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Outlook on Georgia 2018

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After its significant rise the Georgian economy may now fall • Georgia Makes Waves With Anaklia Deep Sea Port • The Lady of the Fields • The Rise and Rise of the Georgian Banking Sector • Georgia on Location



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O U T L O O K O N

GEORGIA

January

Georgian state-owned TV gets a new general director — Vasil Maglapareidze, previously employed by a network owned by former Prime Minister Bidzina Ivanishvili's family. Transparency International (TI) is not happy: "The public broadcaster has failed to appoint a politically neutral director." Fast forward 12 months and most staff at state-owned TV are also former employees of the Ivanishvili Family. The channel is now accused of failing to report a number of important news items.

February

The European Parliament votes to allow Georgians visa-free travel to Iceland, Liechtenstein, Norway, Switzerland and all EU member states (except the UK). The new regulations come into force on March 28. According to the Ministry of Internal Affairs, as many as 165,000 Georgians take advantage within the first eight months.

Georgian prosecutors charge a high-ranking priest, Deacon Giorgi Mamaladze, with a conspiracy to murder the ageing Georgian Orthodox patriarch, Ilia II, while he was recuperating from gall-bladder surgery in Berlin. Cyanide was found in the deacon's baggage as he left Georgia to visit the patriarch. Police also reportedly found firearms at the priest's home. Georgian Prime Minister Giorgi Kvirikashvili calls the scandal a perfidious attack on the Church.

March

A disagreement over a parking fine leads to violent riots in the seaside town of Batumi. The protests are marked by civil disobedience designed to show public contempt for the new chief of the local police force, who had reportedly tightened parking rules in the city. Soon after the demonstrations began, people started throwing stones at the police, and special forces were called in to contain the situation: tear gas is used against the protesters. Chants of 'Adjara for Adjarans', 'Batumi, Batumi', 'go sell apples in Gori', and 'the government hates Adjarans,' could be heard during the protests.

April

The government comes up with a reform package decriminalising some economic crimes and liberalising the tax code in order to further develop the economy. Mr Kvirikashvili says implementing the measures is one of the key promises of the government's four-point reform plan. The new rules abolish criminal liability for tax offences related to waybills, excise stamps, and also include significant incentives for individual sectors, particularly, aviation. The package comes into force in June.

May

Georgia and China strike a free-trade deal which gives the country access to one of the largest markets in the world. "We are looking forward to becoming a trade platform. This agreement is of paramount importance and we will be

looking to sign similar agreements with other countries," said the then Minister of Finance Giorgi Gakharia.

The Georgian Parliament hosts the NATO Parliamentary Assembly's Spring Session, bringing together some 300 parliamentarians from the then 28 NATO member countries from North America and Europe as well as delegates from partner countries and observers to discuss current international security issues and the reports prepared by the Assembly's Committees. In NATO's history, similar sessions have been held only four times in a non-member country and today all of those four are already NATO members.

June

Police arrest two members of the satirical hip-hop group Birja Mafia on charges of purchasing and possessing large amounts of the drug MDMA. After a massive demonstration on Tbilisi's Rustaveli Avenue, the two men are eventually released. Protesters claimed the men were arrested over the content of a music video, which showed a policeman on the floor with a leash around his neck. Prime Minister Giorgi Kvirikashvili spoke publicly about the need to change the country's drug policies. In December, the Prosecutor's Office drops the charges.

July

US Vice President Mike Pence visits Georgia and is greeted by thousands of people on the streets. Mr Pence attends joint

NATO military exercises being conducted in Georgia where about 800 Georgian and 1,600 US troops are taking part in the Noble Partner 2017 drills. “The vice president’s presence here demonstrates that this is not only about military exercises, but it is also showing unification with our values, with our foreign policy targets, and showing a clear message that we are together,” Georgia’s President Giorgi Margvelashvili says.

August

A massive forest fire breaks out in Borjomi Gorge, South-Central Georgia. It takes several thousand people a week to extinguish the blaze. In total, more than 30 hectares of grass and wild land are burnt. The disaster unites the entire Caucasus region. Apart from the Georgian armed forces and special task groups, the disaster is contained by some 1,500 Georgian, Armenian and Azerbaijani firefighters, rescuers and rangers, supported by 10 other countries.

September

Parliament approves amendments to the Constitution in its final, third reading. One hundred and seventeen

lawmakers—mostly from Georgian Dream–Democratic Georgia (GDDG)—voted in favour and two against. Parliamentarians from opposition parties United National Movement (UNM) and European Georgia (EG) walk out in protest before the vote. The main bone of contention was the electoral system for parliamentary elections. The opposition demanded the current mixed electoral system to be abolished. The amended constitution also reduces the executive scope of the presidency while strengthening the position of the prime minister.

October

Georgians vote in local and municipal elections, an important test for the ruling Georgian Dream coalition ahead of next year’s presidential election. They cast ballots to elect 58 municipal and district heads, as well as mayors, in Tbilisi, Batumi, Kutaisi, Poti, and Rustavi. Voters also chose 2058 members for 64 local councils. Kakha Kaladze, a former defender for AC Milan, is elected mayor of Tbilisi, as the country’s ruling Georgian Dream party wins a majority of seats on local councils.

November

Prime Minister Giorgi Kvirikashvili announces a government reshuffle and cuts the number of ministries from 18 to 14. “The upcoming changes will serve the purpose of further progress, of shaping an even more modern state, which greatly reduces administrative expense,” the PM stresses, and adds that the time has come to build a modern state, when changes must apply to governmental institutions, so that a more flexible state apparatus may emerge, maximal optimisation may be put in place and bureaucracy may be reduced.

December

Georgia makes its mark on the New Silk Road. Less than a month after the Tbilisi Belt and Road Forum, construction works on the Anaklia Deep Sea Port begin. “With no exaggeration, today we’re starting the biggest project of the 21st century Georgia,” says the PM. In October, Azerbaijan, Georgia, and Turkey launch a rail link connecting the three countries, establishing a freight and passenger link between Europe and China that bypasses Russia and Armenia.



Investing in Georgia

 Tamara Karelidze

There has never been a better time to invest in Georgia, and the country is more open to new business, new ideas and new investors than ever before.



According to the Georgian National Statistics Office, between January and September 2017 Georgia received 1,346 million US dollars in foreign direct investment, more than 38 million US dollars higher than 2016. The most common investment sectors are transport, communication and construction.

A lot of things have improved in Georgia since 2003. The ease of doing business, a supportive environment for investment and government cooperation are the main advantages. According to Mercy Tambon, country manager of the World Bank in Georgia, reformist tendencies are the main factor which distinguishes Georgia from its neighbours.

“The business environment in Georgia is very conducive for investors to come here,” Mrs Tambon told Emerging Europe. “It’s straightforward to open a business; it’s effortless to get your documents or process them. If you go to the justice house, it’s like a one-stop shop where you submit your documents at one end, and in less than a day, in a couple of hours, they come out of the other end.”

Last September the World Bank and Georgia celebrated 25 years of cooperation. The organisation was one of the

first, in 1992, to start working in Georgia. During this period more than 4.3 billion US dollars has been invested by the organisation.

“We’ve supported the government in carrying out reforms that have improved the business environment. As you can see, Georgia is one of the leaders of doing business in the world rankings because it’s a very reformist gov-

“ Georgia has implemented reforms that attract investors ”

ernment. It has put in place the reforms that attract investors to come,” said Mrs Tambon.

Besides the World Bank, EBRD-Georgia cooperation is also 25 years old. Areas of cooperation include not only agriculture, banking or infrastruc-

al projects but policy reforms and legislative improvement. In this sense, a significant initiative was ‘The Investors Council,’ which brings together the most representative local and foreign business associations.

“The investment and the activities of the EBRD in Georgia are one of the largest per capita in the whole of the EBRD countries of operation,” Bruno Balvanera, director of EBRD in South Caucasus, told Emerging Europe.

Many investors consider the banking sector in Georgia as one of the most stable areas of the country’s economy. It is more than 22 years since the International Financial Organisation (IFO) began supporting banking in Georgia. Jan von Bilsen, the IFO regional manager for the South Caucasus considers that the efficient banking sector in Georgia is a vital support network for the region as.

International organisations are not the only support networks in Georgia. There are companies and business people, working in Georgia since very early periods of its independence. One of them is British Petroleum (BP), which started operating in Georgia 21 years ago and has implemented such crucial projects as the Baku-Tbilisi-Ceyhan or Baku-Supsa pipelines.

“We don’t produce any oil and gas in





Georgia to put into these pipelines. We just operate the pipelines through Georgia. Gas is one of the benefits for Georgia,' said Chris Schlueter, BP's general manager in Georgia. "A significant portion of the gas that Georgia uses comes from our pipelines," he told Emerging Europe.

Besides companies there are individual businessmen in Georgia who saw the potential of the early 1990s. Fady Asly, chairman of the International Chamber of Commerce in Georgia, arrived in 1996. Despite difficulties in his first years, he is now happy to talk about the considerable improvement of the business environment. He said that Arabs are very interested in Georgia, both for tourist and investment reasons.

"The investment climate has improved a lot in the past couple of years," he told Emerging Europe. "The main challenge remains the judiciary, which still lacks credibility; of course everything is not perfect, the same as for any other country, but there is no doubt that Georgia is one of the very best places to do business."

Tourism, hospitality, infrastructure and manufacturing are the best areas in which to invest, says Fady Asly, and all the major donors agree. A sign of the country's enormous potential is the number of tourists, which increases year by year and reached seven million in 2017. Despite levels of service, which still need improvement, with the help of the World Bank, the government now has a clear tourism strategy, creating infrastructure, not least better roads. Several museums and resorts have been restored, and advertisements have run on international media.

"Tourism is huge and growing like mad here," said Chris Schlueter, "it's one of the main areas of investment, like agriculture."

Agriculture remains a priority for the Georgian government, especially since it signed an association agreement and DCFTA with the EU. Agriculture is an area which continues to see huge investment. The government has several projects up and running in conjunction with the EBRD and World Bank, which supports irrigation, agro-business, greenhouses and horticulture. The government also has funds for small and medium-sized farmers, but there is still not enough cooperation. Donors feel that the country should concentrate on improving the level of exports.

Paul Clark, a consultant and the founder of the consulting firm TBSC,

and who has lived in Georgia for more than 20 years, believes that problem-solving in agriculture is connected to farming. He does not believe in funds for cooperation or small farms, and thinks that the government should have a long-term plan and invest heavily in large-scale farming.

"The future is in big agriculture," he says. "Do everything that is necessary to create 500 hectare farms all over Georgia. As many as you can. As fast as you can. This requires government intervention. The largest farms here have maybe 200 cows." Mr Clark believes that DCFTA will improve the quality of products on the domestic market as well.

"I think the EU commission and probably the Georgian government have oversold it. They haven't explained to people how radically things need to change domestically first before you

“ Stop thinking about tomorrow: think about 30 years time ”

get the export benefit later. In food, for instance: it is not only food for export which needs to meet certain standards. That's not that the way it works. All food sold in Georgia must be suitable for the EU before they can export it."

Investors are getting involved in changing the make-up of the labour force as well. One of the most significant challenges for the country remains a lack of qualified people, or at least people with the right qualifications.

"If an investor is coming to spend their money, you want to make sure that you can hire locals who have the skills you need," says the World Bank's Mercy Tambon. "It is true that there are plenty of university graduates, but the skills that these graduates have are not necessarily the skills that today's labour market needs."

However, she and other interviewees pointed out that the government has understood what the challenges are, and is trying to deal with market

demands. As the 21st century's main focus is on technology, the government should use young people's potential in the field of technology. To help achieve this, technical parks have been created in the big cities of Georgia. Bruno Balvanera believes that the Georgian government has adapted quickly to technology. As the country was one of the first to begin using blockchain technology, the EBRD has been involved in creating a mining policy for Georgia.

"The outlook on Georgia is positive," says Mercy Tembon. "Exports are increasing, foreign direct investment and the private sector are expanding. They are doing everything possible to develop skills. They're integrating into the global economy. They have all the right ingredients in place. All that is left is just to continue to maintain prudent macro-fiscal policies and open up the private sector a lot more."

"My advice to the government is to stop thinking about tomorrow. Think about 30 years from now. People do look ahead: they look at immediate problems which need to be solved, but this does not necessarily get you to where you want to be in 30 years time. This is true in every sector," says Paul Clark, founder of TBSC.

Besides its progress and western-looking outlook, Georgia also has significant geographical advantages. Investors see the country as having an excellent opportunity to become a corridor between the East and the West, while also assisting regional countries with integration and setting itself up as a regional hub for South Caucasus countries. This is a strength which has to be used.

Despite a number of challenges, donors and investors appreciate the desire of the government and society to transform Georgia into a western country. The proof of this willingness is that while governments change the direction of the country does not; this is not always the case with a young democracy, and is a sign that all stakeholders can collaborate, and must continue to do so.

After its significant rise the **Georgian economy** may now fall



Maximilien Lambertson



Georgia has been the darling of the former Soviet Union for quite some time. The outlook for 2018 and beyond however is mixed, however.

Since the 2003 “Rose Revolution,” Georgia has been the darling of the former Soviet region, shooting up the business environment and anti-corruption rankings. This has done wonders for its international reputation, attracting significant foreign direct investment which underpinned robust economic growth in the years up to the 2008 global financial crisis.

Since then, its sensational progress has inevitably slowed, and the structural barriers to growth including a sharp urban-rural divide, a limited natural resource endowment, a narrow manufacturing base and a heavy dependence on remittances have reasserted themselves.

The economy slowed significantly in 2015-16, to an average of 2.8 per cent real GDP growth, compared to averages of 5.6 per cent in 2010-14 and 9.6 per cent in 2003-07. The slowdown was caused primarily by the recession in Russia which depressed the value of remittances to Georgia. Fixed investment also fell, despite FDI recovering to 2007-08 levels.

In 2017, the Georgian economy rebounded, due to a recovery in the Russian economy, which has boosted remittance inflows. Consumption is also supported by loose fiscal policy and the stabilisation of the lari. The tourism sector has also performed extremely well. Georgia has seen a boost in tourists from the Middle East and the total passenger flow at Georgian airports grew by almost 50 per cent year on year in January-July, with tourism revenue soaring by 43 per cent

year on year in July. Exports to China are growing rapidly and could reach new heights, following the signing of the China-Georgia Free Trade Agreement in May 2017. As a result, real GDP growth in 2017 is likely to exceed 4 per cent.

However, the outlook after 2017 is mixed. Given the recent trade agreements with China and the EU, the prospect for export-led growth in the coming years has improved. However, Georgia’s potential will be limited by the small size of its manufacturing sector, and outside the agricultural sector, its exports are of little-added value (used cars and scrap metal make up a large share of foreign sales).

