipment and prepare them for operation, which the company has successfully done in partnership with world leading manufacturing companies. Communal Technology LLC is the official and exclusive representative of such Regula (Belarus - Latvia), Sirchie (USA), and works closely with Cellebrite.

The company participates in the website of the State Procurement Agency of the Ministry of Internal Affairs, L. In the tenders announced by Samkharauli - National Forensics Bureau, Georgian Airports Association and others, Communal Technology LLC has won more than five hundred tenders and it has fulfilled all the tender obligations on time.

**www.communaltechnology.ge**

**Mr. Scagos, Jonathon**
**Individual**

Jon is a top-rated management consultant with 12+ years of experience, and 40+ engagements completed in corporate strategy, feasibility, and market analysis. Jon is adjacently pursuing filmmaking as a producer, director and writer with a film selected for the Batumi International Art House Film Festival (2020), The Virtual REEL Recovery Film Festival & Symposium (2020), and First-Time Filmmaker Sessions (2020). Jon is also a finalist in the Filmmakers International screenwriting competition (2019), Quarter-finalist in the Creative Worlds Awards (2019), The Script Lab (2019), and Shore Scripts (2019) screenwriting competitions. He is also co-founder of Indie app which is a swipe-based casting app for the entertainment and commercial industry.

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