Merchandise exports currently account for less than 25 per cent of GDP. Although Georgia’s business environment is relatively benign compared with those of its neighbours, foreign investment and integration into global manufacturing chains may be constrained by perceptions of high political risk. This may limit regional interconnectivity and skill mismatches in the labour market.

In 2018, the Chinese economy is likely to experience a growth slowdown as it grapples with its oversized debt burden, which will depress global commodity prices. This, in turn, could weaken the economic recovery in Russia and the recent pickup in remittances to Georgia. In addition, the outlook for investor and household confidence in Georgia remains uncertain, given recent policy uncertainty related to the upcoming constitutional amendments and the renewed ban on foreign ownership of agricultural land.

The authorities are rightly trying to stimulate the major sectors of the economy, including agriculture, hydropower, tourism and transport. However, they are challenged in their efforts by more urgent issues such as reducing high levels of poverty and unemployment and improving the sustainability of the country’s public finances (public debt has more than doubled since the financial crisis, reaching 45 per cent of GDP in 2016). In addition, the weakening of the lari in 2015-16 led to a sharp rise in the external debt/GDP ratio, which increased to an average of 102 per cent in 2015-16, from 85 per cent in 2014.

In addition, Georgia is reliant on high levels of investment and lending to cover its large current-account deficits. If, in the medium term, Georgia sees higher interest rates brought on by a change in investor sentiment vis-à-vis emerging markets, this could potentially lead to external financing problems for the corporate sector and to higher currency volatility.

Given the downside risks ahead, the economy is unlikely to post pre-2008 growth rates in the coming years. However, in the longer term, if Georgia is successful in maintaining its policy credibility and supporting its sectors with growth potential (agriculture, hydropower and tourism), there is room for an investment and export-led growth acceleration.

Maximilien Lambertson is an analyst in the Europe team at the Economist Intelligence Unit

Adjara Group

Adjara Group is a leading Georgian company in hospitality and lifestyle development. The company entered the Georgian hospitality sector by bringing the first international hotel franchise Holiday Inn® to the local market. It soon gained worldwide recognition for its trend-setting establishments and entrepreneurial projects by founding the independent lifestyle hotel brand Rooms Hotels, which quickly emerged as the premier leader of distinctive hospitality experiences in Tbilisi and Kazbegi. The hip Fabrika, also created by Adjara Group, is a youth-oriented, communal-vibe, design hostel bringing new energy to the capital of Tbilisi. The company is soon opening a local luxury hotel Stamba which has already become an esteemed member of Design Hotels and presents many unique features including an exceptional style casino Aviator

www.adjaragroup.com



Georgia: **Leader of Europe's Second Wave**

*Growing economy and increasing political stability make **Bruno Balvanera, the EBRD's director for Caucasus, Moldova and Belarus**, confident that Georgia is heading in the right direction. He met Andrew Wrobel in the Georgian capital, Tbilisi.*

Andrew Wrobel: So Europe's Second Wave?

Bruno Balvanera: Yes, late last year Suma Chakrabarti, the EBRD President, was here in Tbilisi. He said, "Georgia is leading the second wave of countries moving into the western economy." What he meant is that if the first wave comprised the nations of central Europe, like Poland, the Czech Republic and Slovakia, countries which are all now well advanced, then the second wave is those who are trying right now to insert themselves into the market economy. And Georgia is clearly a country that is ahead of the rest.

The EBRD's investments and activities in Georgia are, per capita, amongst the largest of all the countries in which we operate. We have committed around three billion euros for a country of 3.7 million people. So we're talking about 850-900 euros per person. It's one of the highest, if not the highest, in the region.

AW: And where's the money going?

BB: Our activities are divided across all sectors, but I want to highlight in particular the banking sector, where we have really helped the creation of the two largest banks, TBC and Bank of Georgia. We helped them significantly

through the combined crises of 2008, the August war in Georgia and the Lehman Brothers bankruptcy in September.

The banks required rapid capitalisation, and we helped them with that. We have of course been working with other banks, but these are the two largest banks in the country and we have supported them with equity and credit lines to support SMEs, women in business, energy efficiency and, more recently adaptation, of Deep and Comprehensive Free Trade Agreement (DCFTA) standards.

The second big sector is energy, and



Photo: EBRD

we have been supporting many hydro-power plants in the country. Whether they are small, medium or large, we're basically the biggest player in hydro and we have also expanded into wind. We're now moving into solar power as well.

The third key area is dealing directly with major Georgian companies, whether in steel or in retail, or, more recently, in health, pharmacy and hospitals.

Finally, in infrastructure, we have so far perhaps not been as important as other IFIs – such as the ADB or EIB or the World Bank – but we have supported some infrastructure in the area of wastewater, solid waste, and more recently in public transportation. Anyone visiting Tbilisi can see the new blue buses all over the city: these are part of the energy efficiency programme we are working on, part of a wider programme called Green Cities, where we want to adopt more sustainable development of the cities.

AW: It's more than just money though, isn't it? Part of the EBRD's remit is structural.

BB: The Investors' Council, for example, is a platform where we have put together the representatives of the business associations, local and foreign. We have also brought together the key Government ministers, headed by Prime Minister Giorgi Kvirikashvili, and the local representatives of the international financial institutions – including the World Bank, IFC, and Asian Development Bank, and us – and this is a structured way for the private sector to get together to discuss key issues with the public sector.

We have also been very actively involved in energy efficiency, most recently coming up with an Energy Efficiency Action Plan that is going to lay the groundwork for reductions in the consumption of energy. We have been very much involved in agribusiness and agricultural production, focusing on dairy, meat and horticulture. In addition, we have been leading efforts to create a new concession law, the PPP laws and now we're moving towards proposing some different strategies on how to charge for the use of the roads. We have been at the forefront of capital market development, particularly issuing local bonds.

Most recently, we have started to engage on preparing a mining policy for Georgia. There are large copper mines in Georgia that can contribute to the GDP of the country. We are also very supportive of the reform of the judicial

“ There was a very strong consensus in society for reform ”

sector; we have facilitated the establishment of the competition agency, worked public procurement policy; while probably the most creative innovation in this area is Blockchain. Georgia is one of the first countries in the world to use Blockchain technology to register property.

AW: If Georgia is indeed the leader of the Second Wave, what is it that is driving that leadership? What makes Georgia stand out?

BB: I think the most important things are the commitment, the vision and the strategy of the government, and that the government is elected democratically in a transparent way. The current government won a big majority in the last elections. This size of the majority was an endorsement of what the same government did during its first term in office.

For historic reasons, Georgia is more closely linked to Europe, and you can see that in the people. Georgia is clear about its orientation: European and North Atlantic. The country has very strong ties with Europe, very strong ties with the US and clearly has a vision of its future lying very much in that direction.

Georgia has been exposed to several different cultural influences, and has been able to develop its own distinct identity and has chosen its own path. In the 1990s, Georgia, immediately after the collapse of the Soviet Union,

was in trouble. It was basically a failed state. There was no rule of law, not even any electricity. I think this created a lot of unhappiness amongst the population, and at some time they took the opportunity to look for a leader who was ready to say, “We're going to change this.” And he did. He got everybody around him, and there was a very strong determination to clean up, starting with the police. He sacked 40,000 policemen overnight and said, “We may be without police for a while, but we don't want these policemen.” The same thing happened in other areas.

I think there was a very strong consensus in society about where they wanted to go. This is what led to the reform process that started at that time. The current government is now continuing that, creating institutions for the long term. Georgia is a country under construction. Whatever ministry you visit you will see that they are creating the foundations of the future, and the changes are dramatic. It's such an overwhelming agenda of change that you end up feeling a little bit worried that they may have too many things on their plate.

AW: What are the main challenges facing Georgia right now?

BB: First and foremost, skills. At government level, you see a high standard of individuals in top positions, but as you move down the levels in the ministries, you do not always find skilled people, determined to change. So one of the key areas to develop is skills within government, but also in business. I think that what needs to be done is to adapt education and training to focus on what is needed. Not everybody can – or, for the matter, has to – be a lawyer, an engineer or an economist. Georgia, like any other country, needs many different skills and you need to adapt education to meet these needs.

Secondly, this is a small country, and it is difficult to attract a large investor for a country the size of Georgia, with a very low GDP per capita and with a very marginal disposable income. If you think about the market here, it's probably half the size of the market in one of the states in the US. It is a challenging task to attract large companies to such a small market, and the country knows that. That is why the country has

been agreeing free trade facilities with its neighbours and even its extended neighbours. The CIS, the DCFTA with Europe, China, and now India. Georgia is going to have access to all the big markets around the world.

However, you can't have access to these markets if you don't have decent infrastructure. So, the second big challenge is to finish the transportation corridors. You need to finish the East-West Corridor, the South and North Corridor, and you need also to have a chain of warehouses and areas where you can add value to products that are passing through the region.

The third challenge is government. Its agenda is overwhelming, and obviously, it needs to continue improving the investment climate. But more important is governance, and I think that public services need to be transformed to be more user-friendly. Georgia could take this opportunity to become much more high tech, like Estonia or the other Baltic countries, where you can do everything on your computer or your iPad, or phone.

Georgia has the potential to adapt quickly to a service or a technology-based economy. Yes, you need some industry to produce some local goods, but I don't think the size of the market will justify Capex driven investment for steel or cement or glass. Light industry is a better investment.

AW: Do you think there's this potential here for technology-based industries?

BB: I think there is, but it is dependent on training. Not just in skills and technology, but also to instil a more entrepreneurial spirit. You can see some of that already if you take a look around. Hotels like the Rooms Hotels or like Fabrika, or like the Innovation Centre. You can see that the youth is already pushing the boundaries of creativity and is already driving change. I am amazed when I go to these places and see such innovative concepts.

AW: What more needs to be done to boost that entrepreneurial spirit further? Why is it lacking here?

BB: I believe it's cultural. I think that during the Soviet era Georgians understood that the country was a place for others to come to have a rest, to heal,

to go to a sauna, to enjoy good food or good wine or good weather, beautiful landscapes. It was not a country that was meant to produce anything, not in the industrial or innovative sense, so they did not inherit a sense of innovation.

But I see this changing amongst the younger generation. I see a young generation hungry for change. I think we should not underestimate the fact that

“ This is going to be a good year for Georgia ”

Georgians can now travel visa-free to Europe. It is going to enhance communication and let Georgians see what is happening in Europe, and to bring home ideas.

Georgians have a lot of creativity. It's a country with a very deep culture, with arts and crafts, with traditions, and the younger generations are trying to bring that into what they are doing.

AW: Visa-free travel is certainly a real boon, and it works both ways. We see tourism as one of three key areas for growth in Georgia, along with finance and infrastructure. Would you agree?

BB: Last year more than seven million people visited Georgia, and this year there will be even more tourists. It's an area that has been growing significantly. You're talking about 20 to 30 per cent growth per year. These people need places to stay, things to do. They want to eat, drink. There are some real opportunities here, especially for smaller-scale investors and service providers.

As for finance, I don't think that there is a lot of space for much more competition. The market is already competitive. I think it would be difficult for any bank to try to challenge the position

that the two leading banks currently occupy. But the non-banking financial sector is not yet developed and here there is a lot of room for development, in insurance, in leasing, for example. Possibly also in microfinance.

In infrastructure, most of the investment is going to be undertaken by the government because this is not yet ready to go out to the private sector. There is going to be a huge amount of work done between now and 2020. The government is talking about 800 kilometres of new roads, which is a stretch for Georgia. It's a stretch in technology, a stretch in machinery, in building materials, and in terms of the people who will actually build these roads.

AW: Finally, growth. Economic growth. How does the EBRD see that?

BB: We publish our official economic numbers twice a year. We do it in November when we issue the Transition Report, and then when we have our updated figures during the EBRD's annual meeting in April/May.

All the indications so far suggest that this is going to be a good year for Georgia, and that next year is going to be even better. And when I say a good year, that means growth of above 4 per cent. That kind of growth is felt by the population: one which is so eager to see improvement after so many years of sacrifice.



Georgia Still on the World Bank's Mind

As the World Bank racks up 25 years in Georgia, Mercy Tembon, the bank's regional director for the South Caucasus, Europe and Central Asia, tells Andrew Wrobel that her organisation is as committed to the country's future as ever.

Andrew Wrobel: Let's start with the anniversary. What has the World Bank been doing here for the last quarter of a century?

Mercy Tembon: Yes, Georgia, along with the other countries in the region, joined the bank in 1992. Those were very turbulent years for Georgia. It was a difficult time because they had just broken away from the Soviet Union, and Russia. It was a low-income country, a developing country. There was very little infrastructure, and what infrastructure did exist was in a very poor state.

The first thing we did here was to help the country set up all the institutions that they needed to function as a country. The bank's first loan, of 10 million US dollars, was designed to expand the government's capacity to move Georgia to a market economy. Since then, we've made investments of up to 3.4 billion US dollars in this country, money which has gone into infrastructure like roads, energy, water, buildings and housing, agriculture and regional development.

We have also supported Georgia in the social sector: education, health and social protection, given that more than 50 per cent of the population lived below the poverty line when they joined the World Bank. Since then the percentage has fallen significantly to about 20 per cent. It's still high. But it's a dramatic and significant drop in the number of people who are poor. The country has grown from a low-income country with a GDP per capita of less than 400 US dollars, to a GDP per capita of around 3,800 US dollars. It's now a middle-income country.

AW: What are current projects focused on?

MT: We're still investing a great deal in transport. We were the pioneers of financing the East-West Highway and we still have about two or three projects along that particular highway: it is a long route. We build the portions of the road which require many bridges and present other challenges.

We are also involved in energy transmission, making sure it gets from the site of its production to the consumers who need it, via reliable distribution lines.

“ We are working to make sure the law is favourable ”

Then there is irrigation. Agriculture is extremely important in this country and we are supporting Georgia with irrigation networks so that agricultural production can continue all year round. We have the Georgia National Innovation Ecosystem (GENIE) project, which is responding to the needs of the global market. It's a project that is helping increase knowledge, ICT, and providing the skills for people to start their own businesses. This project is fascinating because it's more about technology. It's more about tooling young people, school graduates, to be able to design and then actually launch products in the labour market.

You will have no doubt heard that Georgia welcomed a record number of tourists last year. This is because the government has worked very carefully at revamping the infrastructure in the regions, making the environment conducive for tourist visits. Visitors have somewhere to stay, they have restaurants, they have hotels. Right now, we're doing some work in extending the road in Kazbegi up to the Holy Trinity Church, as well as some other projects. I have been to Telavi and Kakheti and seen for myself just how the communities have changed because of our regional development projects.

As I said, we do not only carry out investments in infrastructure, we also help with policy development, reforms. We've supported the government in carrying out reforms which have improved the business environment.

We are also working on making sure that the law is favourable for investors. And remember that Georgia is an outgoing country. They have free trade agreements with quite a number of countries. Georgia recently concluded new agreements with China, Japan, and Turkey amongst others.

AW: And what of the role of the EU?

MT: Being part of the Deep and Comprehensive Free Trade Area (DCFTA) has opened up markets for Georgia. This is a small country, so integrating itself into the global food chain is the way to go, and they're doing that. We have just undertaken a systematic country diagnosis (SCD). The growth model that the country now has is good, the government just needs to continue doing what it's doing.

Our portfolio is robust because, within the context of development policy operations, we look at the education

Photo: World Bank

sector, universal healthcare, at social protection, and areas in which the public sector really has to have a presence. Of course, the private sector can help build roads and other infrastructure sites, but when it comes to human capital and the social sector of this country, you first need investment from the government which the private sector will complement. And so the government's reforms supported by us have been in this direction. That's the third aspect of our support, in addition to investment loans and development policy: we've also been very, very active in producing knowledge. We've undertaken a number of studies which have served as underpinnings for investment. For example, we just produced an energy policy note which is looking at the investments that Georgia is making in hydro, thermal, and other forms of energy, in order to stratify that investment to see which areas give the best return.

We've also done studies on jobs and skills. Because if you look at one of the issues that came up in the SCD it is that human capital is not quite aligned with the requirements of the job market. There are plenty of university graduates, but they do not always have the skills that today's labour market requires.

I am happy to report, however, that the Ministry of Education and Science understands the need to develop these skills. The labour market today is more about thinking, it's more about designing things, with less need for the labour-intensive activities that we have been used to. Not that Georgia doesn't have these skills, it does, just not always where they are needed. But change is coming.

AW: Circling back to the Doing Business Report, it is clear Georgia is one of the leaders in the region. What do you think Georgia has done to become so much more successful than Armenia, Azerbaijan or even countries like Ukraine or Moldova?

MT: Georgia has distinguished itself from the others because of its reformist tendencies. Let's start with the banking sector, which in this country is very robust. Georgia has a very highly capitalised banking sector, and it has the lowest amount of non-performing loans. Over the past 10 years,





they've put in place policies that have liberalised the economy. Georgia was one of the first countries to float its currency. So when you had all of these regional shifts and shocks, they didn't quite affect Georgia as much as they did the neighbours, stuck on a fixed exchange rate. But Georgia's exchange rate had been liberated, and reforms had been put in place. It is the capacity to change, the political will to pass tough constitutional reforms through parliament, that has put Georgia ahead of the others.

The other aspect that I see in all of this is that success breeds success. The fact that they have opened up, that they allowed foreign direct investors to enter the market: this led to growth. And this growth keeps attracting more investment.

AW: What do you think are the biggest challenges right now, both for the economy and on the political stage?

MT: Besides the mismatch of skills and jobs, which I have touched on, I think one of Georgia's greatest challenges now is its demography. The population is ageing and it's declining. A couple of years ago it was 4 million. Now we're at 3.7 million. It's not so much because of emigration, it's the ageing that is happening within the country, the birthrate is low. That presents many challenges. As people age, their need for social care, healthcare and social protection increases. Georgia has a universal healthcare policy, but the

cost of that is increasing exponentially. Why? Because you need to take care of these people.

AW: From the perspective of foreign investors, is that the only concern or is there anything else that foreign investors should be worried about when it comes to doing business here?

“ The political will to make tough reforms has put Georgia ahead ”

MT: During our discussions with the private sector, when we were doing the SCD, two issues came up. The first was the need for the right kind of skills, which I have already talked about at length. The other issue was making sure that more women get involved in the economy, especially in rural areas. Remember, women represent half of the population. Their active participation in the economy is extremely important. Just getting the numbers up from the female side. Because when women know how to do something, they often do it better than men.

AW: My final question is about the economic growth and the prospects for the years to come. How do you see things?

MT: Our outlook for Georgia is positive. It has gone through some shocks over the past couple of years, but the outlook is great. At present, the economy is growing at 4.5 per cent, which is good. But, remember, before the crisis, growth was almost in double digits. Then the crisis hit and everything went up in smoke. But right now the economy is on an upward trend, and our advice to the government has been to prepare for the shocks, which it knows are coming. These things are cyclical; you better prepare. It makes you more resilient.

Exports are increasing, foreign direct investment is on the up and the private sector is expanding. They are doing everything possible to develop the skills they need. They're integrating into the global economy. They have all the right ingredients in place. All that is left is to maintain prudent macro-fiscal policies and open up the private sector a lot more. Invest where they need to invest and let the private sector take over in the areas where it does things best. Once all of that happens, the future for Georgia is bright.



Interview with the Minister of Finance and Economy

Mamuka Bekhtadze, the Georgian minister of finance, spoke to Andrew Wrobel about prospects for his country's economy.

Andrew Wrobel: If we look at Georgia's economy, a decade ago the growth was truly robust — over 12 per cent in 2007. In 2006, it grew again at 6.2 per cent in 2010 but since then the growth has slowed. In 2018, the forecast is over 4 per cent — better, but there is still a lot of room for improvement?

Mamuka Bekhadze: Well, the growth rate of real GDP is estimated to be at 4.8 per cent in 2017. This is decent, but longer term projections are much more impressive. Our estimate on potential growth is around 5 per cent. The International Monetary Fund (IMF) forecast is 5.5-6 per cent in the medium term, attributed to our very intensive economic reform programme. The IMF also says that Georgia will be the best performing economy in the region, unlike the years 2004-2012, when many of our neighbours were growing faster. At that time we had lowest growth rate in the south Caucasus region.

The most important achievement of our economy growth over last several years is its inclusiveness. Unemployment is on a downward trend and poverty is also falling, unlike in the past, especially between 2004 and 2007. I also want to underline that the quality of economic growth is much better. Economic growth is export driven and the current account deficit is shrinking.

AW: So tell me what has stopped the economy from going back to that robust growth in the last years?

MB: We have to bear in mind that the years between 2014 and 2016 were unfavourable globally, especially 2016 which was the slowest year of growth since the global financial crisis. So this slowdown is attributable to the external environment. Development in the region was very hard. Countries in the

region were experiencing recession or were growing at close to zero rates. In these circumstances 2.8 per cent growth looks quite decent.

We became the leading country in south Caucasus region in GDP per capita terms and also in terms of GDP growth potential in the medium term. As I said earlier, our economic performance is determined significantly by the external sector. Slowdown in the global economy was the main cause of our growth. Besides this, ongoing and planned reforms guarantee less vulnerability and more inclusive growth.

“ Ongoing reforms guarantee more growth ”

AW: How would you like to leverage that going forward?

MB: Our response to these challenges is structural reform. The government has elaborated the Four Point Reform Programme plan aiming at promoting savings, productivity and export growth, diminishing vulnerabilities and guaranteeing more robust, healthy and inclusive economic growth.

The reform programme has been positively assessed by international organisations. The clearest evidence is the new programme with the IMF which was signed in 2017 and saw our credit rating upgraded by Moody's to Ba2. Also, all the international financial

organisations and credit rating agencies underline the importance of our reforms.

AW: We see the situation in Russia has improved, the free trade agreement with the EU is in place, another free trade agreement with China has just come into force. How much will these help?

MB: From 2017 we have been observing a global economic recovery. This pick-up in growth is expected to be trade driven. In these circumstances countries open to international trade will benefit more. Therefore, free trade agreements will be especially important in coming years. Improved access to new markets is important not only for export promotion, but also for attracting more foreign investment. We are a country with a business friendly tax policy and an attractive business climate: we are ranked ninth in the World Bank Ease of Doing Business report.

AW: How do you see the public finances, given that public debt has more than doubled since the financial crisis, close to 45 per cent of GDP in 2016?

MB: These statistics are not fully correct. Our debt is at an affordable level of 43 per cent. The major part of the debt is concessional, making the weighted average interest rate as low as 2 per cent. Our average —over the last 15 years — is around 32 per cent. So 43 per cent is not a very big deviation. We acknowledge, of course, that a big portion of government debt is in foreign currency and therefore we have initiated a comprehensive long-term plan to decrease it. We are planning to gradually switch on domestic debt, which has the double objective of diminishing exchange rate sensitivity, and developing the domestic capital market.

AW: What other challenges do you see on the horizon?

MB: The main challenges for the Georgian economy are the vulnerabilities in the external sector. We are running a high current account deficit, the country's foreign debt is around 95 per cent and the rate of dollarisation is high.

We acknowledge this, and the aim of our reforms package is to address these vulnerabilities. Our reforms are targeted to promote productivity and savings, which will lead to a sustainable reduction of the account deficit. We have already seen significant results. The current account deficit came down to 2.9 per cent in the third quarter of 2017 from 12.8 per cent in 2016.

We have very tangible results in the de-dollarisation process, which began 2017. The dollarisation rate has decreased by about 7-8 percentage

points. This is a very good start, however we know from international experience that de-dollarisation is a long term process.

AW: If we look at the World Investment Report 2017, between 2014 and 2016 the country attracted about 1.6 billion US dollars of FDI on average which is more than the pre-crisis annual average of 1.1 billion US dollars. How dependent on FDI is Georgian economy?

MB: FDI is an important driver of economic growth in emerging countries like Georgia. We have very positive developments in this respect. With a persistently improving business environment in the country we expect strong FDI performance for the coming years. With a decreasing current account deficit, however, our dependence on FDI is small. For us it is not quantity that matters but the quality of FDI. It

is important that FDI is the source of innovation and technology and results in productivity growth and export expansion.

AW: When we look at the emerging Europe countries, Georgia is the leader when it comes to the ease of doing business. What reform would you see necessary to further strengthen the country's position and attract FDI?

MB: Of course, the ninth place we have is very decent but hard to defend. However, with the reforms that we have in the pipeline we are optimistic and we expect to move even further ahead. An automatic VAT credit refund system, and insolvency reform are coming soon, as well as several important reforms that will ease tax administration.



Photo: Ministry of Finance

Georgia's China Factor

 Emil Avdaliani



China has so far not invested as much in Georgia as it has in Central Asia, but with the development of the Belt and Road Initiative, more can be expected.

Georgia has historically been at the edge of empires. This has been both an asset and a hindrance to the development of the country. An asset because Georgia's difficult geography and a distant location from global centres prevented major powers from invading and keeping the country permanently under their rule. Hindrance because Georgia's geography requires major investments to override its mountains, gorges and rivers.

This geographic paradigm has been well in play in shaping Georgia's geopolitical position since the breakup of the Soviet Union in 1991. Ever since, Georgia has been playing a rebalancing

game through turning to other regional powers to counter the resurgent Russia. Turkey, Azerbaijan, Iran – partly – and bigger players such as the EU and the US are those which have their own share of interest in the south Caucasus. However, over the past several years yet another power – China with its still evolving Belt and Road Initiative (BRI) – has been slowly emerging in the South Caucasus.

But despite the fact that China is rapidly increasing its economic presence in Georgia, which ultimately could turn into larger Chinese security involvement, Beijing's investment and interests in the region still lag behind what China has been doing in Central Asia, Pakistan or other regions upon

which the BRI initiative has an impact. Another interesting aspect is Georgia's balancing act, whereby Tbilisi wants to use growing Chinese influence to further balance Moscow's military power. However, here too not everything is that clear-cut, as Moscow and Beijing could also cooperate in the south Caucasus as they currently do in other regions, for example in Central Asia.

China has close trade contacts with all the south Caucasus countries and has invested extensively in the region. Among those relationships the Georgian-Chinese cooperation does indeed stand out but is not a particularly recent phenomenon. After the collapse of the Soviet Union, Chinese immigrants to Georgia were driven by Chinese state-owned investment activities in the region. In the early 2000s, the majority of the migrants were involved in corner shop and market vendors' businesses, as well as restaurants, whereas after 2010, construction workers accounted for the most Chinese migrants.

For Georgia, China is now its third-largest trade partner (the first two places are held by Turkey and Azerbaijan; Russia is fourth). Trade between the two countries has significantly increased over the past 10 years. If in 2002 bilateral trade was a mere 10 million US dollars, in 2014-2015 it reached 823 million US dollars. Moreover, in 2017 China and Georgia finally signed a free trade agreement. The country also hopes that its position at the Black Sea with several ports such as Batumi, Poti and Anaklia will make it a logistics hub for the entire region and particularly for China's BRI initiative.

Within the BRI context

China only recently set its eye on the transit potential of the South Caucasus and its valuable infrastructure. This





interest is largely conditioned by China's BRI initiative, which is a multi-billion-dollar project, according to which the country's east will be reconnected (as in ancient times) to Europe via the shortest distance, be it through southern Russian, Central Asia, or the South Caucasus and the Black Sea (although that is not the only corridor the Chinese are working on).

Georgia can boast Black Sea ports, an east-west highway which essentially connects Azerbaijan and the Black Sea coast and existing and upcoming railway projects (Baku-Tbilisi-Kars). Indeed, from the Chinese perspective the two most valuable projects Beijing is eyeing in the South Caucasus are related to Georgia: 1) The upcoming opening of the Baku-Tbilisi-Kars railroad which will allow 45 per cent faster delivery of containers, freight and passengers from Asia to Europe; 2) Expanding the East-West Highway, Georgia's main land road, in cooperation with the World Bank, the

Asian Development Bank, and other organisations.

China has been testing the South Caucasus route since the announcement of the Belt and Road Initiative in 2013. For example, in 2015 the efficacy of the connection between Xinjiang province in China to the port of Poti in Georgia, via Kazakhstan and Azerbaijan was tested. Railway cargo loaded in China on January 29 arrived in Georgia on February 6 of the same year. However, almost a third of the time in transit was spent handling administrative obstacles. Several other tests too were carried out to prove the possibility of the trade and transit route through the South Caucasus.

However, despite the advantages Georgia has as a transit country there are still numerous questions. It could be said that overall China still remains ambivalent about the Caucasian stretch of the Silk Road. It is true that Beijing is interested in the strategic relevance of the

region, but it nevertheless recognises that commercial engagement remains tentative. The South Caucasus route still remains out of major transit and trade routes China is heavily investing in.

Analysts do forget that the South Caucasus route does not feature much in the following corridors anticipated under the BRI initiative — China to Europe through a New Eurasian Land Bridge; the China-Mongolia-Russian Corridor and the Central and West Asian countries.

The 21st Century Maritime Silk Road mainly relies on Chinese coastal ports: the China-Indochina Peninsula Corridor and China's links with the South Pacific Ocean through the South China Sea; China-Pakistan trade corridor and the Bangladesh-China-India-Myanmar trade route.

Compared to major Chinese-financed infrastructure and energy works completed in Russia, Kazakhstan, and Uzbekistan over the past two years, state-owned Chinese companies have



yet to secure any similar scale projects in the Caucasus region. Indeed, the Chinese are building major road and railway infrastructure in Uzbekistan and are extensively investing in Kazakhstan and Kyrgyzstan. In Georgia, for the moment, Beijing is largely interested in existing and upcoming infrastructure and is investing into construction in Tbilisi, Kutaisi and other major cities.

Possible wider geopolitical ramifications for Georgia

Tbilisi sees intensive relations with China as yet another tool to somehow diminish Russian resurgence. With its pro-Western course maintained the country dearly needs Chinese investment as it will foster the creation of jobs and other economic opportunities. So far the Chinese have built a new city on the outskirts of Tbilisi, have invested in Kutaisi – the second-largest city in the country, and own three quarters of the shares in Poti’s Free Industrial Zone. Although it is difficult to see the importance of investments in Tbilisi and Kutaisi, in-

vestment in Poti is significant. An ordinary observer could see a clear east-west line to the Black Sea dotted with Chinese presence all along the route. Surely it is for the moment difficult to ascertain what Chinese moves will be in the future, but it is also clear that as Russian forces move the demarcation line of the breakaway South Ossetia to the south, closer to the east-west highway, China will be more worried as it endangers its economic interconnection with Europe. Beijing will either have to find a consensus with Russia or get more involved security-wise. And there is already a precedent for China getting involved militarily in the territories important to its BRI project. For example, in Central Asia China has made some steps which potentially could challenge Russia’s economic and political influence in the region. We know that China is already the largest trade partner of each of the Central Asian states and that Beijing has deepened its military and security ties with Tajikistan and partly with Kyrgyzstan mainly by holding military exercises and building military infrastructure on the Tajik-Afghan border.

For Tbilisi it will be a boon to its security if China is more involved in the South Caucasus. However, for the moment it might only be wishful thinking that China will openly confront Russia anytime soon. Even in Central Asia, despite inroads, Moscow still does not openly say that Beijing is compromising the existing order.


Another reason to think that Georgia will not so easily become a place of confrontation between China and Russia is the fact that the country is only a small piece in China’s BRI. Also, although Beijing will pay more attention to the region it may not actively invest resources into Georgian security beyond law enforcement and counterterrorism cooperations, as in Tajikistan and Kyrgyzstan. This would be the case especially if its actions would clash with Russia’s. There are several other transit routes in China’s grand BRI project.

As such the situation for the moment could be characterised as mixed. Beijing is definitely increasing its economic influence in Georgia. However, the level of investment is below that of Chinese investment in Central Asia or Pakistan. Beijing is more interested in existing and upcoming infrastructure, while its relations with Russia are unlikely to be compromised if Russia does not threaten the major East-West highway.

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Georgia Makes Waves With Anaklia Deep Sea Port

 Shakhil Shah

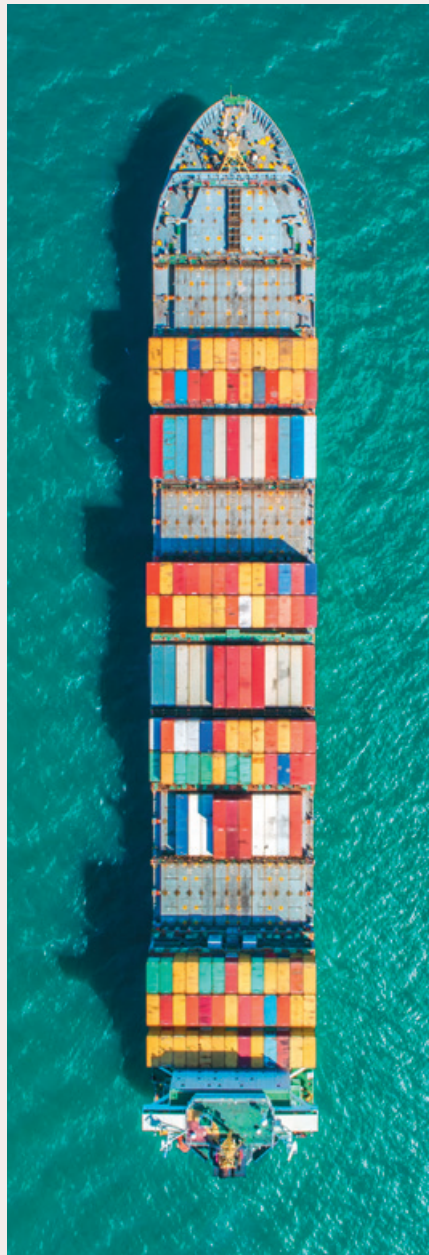
Anaklia Deep Sea Port is the biggest infrastructure investment in Georgia's history. It will consolidate and strengthen the country's position as a transit hub, and boost its own exports.

This is where Europe meets Asia, and that is what matters most. [...] It is here and now that a new Georgia is being born. [...] This place today lays the foundation of a new Georgia,” said Prime Minister Giorgi Kvirikashvili on December 24, 2017, launching construction work on Anaklia Deep-Sea Port.

“Anaklia port is very important for Georgia as it will position the route via the Caucasus on the radar of China and Europe,” Bruno Balvanera, director for the Caucasus, Moldova and Belarus at the European Bank for Reconstruction and Development (EBRD), tells Emerging Europe. “It will attract the further interest of foreign investors to develop a value chain route. It will consolidate Georgia as the logistics centre for the Caucasus. It will also consolidate its ties with both Europe and China as well as its immediate neighbours. All in all, it’s a very strategic project that can be a game changer in the medium term.”

This 2.5 billion US dollar project, the largest in the country’s history, marks the beginning of the country’s transformation from a transit country into a logistics and industrial development hub.

“The Anaklia Deep Sea Port is a long awaited project in Georgia,” Levan Akhvlediani, CEO at the Anaklia Development Consortium (ADC), a consortium of Georgia’s TBC Holding and Conti International — a US-based construction and development company which has been in business since 1906 and runs a number of large scale ventures worldwide. “There have been multiple initiatives and attempts to develop and construct a deep-sea port in Anaklia. However, none of them had been realised until 2016 when the ADC started developing this project.”



The first phase, estimated to cost 540 million US dollars and scheduled for completion within four years, will include construction of a 1.6-kilometre breakwater and a 625-metre quay. By 2021, Georgia is expected to handle 10,000 twenty-foot equivalent unit (TEU) as the port will have a depth of 16m and will be able to accommodate larger vessels. This will be a huge step as currently the Georgian ports can only handle a maximum of 1500 TEU vessels.

“The Anaklia Deep Sea Port will receive its first vessels by 2021 and will fully change the transportation and logistics landscape in Georgia by offering state of the art, reliable infrastructure and competitive costs,” said Ketevan Bochorishvili, CEO at Anaklia City and a former deputy minister of economy. “Complemented by the 3.5 billion US dollars to be spent by the government to upgrade the country’s road and rail infrastructure, Anaklia port will become a key transportation node between western Europe, the Caucasus, central Asia and north-western Iran,” Ms Bochorishvili adds.

In July 2017, the ADC appointed Seattle-headquartered SSA Marine, one of the largest terminal operators in the world, as the operator for Anaklia Deep Sea Port. The company oversees more than 250 strategic operations across five continents, servicing 27.2 million containers and managing terminals in nine different countries.

“We are proud to be a partner in such a promising and ambitious project such as Anaklia Deep Sea Port. A modern deep-sea, all weather port is exactly what Georgia requires to become a true logistics hub,” says Bob Watters, senior vice-president at SSA Marine. “The prospects for cargo growth in Georgia and central Asia

along the Southern Corridor are very exciting.”

“The fact that such a powerful American company as SSA Marine is investing in Georgia is itself a strategic and important precedent for our country,” says Mamuka Khazaradze, founder of the ADC.

The Anaklia Deep-Sea Port might also be an interesting investment opportunity for the Chinese.

“China is now mulling pulling its subsidy support covering 40-50 per cent of the cost of shipping via the Trans-Siberian due to a shortage of capacity on the Russian rail network and incredibly slow train speeds,” states Global Risk Insights’ Belt and Road Initiative report, published in January 2018. “Russia has failed to convince China to commit financing for its modernisation plan for the Trans-Siberian and Baikal-Amur Mainline rail routes, and Russia’s Ministry of Transport is leaning towards ceasing Belt and Road cooperation with China unless financing needs are met by Beijing.”

With this in mind there is additional pressure and potential for increased trade through the Anaklia Deep-Sea Port via the Trans-Caspian Trade route, especially with the recent completion of the Baku-Thilisi-Kars railway. China will be looking at this as a potential

opportunity to increase trade and deliver cargo to Europe as well as other destinations more efficiently. This also explains China’s interest in investing in the port. Shanghai Zhenhua Heavy Industries (ZPMC) has committed to investing 50 million US dollars to the project. They will provide the project with various equipment needed to control a modern container terminal.

At the same time, the Georgian government is counting on a further development of the area around the port.

“This port will offer the populations of both the region and Georgia with opportunities to start their own businesses and brand new endeavours. [...] Thousands of hectares around this port will be developed to house production, warehouses, logistics, and residential areas,” Prime Minister Kvirikashvili said in December 2017.

“The ASC is investing in the development of the hinterland territory to transform it into city-scale special economic zone (SEZ), whose special status is defined in Georgia’s Constitution,” Ms Bochorishvili tells Emerging Europe. “It is to become the regional logistics and business hub. In the frames of the initial stage we plan to develop the logistics and industrial parks within the territory of about 400 hectares, positioned as regional logistics, dis-

tribution and transportation centres. The Anaklia SEZ will become the frontier business centre for international companies to serve the consumer markets of the Caucasus, central Asia and north-western Iran.”

With the development of the SEZ the local economy is expected to experience major growth through the port and all other infrastructural developments that the government have been making in recent years.

Ms Bochorishvili says that the economy will grow based on three major pillars of demand: the demand from newly arrived Anaklia-citizens, the demand from port-related activity, including hinterland transport, and the demand from the special economic zone, which will be a driver for employment generation, export development, foreign direct investment, technology transfer, economy transformation from agriculture to manufacturing, experimental environment for countrywide reforms and maximisation of value addition in Georgia.

“With low labour costs, a business friendly environment, a growing economy, a suitable location, government incentives and favourable living conditions, the SEZ in Anaklia will have a compelling argument to draw foreign companies to Georgia,” she concludes.



Photo: ADC

Georgia's Energy Sector

Levan Pavlenishvili and Norberto Pignatti



Attracting more investment is key to the further development of the Georgian energy sector, and that will require further reform, especially in the electricity market.

The development of Georgia's energy markets over the past several years has been influenced by a number of factors. Relatively mild economic growth (3-5 per cent annual growth in 2013-2016) influenced energy consumption and supply patterns. The main drivers of structural and regulatory changes in Georgia's energy markets were the EU-Georgia Association Agreement signed in June 2014, and Georgia's membership of the European Energy Community, which began in October 2016. These developments will lead to changes in the electricity, natural gas, and crude oil markets, as well as energy efficiency and environmental regulations. Most of these regulatory changes are expected to be implemented by 2023. Furthermore, key EU directives for the electricity market will be implemented by the end of 2018, and for natural gas by the end of 2020.

Focusing on the electricity market, in 2017 Georgia had an 8 per cent growth in total consumption (reaching 11,876 million kWh), with a minor decrease in total generation (reaching 11,531 million kWh - Figure 1). Season-

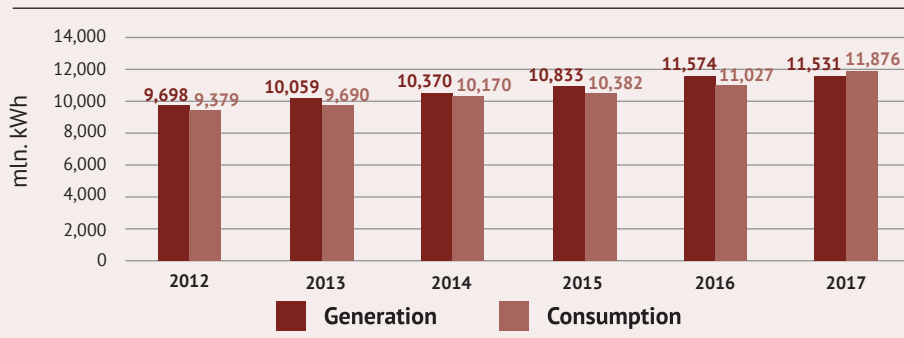
ality in electricity generation remains one of the key challenges for the market. Specifically, due to a large amount of hydro generation (79 per cent of total supply in 2017), and higher electricity demand in winter months, every year there is a gap between generation and consumption from September to April. In 2017, this gap ranged between 66 and 279 million kWh. During this period, the primary sources of electricity imports for Georgia (Georgia imported 1,497 million kWh in 2017) are Azerbaijan and Russia. In contrast, most of Georgia's electricity exports (in 2017 Georgia exported 686 million kWh) go to Turkey, Armenia and Russia. In 2017, electricity import prices varied between 5.2¢/kWh and 3.5 ¢/kWh, while export prices were between 4.5¢/kWh and 1.1¢/kWh. Interestingly, since February 2016, Georgia started playing an active role as a regional electricity hub, transiting electricity from Azerbaijan to Turkey, Russia to Armenia and Russia to Turkey. In 2017 Georgia transited (254 million kWh) less than a third of 2016's transit capacity (850 million kWh).

Since 2012, 23 new power plants have been brought into operation,

with 777 MW of installed capacity; not yet enough to cover the country's consumption-generation gap. Most of these investments were based on power purchase agreements between generators and state-owned market operators. An International Monetary Fund mission in 2015 highlighted these government guarantees as potential 'fiscal risks' for the country. Attracting more investment in generation remains vital for Georgia. One possible way to increase the attractiveness of the Georgian electricity sector to foreign investors lies in reforming its electricity market. The upcoming market reforms associated with the implementation of the Association Agreement with the EU (for example, unbundling vertically integrated electricity distributors and generators) are expected to help create a competitive electricity market, and hopefully will attract more investments in power generation.

In 2017, the Georgian National Energy and Water Supply Regulatory Commission (GNERC) recalculated new tariffs for all retailers operating in the natural gas market. Natural gas tariffs increased for most regulated retail customers in July 2017. As for unregulated retail customers (some households and businesses), tariffs are set by the retailers themselves. This is frequently one of the reasons for cross-subsidisation between customer groups, which is one of the most challenging aspects of Georgia's natural gas market. This type of structural problem is expected to be resolved by the end of 2020, when Georgia will implement EU directives on natural gas market regulations. Furthermore, in 2016, Georgia signed an agreement with Russian giant Gazprom, setting new conditions for natural gas transit. Instead of receiving a share of transited natural gas, Georgia will receive a monetary payment for the transit service. This creates an

Figure 1: Electricity generation and consumption



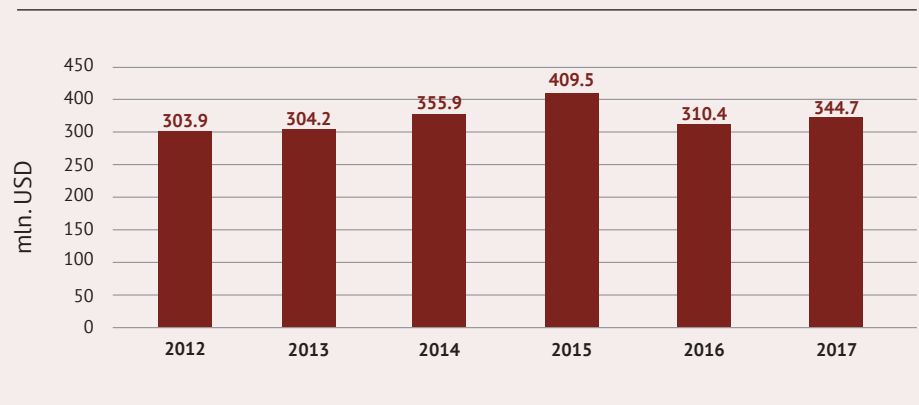
Source: Electricity System Commercial Operator

expectation that from 2018, when the agreement goes into full force, Georgia will start importing all its natural gas from Azerbaijan. In 2017, Georgia imported natural gas worth 345 million US dollars; that is, 11 per cent more than the year before (Figure 2).

Another important challenge for Georgia's natural gas sector in the coming years remains the diversification of suppliers. Some of the positive changes in this direction are: (i) the development of Shah Deniz 2 Field in Azerbaijan, and (ii) the extension of the South Caucasus pipeline under the Southern Corridor project supplying natural gas from Azerbaijan to Europe through Georgia. Some new possibilities, such as the development of the Trans-Caspian pipeline might emerge, potentially creating alternative import sources.

Levan Pavlenishvili is a senior researcher at the Energy and Environment Policy Research Centre and Norberto Pignatti is Centre's head.

Figure 2: Natural Gas Imports



Source: Geostat



The Lady of the Fields

“There is no shame in being a farmer,” says Nino Zambakhidze, the CEO of the Georgian Farmers’ Association (GFA). Georgia’s Young Global Leader for 2017, named by the World Economic Forum and honourable country coordinator of the US State Department’s Invest for the Future Programme, empowering women entrepreneurs and business owners across Europe and Eurasia, she talks to Andrew Wrobel about the potential of Georgian agriculture and the need to invest in young farmers.

With her businesses, the association, and her television show, Nino Zambakhidze is a busy woman. She’s forced to cancel on me when we first set up a meeting during my stay in Tbilisi. Fortunately, we manage to catch up before my departure and schedule a follow-up when she’s in the UK a few weeks later, to speak about women’s economic empowerment.

Her story is both eccentric and inspiring.

“I had a business partner in my tea and coffee business, which I still own. He got drunk and called me to announce that he wanted to buy two cows. Two weeks earlier, my two boys had suffered from food poisoning be-

cause of dairy products they had consumed and my mother was drilling the idea into my brain to find a good cow that can produce milk for my family. So without much thinking, I agreed, and that’s how I got involved in farming.”

Nino is now the owner of a cheese factory, a 100-milking-cow farm, an apple orchard, a cold storage facility, an artificial lake and a training centre for farmers.

“I need to tell you a secret: I hate dairy products,” she almost whispers. Is it an obstacle for her to make farming her passion? Clearly not. She also overcame quite a few challenges when she needed a loan and the bank asked her to come back with her husband to prove she was able to pay it off.

“I am proud to call myself a farmer. I am a farmer who moved from a city to the village, and one of the biggest

farmers in the country. When I did that I quickly realised that farmers faced a lot of challenges that they could not solve themselves. There were three of us and in 2012, we decided to set up the Georgian Farmers’ Association. Right now we’re uniting 4,000 members all over Georgia, all business-oriented.”

They first started by advocating for farmers’ rights and linking them to the market, but these were not as challenging as the stereotypes were.

“Farmers were ashamed of being farmers. After the collapse of the Soviet Union, young people tried to hide the fact that their parents and grandparents were farmers. They didn’t want to be called peasants, which historically refers to people with hardly any education living in villages. We had to destroy that stereotype.”

So the term ‘farmer’ was reinvented, by explaining to people that farmers were patriots who fed every single person and that they should be proud of doing so. Migration from villages to cities was another challenge. With the help of donor organisations, they started the GFA Junior programme.

“We created a mobile application for them, Agronavti, which provided them with all possible information about where they could sell their products online, market research and sectoral news.”

They had also promised to help them find sustainable buyers.

“We reached out to Adjara Group Hospitality – the biggest hotel chain in the country – and they agreed. They said that in the hospitality business quality and artisan food is a critical element and they also help them understand how to achieve that good quality.”

This has helped farmers not only to sell but also to acquire funding in order to develop, because their busi-



Photo: Nino Zambakhidze

Photo: Nino Zambakhidze



nesses were more transparent — they eventually had bank accounts and a credit score.

“We’ve now contracted around 300 farmers and as Adjara Group expands their hotels, we’ll increase the number of contracts.”

Over the years, the association has grown exponentially but there is still room for growth. According to estimates, there are about 800,000 farmers in Georgia, about 47 per cent of the entire rural population, contributing 9 per cent of the country’s economy.

“Following the collapse of the USSR, most people in Georgia received small plots of land from the then president of Georgia, Eduard Shevardnadze. Most farmers become so not because they wanted to be farmers and peasants but because they were forced to do so. This

has to change. What is now needed is rural development. Then those small-scale farmers, or just households with a small plot of land, will be able to switch to different activities.”

In February 2017, in the framework of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), the EU launched a new phase of training programme for managers and members of agricultural cooperatives.

“We have very good, successful outcomes - and a few failures too - but I think that there is development of business-oriented and smart climate agriculture through those agricultural cooperatives. We have a huge challenge in terms of education. That’s missing because after 20 years of stagnation a qualified agronomist or veterinarian is

very hard to find. Another challenge is road infrastructure, while yet another is flexible insurance, as hardly anything now is insured. Finally, access to finance needs to improve. To the banks we are still high-risk clients, especially people living in villages.”

But challenges are Nino’s speciality. Now a renowned business woman, she was penniless two decades ago after her first jeans business had failed and she still had to pay back the 20,000 US dollar loan she had taken in the United States. Then, in her early twenties, she promised she’d never start her own business ever again. Georgian farmers are happy she changed her mind.

Georgia's Tourist Boom: Ready or Not?

 Craig Turp

More than 8 million people will visit Georgia this year, making tourism one of the largest sectors of the economy. Making sure that as many Georgians as possible benefit from the tourism boom is crucial.

It was the high heels which first aroused suspicion. Most tour guides in my experience eschew them: they are not conducive to long hours of walking from cathedral to café, museum to monument, often over cobbles and up endless flights of stairs.

The large black Mercedes— complete with tinted windows — to which the young lady in the high heels led me confirmed what I had begun to suspect. This would be no walking tour of Tbilisi. We would be seeing the Georgian capital from the back of a car.

That was 10 years ago. A tour of Tbilisi had been arranged for me by the city council, which was proudly

launching its new urban brand: The City That Loves You — a slogan which evolved over the years to become today's City Full of Life. Truth is, there simply weren't many visitors to Tbilisi — or to Georgia as a whole — a decade ago. And those who did venture this far were often business people with little time, who wanted just what I had been provided with: a whistle-stop tour of the capital complete with elegant companion.

Georgian tourism first took off in 2012, jumping from 2.8 million visitors to 4.4 million in the space of 12 months. But it was 2017 which really placed the country on the map: more than 7.5 million people visited Geor-

gia, an increase of 18 per cent on 2016. The number of visitors from Western Europe increased by almost 30 per cent.

“Yes, Georgia is a relatively new travel destination for western European tourists,” says Rusudan Mamatsashvili, the impressive young deputy head of the Georgian National Tourism Association (GNTA). “We are focusing on this market more and more, and have seen considerable growth from several important countries, such as Germany, the Netherlands and France with overall numbers from western Europe increasing 28 per cent this year.”

“The total income from international tourism amounted to about 2.7





billion US dollars in 2017,” adds Giorgi Chogovadze, boss of the GNTA. “We have even greater expectations for this year. We expect more than 8 million international visitors to arrive, spending over 3 billion US dollars.”

An increase in the number of flights serving Georgia’s two main airports, at Tbilisi and Kutaisi, has helped. But whereas Tbilisi International has benefited from highly visible investment in recent years, Kutaisi retains a rather provincial feel. “It’s awful,” said one Italian visitor I spoke to in December. “There is nothing to do. Nowhere to eat, nowhere to drink, and the shuttle buses to and from Tbilisi are small, filled with smoke and almost certainly highly dangerous.” Fortunately, a new terminal is planned to open in 2020, which will be served by direct trains from Tbilisi.

It is at Kutaisi that Wizz Air, Emerging Europe’s largest airline, has based itself. The Hungarian company now serves 19 destinations from Kutaisi – capacity expanded by 77 per cent in

2017 - and plans to add more routes in 2018. From May it will fly to Barcelona, Paris, Prague and Rome. Flag carrier Georgian Airways – based in Tbilisi – will also be adding a number of routes this year, including Barcelona, Berlin, Brussels, Cologne and Paris. Altogether, Georgia’s three international airports – the third is on the Black Sea coast at Batumi – served 4.03 passengers in 2017, an increase of 43 per cent on the previous year.

News network CNN has hailed Tbilisi as “an almost overnight must-see destination, the city increasingly becoming one of the world’s most coveted hubs for fashion, arts and creativity.” But there is far more to Georgia than Tbilisi. In fact, those in the know insist that the best of Georgia is to be found outside the capital. “There’s Ushguli, a community of four villages located at the head of the Enguri gorge in Svaneti. Recognised as the Upper Svaneti UNESCO World Heritage Site, Ushguli is one of the highest continuously inhabited settlements in Europe,”

says Rusudan Mamatsashvili “and don’t forget Tusheti - the most picturesque and mesmerising region of the country, tucked away at the foothills of the Caucasus Mountains.”

Ms Mamatsashvili is keen to underline the opportunities tourism can offer to many of these remote and rural communities in Georgia. “The country’s relatively small size and strong historical ties with agriculture mean that the development of rural, agro and eco-tourism is highly beneficial. Overall, I strongly believe that a number of regions in Georgia can become highly competitive offering exactly this kind of holiday.”

Private enterprise has not been slow to seize upon these opportunities. Nino Kvernadze is project manager at the environmentally-conscious Adjara Group, which currently operates four hotels across Georgia, including one at Stepantsminda, about a dozen kilometres from the Russian border and the Kazbegi National Park.

“Our main focus isn’t the quanti-



ty of tourists but the quality of each person's stay. We want people to visit Georgia for our hospitality, culture, traditions, history, various beautiful sites and of course food and wine," said Ms Kvernadze, who has worked hard to cultivate productive relationships with local farmers.

"We are very proud of our partnership with the Georgian Farmers' Association," she tells Emerging Europe. "We don't just strive to deliver the highest quality of food and service to our guests, but we also work rigorously behind the scenes to ensure our food and wine is grown and produced by local farmers. By working alongside the Farmers' Association, we provide a consistent demand for locally grown produce. We believe the most important aspect of farming is supporting it. We want to aid continuous growth in quantity, quality and consistency. We encourage our chefs to discover local produce and to incorporate it into our

restaurants' menus. Within our restaurants we look to recognise individual farmers who contribute to the various dishes served, by providing quality produce. Cuisine is a high driver in modern tourism and by improving the quality of food and wine served, it will benefit not only our business, but the local community as well. By supporting farming, we hope to encourage other establishments within the Georgian hospitality industry to join us and help develop local agriculture."

One of Adjara's next projects will be a property in Gudauri, Georgia's leading ski resort (indeed, we named it Emerging Europe's best ski resort in December 2017). Georgians have been skiing here for decades, but, with a few exceptions - it has only recently fallen onto the radar of international skiers, not least as it offers one of Europe's cheapest lift passes: just over 50 US dollars for a week on the slopes.

One of those exceptions is Marc

Openshaw, a former British ski instructor who has skied in more than 30 countries across the world. "It was in either 1988 or 1989 that I first heard of Gudauri," he tells Emerging Europe. "I used to avidly wait for the release of the new season's ski holiday brochures, and one year in the UK the big story was that skiing was now possible in the Soviet Union. The resort was Gudauri - I think they had just built the first gondola lift. It was exciting, so I went, and remember heli-skiing out of a specially-chartered Red Army helicopter. Unfortunately, few others ventured that far, and by the next year Gudauri had gone from the brochures, as quickly as it had appeared."

The resort has developed since then, but according to Piotrek Rzaça, a Polish investor who runs a hostel in the resort, more needs to be done.

"It's a great resort," he says, "but there are some problems. There is little common infrastructure, no ski bus, and maintenance of the slopes is not the best. There is also very little apres ski. But the resort is still developing, and next year new lifts and another 20 kilometres of pistes will open."

As a foreigner who invested in Georgian tourism - he also runs a hostel in Tbilisi and publishes maps to the city - Mr Rzaça has witnessed great changes since arriving in 2011.

"What brought me here initially was curiosity, as well as freedom and flexibility," he says. "I soon discovered that Georgia is a very easy place to do business."


As for the increase in visitor numbers, Mr Rzaça says it is "highly visible."

"Georgia is diverse by nature, friendly to tourists and safe. There is a lot to see. Sometimes, however, I do get the impression that Georgia isn't fully ready for so many tourists."

Ready or not, what Georgia can guarantee is a warm welcome. "I have yet to meet a person who didn't enjoy their trip to Georgia," says Nino Kvernadze. "Visitors can't get enough of the country and want to come back for more. Georgians are very hospitable people so we make sure our guests have the best time and get to fully experience our country. There are still so many people that haven't had the pleasure of discovering Georgia, but in some way that just makes it an even more exotic place to travel."



Tourism: Driving Real Estate Growth

 Shakhil Shah

The increasing number of tourists visiting Georgia need places to stay. That is creating a boom in real estate development, especially hotels.

The recent boom in the hospitality and real estate sector in Georgia has been attributed to the investments made by multinational companies across the country, and in particular to areas where tourism once flourished, sparking a revival in these regions. Tourism throughout Georgia has boomed over the past 18 months, something we look at in depth on page 86.

“Borjomi — a historical destination for the entire Soviet Union had been long forgotten,” said Leah Rusia Beselidze, head of valuation and advisory at Cushman and Wakefield Georgia. “There was nothing there, no hotels, only guest houses, family hotels, hostels, and families renting out their apartments. When Rixos Borjomi opened in 2015, development really accelerated only a year and a half or two years later — the Crowne Plaza and the Golden Tulip opened. The locals are now converting their family houses and homes into guest houses, which are better served and better facilitated.”

A lot of the developments like those mentioned by Mrs Beselidze are made possible by the incentives and support that the Georgian government have in place. Programmes such as the JSC Partnership Fund (PF), Georgian Co-investment Fund (GCF) and Free Tourism Zones.

The Tsinandali Radisson Project in the Kakheti region is another project carried out in partnership with PF, which has had a domino effect on development in neighbouring Telavi. Following on from what has happened in Borjomi, the Golden Tulip also began construction of a hotel in Tsinandali.

“Telavi had been interesting previously as well with all the chateaus, and Lopota, for example, when Lopota started off, it had only 17 rooms. Now, they have over a hundred, and they are continuing to expand. The fact is that it only takes one well-thought investment into a new region, and then others follow very quickly,” Mrs Beselidze adds.

Cushman and Wakefield are expecting the same trend to follow into Abastu-

mani and across Georgia as a whole. All that is really needed to drive investments further is a well-thought out plan and potential risk investing in an area where at present nothing exists. However, at the end of the day those risks paid off as more people and companies are investing in those areas.

Whilst there have been many developments of luxury hotels in Georgia, Rusudan Mamatsashvili, first deputy head of the Georgian National Tourism Administration believes that there are great investment opportunities for budget – three, three and a half star hotels, as it is less saturated with key development locations being in Tbilisi, Kutaisi, and Batumi. She also added that over 200 new accommodation units have opened (or will open) in Georgia in 2017 and 2018 across the full spectrum of luxury, boutique, budget and hostels.

“Regions of Georgia are becoming highly popular destinations as well, exposing a segment for quality and good value accommodation needs. We have



also witnessed an expansion of chain hotels, with Holiday Inn and Radisson planning to open hotels in the Kakheti region, Crown Plaza is already present in Borjomi and Best Western having several projects in the pipeline,” says Ms Mamatsashvili.

Cushman and Wakefield’s Mrs Beselidze says that they have seen an increase in the number of requests and visibility studies in the three and four star hotel segment. Quite a few of these projects are already being developed and some completed.

“We just had Ibis open near Freedom Square, with another in the pipeline. We have two Ramada hotels. We have a Moxy hotel being built, the three-star segment is also coming on really quickly,” Mrs Beselidze adds.

One other area that requires further development when it comes to hospitality is creating better conference facilities, and as such new build hotels are taking advantage of the lack of conference facilities to attract the Meetings, Incentives, Conferencing, and Exhibition (MICE) segment.

“A number of new upscale hotels are being planned and implemented with larger than usual conference, meeting and banqueting facilities. The reason behind this is the increased demand evident in recent years. Numerous international public and private events have been deferred to unusual facilities due to the lack of supply. As an example the EBRD Annual Meeting and Business Forum as well as the Belt and Road Forum had been previously held in the Parliament building, because of non-existence of the venue in 2015. In 2017, however, the Belt and Road Forum was hosted by the recently opened Biltmore, Mrs Beselidze tells Emerging Europe.

According to Mrs Beselidze, there is another untapped market developing in Georgia, that being the hostel market: only 10.8 per cent of the entire hospitality market is hostel-based. Millennials would be the ideal target market, as they travel more than any other generation. A great example of targeting and developing around this client base can be seen at Fabrika Hostel.

“Basically, a majority have tapped into this and they have supplied Fabrika Hostel, which is not only a hostel with great amenities and services, but also something local and something special, sought after by any visitor. Basically anyone, for leisure, pleasure, or for business. This is an example of a well thought out product that you would deliver on to the market. That would be the niche that we would

be looking at now and expecting to be developing in the nearest future,” says Mrs Beselidze.

This is another area where there is potential for investment and development. According to Mrs Beselidze, Georgia suffered from a lack of office space. However, in recent years there have been a few developments in Tbilisi, such as the King David Business Centre which has 10,000 square metres, a second development on Freedom Square (offering 5,000 square metres of space) and a new build set to be completed in 2018, Axis Towers (twin towers), offering 15,000 square metres each. Unfortunately, even with these new builds, prices are still quite high.

“It’s expensive, quite expensive. Any classes, what we had, tended to be expensive because there was a lack of them. Now we have a huge supply coming online and people don’t want to spend on it. We would project that the rents in A-class spaces would go on a downward trend for a while and then stabilise at a reasonable price,” Mrs Beselidze says.

The classifications and pricing of these office spaces has been largely exaggerated as there was no demand for them in the past. However due to the influx of international organisations as well as the strict regulations for diplomatic offices, class A buildings had to be constructed, the high pricing at present is due to the fact that there has been increasing demand with little availability of such space. At present prices are still high, 25 to 30 US dollars per square metre plus service charges and VAT.

Mrs Beselidze says that things are now returning to a state or normalcy according to her, “the highest price should be 25 US dollars per square metre.” However, in her opinion she would not recommend investing in business centres, as the capital needed is high and very risky.

With the Ministry of Economy and Sustainable Development having started promoting Georgia as an outsourcing destination, the demand for quality office space might soon grow.



Sustainable Rooms

Andrew Wrobel meets **Valeri Chekheria**, one of Georgia’s most forward-thinking **entrepreneurs**, whose hospitality group is making changes to a number of industries, not merely travel and tourism.

When I first entered the Rooms Hotel in Tbilisi, I wasn’t sure I was actually in a hotel — an old fireplace, worn-out, cosy and comfortable sofas surrounded by large bookshelves and a table full of books and a beautiful orangery behind a glass wall. I sat down, looked around, grabbed and flicked through one of the books which were lying on the table: Ivan Doig’s *The House of Sky: Landscapes of a Western Mind* while waiting for Valeri Chekheria, the CEO of Adjara Group Hospitality (AGH).

In his memoir, Mr Doig writes of his adolescence in the rugged rims of the Rocky Mountains in the US state of Montana, but his story has a universal meaning of an inextricable connection between the land we come from, us, our values and our future decisions.

Valeri was born in Tbilisi, in 1980. In late 2008, after the fall of Lehman Brothers, he found himself working

in investment banking in New York having graduated from Columbia University.

“It wasn’t clear how the financial crisis would affect travel and hospitality, but we were seeing some po-

then, in 2008, I randomly met Teimuraz Ugulava, who had his own funds — and a loan — and wanted to invest in hotels back home in Georgia.”

A challenging choice

That quickly became reality and in 2009, soon after the Georgian-Russian war, Valeri and Teimuraz opened a Holiday Inn hotel in Tbilisi.

“We really wanted to have our own brand in order to tell Georgia’s unique story, but we knew that people who were coming to Georgia needed an established brand that they could trust. So we decided to do that and put a lot of emphasis on service. We combined international standards with quality experience and service, which gave us trust.”

And the confidence to start their own brand. The second project was not, however, an easy one. It was ambitious and risky. Not only did they create a new brand but also chose a challenging location — an existing building in Stepantsminda, about a dozen kilometres from the Russian border and the Kazbegi National Park.

“I remember the day we arrived there having taken the traditional Caucasus military route. The old Soviet sanatorium was completely destroyed but it was surrounded by unbelievable nature, which was the soul of the place, and we had this amazing 5000-metre high mountain in front of us. We kept the structure but we built it anew. We used lots of wood and all the design is based on the traditional materials historically used in Georgian houses. It’s rustic, and it’s not meant to be super comfortable because you don’t build a super comfortable place in the middle of nowhere. We wanted every guest that stays with us to experience what Kazbegi is like.”

It took Valeri two years to complete the 156-room hotel, and once launched in 2012 the AGH project triggered more public and private investment in both

“ At Rooms, I wasn’t sure that I was actually in a hotel ”

tential in the industry,” he tells me. “I love travelling myself. I love hotels and restaurants. I love food and wine. This has always been my passion. Back



Photo: AGH



Photo: AGH



hospitality — new small hotels and restaurants as well as sewage and road infrastructure which mobilised the community.

“We trained and offered jobs to the locals. It wasn’t easy as the mountain people had their own mindset but the young generation was more open. We also asked the locals to produce organic agricultural products and promised to buy them. Khinkali dumplings are the most traditional Kazbegi dish and when we opened the hotel, the vast majority of restaurant guests ordered them. But we quickly changed our minds and stopped serving them, thereby motivating the locals to set up their own shops and sell them to our guests. Cooking khinkali is in their genes and we felt responsible for developing the village.”

Setting a new trend

Back in the capital, the success

of the first Rooms Hotel made Valeri think of opening another. This time they chose an old printing house, where the Soviet *Komunisti* newspaper was published and again, this time in a 135-room facility, they merged Georgian traditions with the demands of a modern traveller.

Currently, the daily occupancy rate in both Rooms hotels ranges from 76 per cent in Kazbegi to 90 per cent in Tbilisi. The average daily price amounts to some 115 US dollars in Kazbegi and 156 US dollars in the country’s capital. But Valeri is aware that not all travellers, especially the young, can afford that so he has come up with a different option for them.

“Fabrika, which used to be a textile factory is known as the place of happiness, and is our latest project which we believe has enormous potential going forward. Young Georgians need more contacts with their international peers and we see that without developing our

nation, our new generation, it will be impossible to do business. That is one of the reasons why we set up this affordable space where they get a bunk bed for 10 US dollars. With an enormous courtyard, various cafes, restaurants and concept stores and a co-working space we have also created an experience for our domestic and international young guests,” Valeri says.

A year after the launch, the 390-bed facility, which runs its own smartphone app helping people make friends before they even arrive, has an average occupancy of 62 per cent.

“We don’t really see that much potential for five-star hotels in this country. I see more Fabrikas. I see more three- and four-star facilities which are of interest to travellers who come to Georgia to discover the country.”

In Tbilisi, Valeri has another venue which he wants to transform into a hotel, just around the corner from the Rooms Hotel. The Stamba Hotel will

have 160 rooms, an amphitheatre, conference facilities, an art gallery, cafes and a chocolaterie and restaurant run by a three Michelin-star chef, Eneko Atxa from Bilbao, Spain.

In the pipeline is a Rooms hotel in Batumi on the Black Sea close to the botanical garden, and a family ski resort at Bakuriani Mitarbi, halfway between Tbilisi and Batumi.

“There might be one more hotel in Tbilisi, where I would like to have a large public space, an independent cinema and an area where we could showcase fantastic Georgian fashion,” Valeri adds

When I ask him how many Rooms Hotels there might be in the future he

smirks and says that one day he'd like to have hotels in European cities such as Lisbon and Berlin, but his biggest dream is to have one in Abkhazia, a disputed territory on the Black Sea, claimed by Georgia.

It's all about sharing

“Abkhazia is a real diamond, completely untouched for the last two decades and I would love to have a Rooms Hotel there within 10 years or so. In the meantime, we have an agricultural project. We already have 500 hectares of almond trees in the wine region of Kakheti, but our ambitious plan is to have 3000

hectares. We will also have a farm where we will also produce our wine. We're going to open the first part in the next year already. I believe that without the growing and developing our food and wine, it's impossible to do more in the hospitality sector in Georgia,” Valeri says.

In the summer season, the food served in restaurants was high quality as it came from organic Georgian farmers. In the winter, however, fruit and vegetables were mainly imported and the same dishes tasted different.

“We realised that without helping local farmers this wouldn't improve. We are educating them about quality and supporting them by buying their pro-



Photo: AGH

duce. We needed consistency in quality. We invested in cold storage and we have been working on that project for three years. It is starting to work. We have a huge list of farmers now and our tomatoes are of great quality throughout the year. I believe that doing business is all about sharing, and when as a business you share it makes you stronger and makes your business more sustainable.”

And the entire hospitality sector with it. In 2011, 2.8 million international tourists came to Georgia. Between January and September 2017, the number exceeded 5.8 million, which is almost as many as the whole of 2016. For years Georgia has been synonymous with a culture of hospitality and warmth, where visitors are said to be “gifts from God.”

In his memoir, Ivan Doig writes: “It

is said it takes a good storyteller to turn ears into eyes, but luckily life itself sometimes performs that trick on us.”

“Georgia is a great story to tell. I came back to Georgia to give back what I had received and learned from my country,” Valeri concludes.



Photo: AGH


G C F

**GEORGIAN CO-INVESTMENT
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Unlocking Georgia to the world



Homeland of Ancient Wine

 Tamara Karelidze

Recent archaeological finds suggest that Georgia may be home to the earliest example of grape-growing, winemaking culture anywhere in the world.

Late in 2017 earthenware jugs were found 30 miles south of Tbilisi, capital of Georgia. Researchers later announced that fragments of the jugs, 8000 years old, contained images of grapes and dancing men: signs of wine. This is now claimed to be the earliest evidence of a grape-growing, winemaking culture anywhere in the world.

Winemaking in earthenware vessels (qvevri) is an ancient Georgian tradition. The method has been recognised by UNESCO since 2013. A lot of Georgian winemakers use the qvevri method, especially in the Kakheti region, which can be said to be the homeland of Georgian wine.

The popularity of Georgian wine is increasing year by year and can now be found in stores the world over: the US, the EU, China, Japan. According to the Georgian Wine Agency, 2017 was a record year for wine export. More than 76.7 million bottles of wine were exported to 53 countries, an increase of 54 per cent compared to 2016.

“Today, the average price of Georgian wine is 2.27 US dollars per bottle,” says Giorgi Samanishvili, head of the National Wine Agency. “Our goal is to increase it to more than 3 US dollars. To achieve this we have created highly effective quality control systems. All exported wine passes through a certification process. Through private companies we have maintained quality but increased exports,” Mr Samanishvili told Emerging Europe that he believes the main priorities of 2018 are “to improve quality and find new markets.”

Work to increase the quality of Georgian wine started around 2006. At that time the Russian market was closed to Georgian products, and the number of small and medium-size wineries on the Georgian market began to increase. They started making



natural, high-quality wine and exported it to EU and Asian markets at a high price. Today, these often family-owned wineries account for about 3 per cent of all Georgian wine production, and they have a significant role in growing the popularity of Georgian wine around the world.

One of the winemakers is Iago Bitarishvili. He produces about 5000 bottles of dry white wine, called Chardakhi, each year. Almost 100 per cent of his wine goes for export, to 11 countries.

“Wine is not only business. I love what I am doing,” Mr Bitarishvili told Emerging Europe. “As a painter is concentrated on the quality of painting and not quantity, and feels pleasure in the process of creating, winemaking is the same for me. We produce a limited amount of only the highest quality wine. That’s why the Italians call us natural winemakers guerrillas.”

The technology of natural winemaking is ancient. The winemakers pay significant attention to the vineyard and grapes, which should be organic. According to Iago Bitarishvili, the philosophy of natural winemaking means that there should be minimal chemical and technological intervention during the process.

“The only thing we use in wine production is wild yeast,” said Zurab Mgvdliashvili, founder of Nikalas Marani. “There are risks involved because there are times when challenges appear in the process. However, we refuse to use chemical and technological interventions, such as wine acid, tannins or other substances. The only thing we allow is a minimal amount of sulphur.” Mr Mgvdliashvili started wine production in 2013 and produces around 2000-5000 bottles of wine. Part of it is sold on the local market, and some is exported to the EU, Japan and the US. His best-selling wines are Sapheravi, Kisi and Mtsvane. Like Iago Bitarishvili, Mr Mgvdliashvili

does not see any need to considerably increase the amount of wine he produces.

“In general, the bestselling Georgian wines are Sapheravi, Mukuzani and Kindzmarauli (all red wines). The dry red wine is the most popular in Asia, while Europeans love dry whites. In the US the favourites are earthenware vessel wines, while in the post-Soviet countries they prefer semi-sweet wines,” said Giorgi Samanishvili.

Wine plays a significant role in Georgian tourism. The project Wine Route began in 2011 and brought tourists to the wineries of Georgia. Lots of small and medium-sized wineries now host local or foreign tourists. One of the most popular wineries is Iago Winery Chardakhi, around 35 kilometres from Tbilisi. Iago Bitarishvili says that last year was the busiest ever for his winery. So much so that the wine ran out, and he could not manage to export to three countries where demand was high.

It is worth mentioning that one of the most significant drivers of growth

in the Georgian wine industry is the Wine Festival, which began in 2010 and takes place every second Saturday of May in Tbilisi. Mr Bitarishvili is one of the founders of the festival and says that the event provides optimism to small and medium-sized wineries, who can connect with current and future customers.

Foreign tourists also play a prominent role in the popularity of Georgian wine. Some of them already know about local wine before arriving, while many try it for the first time while they are in the country. Besides wineries, part of the enotourism boom has been in wine bars. The first opened in 2011 and the number of natural wine bars is increasing every year. The bars are favourites not only among foreign tourists but increasingly with locals as well. Giorgi Samanishvili believes that cultivating a wine drinking culture is crucial.

“It is worth remembering that consumption of wine on the local market is important for the international im-


age of Georgian wine,” he says. “To achieve this, we arrange different types of events which support wine-making and make it more popular. As the local population consumes dozens of litres of wine, one of our priorities is to increase the quality of wine not only for export but for the domestic market as well.”

At the beginning of 2018, a free trade agreement took effect between China and Georgia, which is another possibility for Georgian wine export. According to Giorgi Samanishvili, head of the National Wine Agency, in 2017 more than 7.5 million bottles of wine were exported to China, and expectations for this year are considerably higher.

The five-year goal for the agency is to increase wine exports to 100 million bottles while preserving quality. There are reasons to believe that they will succeed. A new generation of winemakers are providing many reasons to be optimistic about the future of Georgian.



Getting to Georgia: It's still not easy, but things are improving

 Tamara Karelidze

Airlines are making it easier and easier to reach Georgia, with more connections to more cities. But more investment in the country's secondary airport is crucial.

Over the past 10 years Georgia has become a far more attractive place for tourists and investors. There are currently several advertisements running on various international TV stations advertising Georgia's resorts or boasting of the country's latest achievements. However, reaching the country is still complicated. The number of cities connected by direct flights to Tbilisi is tiny. Additionally, most routes only offer two or so direct flights per week. Transit flights are expensive and time-consuming.

However, the Georgian aviation market is, finally developing. New airlines are emerging, offering new routes and

increasing frequency on existing ones. In Georgia, there are three main airports: Tbilisi, Kutaisi and Batumi. As the boss of the Georgian Civil Aviation Agency told Emerging Europe, more than four million people travelled to and from Georgian airports in 2017. This was more than 40 per cent higher than 2016. Additionally, the number of companies on the Georgian aviation market is also increasing. In 2017, there were 42 airlines on the market, six of which started operation last summer.

"The most interest is in the direction of the EU," said Aleksandre Gachechiladze, head of the Air Transportation Department of the Georgian Civil Aviation Agency (GCAA). "In 2017 direct flights

from Georgia served 21 cities across 13 EU member states, which double the number of cities served in 2016. The number of passengers flying with Georgian Airlines rose by 56 per cent, and the company is the leader on the Georgian market, along with Turkish Airlines and Wizz Air."

The popularity of flights has increased enormously since March 2017, when the EU began allowing visa-free travel for Georgian citizens. The most popular flights are operated by Wizz Air, the Hungarian company which began flying to and from Georgia in 2012, and which operates out of Kutaisi.

"Within the framework of the government's four-point plan, we are going to expand Kutaisi airport and add new terminals. We suppose that this will help to increase the number of passengers and flights," says Aleksandre Gachechiladze. "The demand for cheap flights is very high. The number of travellers from Kutaisi airport increased by 50 per cent in 2017."

Kutaisi is not the only airport which has a direct flight to EU member states. From Tbilisi, passengers can fly to 10 cities, including London, Munich, Prague and Vienna. From March 2017, Georgian Airlines is going to add flights to Barcelona, Berlin, Cologne, Bologna and Paris. As at Kutaisi, Tbilisi airport will also offer low-cost flights.

According to the Civil Aviation Agency the most significant share of the Georgian market is currently held by Turkish Airlines (12 per cent) and Georgian Airlines (10 per cent). Turkish Airlines share is actually falling: it was 20 per cent as recently as 2015. However, new companies have emerged, increasing competition. The government





continues to negotiate with different airlines, to attract even more.

“Georgia continues its liberal course in the aviation sector,” said Aleksandre Gachechiladze. “Agreements, memorandums, legislative framework and the open-sky agreement between the EU-Georgia are all about promoting free market principles. The Ministry of Economy and Sustainable Development, as well as the aviation department, are in permanent negotiations and consultations with new airlines.”

However, the flight price is excep-

tionally high. Some companies consider that on the Georgian market a few dominant companies exist and that there is little competition. The Civil Aviation Agency explains that every airline has its own interest, set their own prices and that the government does not intervene.

Compared to other companies, Turkish Airlines has a significant part on Georgian market. Not least as an agreement between the Georgian Government and TAV-Georgia, a Turkish company, has seen TAV operate Tbili-

si and Batumi airports since 2005. According to the agreement, the company has a concession to operate the airports until 2027.

Bank on Georgia

The boss of Georgia's National Bank (NBG), Koba Gvenetadze, is in reassuring, even bullish mood, as he speaks to Andrew Wrobel, suggesting that the economic future is bright for a country which has managed to absorb many a regional shock.

Photo: NBG



Andrew Wrobel: Georgia is expected to have the highest growth in the region? What strengthens that growth?

Koba Gvenetadze: The Georgian economy is currently in a phase of recovery following the external shocks of 2014-15. Economic growth accelerated in 2017 and exceeded 4 per cent for the year, higher than previously estimated. An improved external sector, extensive infrastructure projects and an increase in consumer confidence have contributed considerably to the growth of both investments and consumption.

A positive trend in the export of goods has been accompanied by a strong service account largely due to a big rise

in the number of tourists. Increased government capital spending on basic infrastructure is also stimulating economic activity. The outlook for economic growth is even more favourable for the next few years.

AW: The country has overcome several regional crises quite well. How has it managed to do that?

KG: The Georgian economy operates under a flexible exchange rate. This has proven to be an important adjustment mechanism during periods of crisis. In 2015, for example, the Georgian economy faced significant external shocks: global appreciation of the US dollar and a drop in external demand caused

by economic problems suffered by our main trading partners. This put pressure on the exchange rate.

For small open economies with floating exchange rates like Georgia, the shock absorber role of the exchange rate is important as it helps to restore an equilibrium. After the depreciation of the currency, we noticed that the external sector began to adjust as demand for imports declined and the economy gradually started to recover.

AW: What are the current risks to financial stability?

KG: The Georgian financial sector is sound and has continued to perform well even during recent regional turbulence. Georgian banks remain well capitalised, with a high level of liquidity and a low share of non-performing loans. Most banks maintain capital buffers well above the regulatory minimum, and the National Bank of Georgia (NBG) preserves prudent supervisory requirements and insists on high standards of credit. The household and corporate debt burden is moderate in relation to similar economies and government debt remains at a sustainable level.

Georgia is a small, open economy but a turbulent regional environment has exposed it to external shocks. Persistent current account deficit and high dollarisation remain major challenges for financial stability. However, strong macroeconomic fundamentals, sound macro-prudential, monetary and fiscal policies allied with an adequate level of foreign reserves have successfully safeguarded the country's financial stability.

AW: How is the high dollarisation issue currently being tackled?

KG: Dollarisation is still the main challenge for Georgia's economy and for

its financial system. In recent years, the NBG has actively worked to promote de-dollarisation or, as we call it, larisation. Maintaining low and stable inflation as well as a floating exchange rate regime are essential for enhancing confidence in a national currency.

Additionally, in 2016, the NBG and government of Georgia came up with various measures to help the process of de-dollarisation, all of which took into account the best-practice experience of several other countries. A number of policy instruments offer favourable treatment to the lari and place certain restrictions on foreign currency in as market-friendly a way as possible.

However, we do understand that building trust in a national currency obviously needs time, and we view de-dollarisation as a long-term process. That said, the level of dollarisation has seen a sharp decline since the end of 2016, which makes us believe that we have chosen the right course. We now expect dollarisation levels to decline even further.

AW: What is the bank's inflation target for this and next year?

KG: We believe that in the long-term the optimal level of inflation for Georgia is 3 per cent. When we introduced inflation-targeting back in 2010, we began with a higher target because inflation forecasts were higher at that time, and the instruments of monetary policy available to us were simply not developed enough.

Since then the NBG has been gradually lowering the inflation target, which for this year is set at 4 per cent. Next year we will reduce it again to the long-term optimal level of 3 per cent.

Currently, inflation is above the target, mainly because of a series of one-off factors, not the least of which was an increase in excise tax on a number of consumer goods applied at the end of 2016. This has only a temporary impact on inflation and will fade out by the end of this year. We, therefore, expect inflation to return to its target level by the beginning of 2018.

AW: What are the challenges for the Georgian banking sector going forward?

KG: Similar to other developing countries, Georgians do not currently save sufficiently. This, combined with high investment demand, drives interest rates up, making borrowing expensive. A shortage in local funding is compensated by external borrowing in foreign currencies, including the deposits of non-residents. The development of other components of the financial system, including the insurance sector and the capital markets, is also lagging at the moment.

The local stock market is almost non-existent, fuelling further expansion in bank lending. To address this, the NBG is implementing a capital market development strategy, prepared jointly with the government. We hope that the upcoming Pillar II pension reform, as well as a number of other initiatives, will help boost those markets.

“ We now expect levels of dollarisation to decline even further ”

AW: How do you see the capital markets developing in Georgia?

KG: Capital market development is one of the priorities for the country in general and the NBG in particular. We want to create a well-functioning financial market to help improve economic growth in Georgia. We understand that these markets can't develop overnight, but we do aim to move forward, albeit gradually and at a steady pace. We believe that markets should develop from simpler to more complicated instruments, with the former providing the foundations on which the latter can be built.

We have created an intergovernmental working group which published a strategy paper on the issue, and which is also in charge of implementation. The NBG is playing an active role in this process. The reforms are complex

and they affect every aspect of the financial markets including legal foundations, the drafting of new laws and regulations and the updating of existing ones; upgrading infrastructure for trading, settlement, risk management and reporting; building supervisory capacity; educating players on the market.

Our efforts are delivering results already. The government bond market is growing and improving consistently, with Moody's recently having upgraded our sovereign rating to BA2 from BA3. Corporate bonds are likewise picking up momentum (for example, the NBG recently issued lari-denominated euro bonds of 500 million lari), while the IFIs have been active in issuing local currency-denominated bonds both on and offshore. The interbank repo market has become increasingly active. The International Capital Market Association published a positive legal opinion about Georgia last year and Clearstream now offers Georgian government papers and IFI bonds to its vast client base.

The Georgian market is open and welcomes non-resident investors. To support further growth we are completely overhauling post-trade infrastructure, capitalising on an already state-of-the-art system used for government papers. All the reforms are aimed at making Georgia more familiar and bringing international markets and investors closer to us.

AW: What are your FDI expectations for this and next year?

KG: We are expecting FDI inflows to be around 9-11 per cent of GDP both this year and next. For the Georgian economy, FDI is the major source of external funding. Over the last year, FDI has been concentrated in transport, communication, energy, construction and real estate. FDI inflows in Georgia are strong and should continue to increase as macroeconomic stability and an improved business climate attracts foreign investors.

Georgia Eyes **Future Role** as Caucasus Bond Hub

Otar Sharikadze, managing director of Galt and Taggart, leading investment banking and investment management services company in Georgia, spoke to Andrew Wrobel about the prospects for the Georgian capital market.

Photo: G&T



Andrew Wrobel: The Georgian financial market started evolving in 2009. What triggered that evolution?

Otar Sharikadze: In reality, the market has been developing since 2014. Then, to spur the development of the International Finance Institution (IFI) bond market, the National Bank of Georgia (NGB) established a list of “acceptable” IFI issuers (mainly AAA-rated institutions) who could issue bonds in Georgian lari, simplified IFI bond issuance procedures, and made these bonds eligible for repo transactions.

Largely as a result of these measures, since 2014, the Asian Development Bank, the European Bank for Reconstruction and Development, the International Finance Corporation and Black Sea Development Bank have issued 10 lari-denominated bonds totalling around 724 million lari. Government support has also been reflected in the corporate bond market. Since January 2014, there have been 21 successful offerings of corporate bonds, totalling approximately 230 million US dollars, of which nine placements were in the national currency.

Another major milestone which triggered this new era was the NGB’s decision to allow issuance of securities

and payment of coupons in foreign currency. This was an important message for investors. In 2014, due to the high dollarisation rate of the Georgian economy investors preferred to invest in US dollars. Decreasing rates on US dollar deposits also positively impacted the development of the corporate bond market, creating an incentive for investors to search for alternative dollar investments. The third and most important factor was the readiness of a number of big Georgian corporates to diversify their financing sources through bond issuances.

AW: So where do you see the capital market now? What are the bottlenecks?

The key direction to be developed is local currency-denominated bonds, which are more favourable for Georgian companies with revenues in lari. There is significant demand for lari financing on the market. Up until now, most of the lari financing was completed through bank loans at high interest rates.

In 2016, the NGB established a set of regulations aimed at supporting lari bond market development. These regulations enable banks to use lari corporate bonds (these issuers should have a rating from at least one international rating agency) as collateral for repo transactions. Eligibility for repo transactions gives a significant boost to lari bond market development, enabling commercial banks to use lari bonds as a liquidity management instrument and incentivising them to become active investors on this market. Furthermore, companies can benefit from alternative lari funding, which enables them to reduce their exposure to foreign currency risk

Moreover, since January 2018 there is

a new tax regime concerning public equity or bonds. Investors will not pay capital gains tax. Moreover, interest tax will be zero until 2023. The only tax that remains on equity is dividend tax of 5 per cent.

As for bottlenecks, I see this more from the supply side rather than the demand side. Issuers need time to get ready to tap capital markets. In the case of lari bonds they also require an international rating. However, from our experience, once one bond has been issued, more tend to follow.

AW: What regulations do you think should be introduced to foster further development?

This year we expect the introduction of a few reforms that will boost capital market development: a new law regulating investment funds in quarter two, then another on securitisation in quarter three and a pension reform in quarter four.

AW: Do you see potential for equity capital markets development?

Yes, and there are a certain number of reasons for this. On the issuer side – they are quite leveraged and understand that the only way for growth is raising capital. We are in discussion with a number of issuers who plan to tap capital markets to raise equity. On the investor side – a number of local and foreign investors are willing to take equity risks.

AW: How do you see the capital markets in the Caucasus region and do you think that Georgia could act as a regional financial hub?

I do believe that Georgia could and should strive to become a regional financial service hub for the region. His-

torically Georgia has always acted as a trading centre for the Caucasus region.

Today, Georgia has a leading position in various international rankings, such as 9th position in easy of doing business 2018 by World Bank and 19th position in economic freedom index by heritage foundation. If the government continues implementing pro-business regulations and supporting capital market development in Georgia, we could become a financial service hub for the region.

Throughout history, Georgia has proven to be a place where foreign institutional investors are welcome. Georgia and leading Georgian corporates have been actively issuing Eurobonds that have been

“ In coming years we may see Azeri and Armenian companies issuing bonds in Georgia ”

successfully subscribed by international investors. Last year investors subscribed Bank of Georgia's first ever lari denominated 500 million Eurobond. This was a significant milestone for the country, when international investors bought lari risk. Moreover, there are already three Georgian companies successfully trading on the London Stock Exchange. Two of them have been included in the FTSE 250 index.

I think that the regulations which will be implemented next year will strengthen Georgia's position as a financial service hub and I hope that in coming years we could see number of Azeri and Armenian companies willing to issue bonds in Georgia.



The Rise and Rise of the Georgian Banking Sector

 Givi Adeishvili



The Georgian banking system is the most robust in the region, with its two largest banks now listed on the London Stock Exchange and included in the FTSE 250.

Georgia is located at the crossroads between Europe and Central Asia. Free Trade Agreements enable the country to export its goods and services to the EU, Turkey, CIS countries and China. On both the Index of Economic Freedom and The Ease of Doing Business report Georgia is ranked in the Top 20. Georgia is the one of the least-taxed countries in the world. Personal income tax is 20 per cent, VAT is 18 per cent and corporate profit tax 15 per cent.

The financial sector is one of the most developed areas of the Georgian economy. The National Bank of Georgia (NBG) is the supervisor and regulator of a financial system which actively cooperates with international financial institutions to adopt international best-practice standards on banking regulation. In total, the financial sector currently consists of: 16 privately owned commercial banks, 75 microfinance organisations, six brokerage companies, private pension funds (owned by insurance companies), deposit insurance fund

The financial system is biased towards the banking system, with banking assets accounting for nearly 90 per cent of all financial sector assets. Currently 16 commercial banks operate on the market, with a total of 14 billion US dollars in assets. Among them TBC and Bank of Georgia (BOG) are the biggest commercial banks, both of which are listed on the London Stock Exchange and included in the FTSE 250 index. Their market share (by total assets) increased to 65 per cent in 2017 when TBC bank purchased one of the smaller local banks (Bank Republic), previously owned by Societe Generale. TBC and BOG are not only the biggest players but they are owned by the two biggest investment holdings: TBC Group and BGEO Group. FDI share in the financial sector is 12 per cent of total FDI and average ROA and ROE of the banking sector account to 3 per cent and almost 19 per cent respectively.

The role of microfinance organisations is important at this stage, a period when consumers are beginning to emerge from the shadow economy, are startups, or are operating in economic sectors with higher risks and need funding to grow further. Currently, 75 microfinance organisations are operating on the market. Their number is expected to decrease in future, because of a new NBG law which restricts credit organisations to funding no more than 100,000 lari (around 40,000 US dollars), while interest rates on loans should not exceed 100 per cent APR. This will force small credit institutions to merge and continue operating on a larger scale with reduced costs or exit the market. To prevent financial pyramid schemes and make the market more transparent the NBG has also introduced a law by which financial organisations which are not registered with it will be unable to collect financial resources from more than 20 customers.

As Georgia's level of savings is low, FDI is considered an important source of growth. Financial institutions and corporations place a high demand on funds and capital market development could support fundraising in the future. However, at this stage the capital market is underdeveloped and only a few issuances of securities occur each year, all small in value. Among the rare exceptions we could underline was the 500 million lari bond issued by the BGEO group in 2017.

The NBG is working actively with the commercial banks to develop the Georgian securities exchange market. At the current time market capitalisation of the Georgian stock exchange accounts to nearly 7 per cent of GDP and 120 companies are allowed to trade. In 2015 a number of international institutions (the EBRD, ADB, IFC) issued 100 million lari corporate bonds in local currency, after which several Georgian corporates (M2 Real Estate, GWP, Georgian Leasing Companies, EVEX, Silknet) showed that there is potential for issuances. In the past

year several reforms were introduced and there are a number of ongoing initiatives. Most important among these are:

- A tax law that gives cost advantages to institutions involved in the IPO process (Costs associated with listing could be deducted from gross income).
- The government has implemented the Estonian tax model which enables it to exempt reinvestment from profit tax (This law does not currently apply to financial institutions).
- A new and obligatory Deposit Insurance System scheme which will start operating in 2018.
- The government has said that by mid-2018 a new pension system and pension fund will be introduced. The pension fund will operate locally and participate in capital market operations.

Ongoing challenges of the financial sector include high dollarisation and the unavailability of long-term financial resources in the domestic currency. Central Bank policy, which prohibits household lending in foreign currencies of amounts less than 40,000 US dollars, had a deep effect on dollarisation. From the beginning of 2017 dollarisation levels in loans and deposits decreased by 7 per cent and 6 per cent and amounted to 59 per cent and 65 per cent respectively. However, it increased demand on the national currency and together with 7 per cent inflation (a 3 per cent deviation from the target) increased interest rates on loans. The economic growth outlook from the World Bank is 5 per cent for next couple of years, which together with decreased risks in the region could stimulate the entrance of new players in the market, which is important to increase competition in the financial sector.

Givi Adeishvili is an economic analyst at Society and Banks.

Only Innovative Evolution Will Achieve Revolutionary Growth



Avtandil Kasradze



Georgia currently has around 100 start-ups, mostly early stage. They need an environment in which they can grow and become successful.

The government of Georgia's inclusive growth agenda foresees the need to strengthen human capital, improve private sector competitiveness and productivity through a focus on micro, small and medium enterprises (MSMEs). It also plans on increasing access to finance, supporting measures to increase firms' capacity to innovate and to export, including the upgrading of broadband internet services and strengthening the investment climate.

The government is keen to develop the capacity, services, and infrastructure for Georgia to create an innovative, knowledge-based economy, while reducing individuals' and businesses' perception on the risks associated with innovation. Georgia's Innovation and Technology Agency (GITA) is in charge of innovation policy elaboration and implementation and aims to promote entrepreneurship by improving the regulatory environment, access to finance, entrepreneurial learning, consultancy services and R&D commercialisation.

Many locals were sceptical. Many believed that Georgia - with very small economy - cannot afford to support innovation and that the government should focus on supporting traditional businesses, where the risks are much lower. Innovation is something that only developed countries should focus on. We should also take into consideration our Soviet past, where people used to work only for the government and entrepreneurship wasn't allowed. This past somehow still reflects in our society, especially amongst the older generation. Even though the young generation is free from the Soviet past, their parents are still expecting them to find jobs in government or in big corporations, and if their children are working on startups they assume that they are just playing:

a startup is not a serious endeavour. Therefore, our main agenda from the beginning was to create a big innovative community, where people could work on new ideas and products.

Currently we have around 100 startups in Georgia, most of them early stage. They need an environment to grow and become successful entrepreneurs. They need success stories in Georgia to attract newcomers to the ecosystem. This will bring new people into business and we estimate that by 2020 we will have five times more startups than now, and

million UK pounds. In total, 65 startups were financed in 2016 in both components.

GITA also partnered with experienced Silicon Valley specialists, who reviewed up to 150 applications. The 50 shortlisted candidates received one-week intensive training from Silicon Valley experts, and prepared them for a final pitching session with investors. The 20 winners were identified and received the equivalent of up to 30,000 UK pounds venture financing, with a 5 per-cent equity composition and mentorship from Silicon Valley.

This was the first chance for Georgian startups to receive major investment, and the results clearly show Georgia's potential for innovation. I remember Silicon Valley venture capitalists telling me that Georgia should be very proud: the level of its start-ups is equal to that of Silicon Valley's own early stage firms. And we can now see some results: one startup was accepted by a well-known international accelerator, Techstars, while another began sales in the US. Further startups have received additional private investment and are growing significantly.

Now is the time when the private sector should start playing a major role in the innovation ecosystem by creating private equity incubators/accelerators and establishing venture funds. We are expecting more involvement from the private sector, because their participation is an important gateway to success. With a joint effort we will revolutionise our country's economy.

“ The level of Georgian start-ups is equal to Silicon Valley ”

hopefully a few of them will be well-known internationally.

To support these startups one of the pillars that is needed is access to finance. But it was clear from the beginning that the private sector was not ready to take big risks to finance these early stage startups. Within the Startup Georgia programme, GITA finances high-tech, globally scalable innovative startups and the Partnership Fund supports innovative startups for the Georgian market. For the initial stage, the government allocated the equivalent of 3 million UK pounds with the potential to increase this to 10

Avtandil Kasradze is the deputy chairman of Georgia's Innovation and Technology Agency (GITA).

Georgia on location

Thanks to a government incentive to attract foreign filmmakers, Georgia is quickly becoming a key movie location for European, Asian and even American studios.

An increase in the country's visibility around the world is a crucial thing for Georgia. In order to achieve this, the government is currently working in several directions. One of these has been the prime minister's incentive to create the "Film in Georgia" campaign, a project which began in 2016, encouraging international moviemakers to use Georgia as a film location. The programme is implemented jointly by the ministries of economic and culture, and the main idea is to promote Georgia as an Eastern European filming destination as well as to support Georgia's own film industry by attracting more international production houses to the country.

Film in Georgia offers a number of benefits to film producers. One of these is a 20-25 per cent cash rebate on qualified expenses for international and local production companies, while others include a business-friendly environment, modern infrastructure, diverse climate zones and landscapes, where you can shoot snow-capped mountains and sunny beaches in the same day. A unique mixture of different architectural styles is a bonus.

"Georgia offers foreign producers a business-friendly and safe environment, with a flexible labour market, low taxes and lower prices across the board compared with similar locations in Western Europe," says Lika Mezvrishvili, head of Film in Georgia. "The country has a modern infrastructure with a well-developed road and rail system, several local airports connecting different parts of the country and three international airports with flights from major European cities. Georgia's efforts to become one of the easiest places to work, do business, travel and of course make films have been achieved and reflected in major international rankings – we are ranked ninth in the ease of doing business report published by the World Bank. We



are also the third safest country in Europe according to Numbeo."

According to Mrs Mezvrishvili, the primary target markets of the campaign are the US, Europe and India. The latter is very interested in Georgia, and films already shot in Georgia include productions from both India and the US.

To increase the visibility of the project, Film in Georgia representatives have been meeting major production companies around the world, setting out the potential of filming in Georgia. Among the companies they have met are NBC Universal, Fox, Sony, HBO and Netflix.

"The development of our creative industries and in particular the film industry is high on the agenda of the government," Lika Mezvrishvili told Emerging-Europe. "We believe that the film industry is an engine that creates a ripple effect on jobs and innovation in other sectors of the economy, not only at the time of the production

but also after the film is released, in the form of Film Tourism – a growing phenomenon worldwide. Moreover, we see Georgia as an emerging, highly attractive filming location and strive to establish culturally diverse and economically sustainable environment for filmmaking."

As Mrs Mezvrishvili points out, filming in Georgia is a perfect opportunity to establish the country's reputation as an ideal shooting location. In this case, besides a 20 per cent cash rebate, producers can receive an additional discount of up to 5 per cent. There are several criteria to be met to obtain each percentage. The main idea is to promote Georgia.

Besides international projects, Georgian film directors are shooting big movies themselves, some of which have enjoyed significant success at different international film festivals. While the Film In Georgia programme is mostly focused on international projects, the vast majority have been made with the cooperation of Georgian companies and have offered Georgian directors opportunities to get involved.

According to Lika Mezvrishvili, ten films have so far been shot in Georgia. Four of them are Indian. Some are European and American, and part of the movies are mixed productions featuring European, American and Georgian moviemakers. Georgia has attracted more than 10 million lari in investment as a direct result of the programme. The project is going to continue actively promoting its advantages to international producers, and will include several new ideas, including familiarisation tours to Georgia to introduce filming locations and existing infrastructure to key players in the UK and US film industries.

Education Reform: Key to Continued Georgian Success



Irakli Aslanishvili



The major factor that will greatly determine Georgia's ongoing success in both the short and the long-term is timely and proper education reform.

In less than 20 years Georgia has managed to drag itself out of a state of near-collapse to become a rising star of the region: years of robust economic growth, liberal tax legislation, a safe, business-friendly, corruption-free environment paint a promising and impressive picture.

And we — the private sector — like what we see. Expectations are high and the country is on the right track. However, there are still challenges which could stand in the way of the country's continued and sustainable development if not addressed in a timely and proper manner. Despite impressive results and positive trends, there is still a distance to cover to reach a point where development is stable and irrevocable.

I want to use this opportunity to speak about the issues that all major actors in the private sector consider as threats to Georgia becoming a competitive investment destination. My estimations are backed up by BAG's recently finalised research: The Business Environment Evaluated by the Private Sector. As part of this research, BAG carried out interviews with representatives of major, large corporations operating in Georgia. Based on these interviews, we designed a survey and quantified the findings from the interviews. The research revealed that education, a changing legislative environment and a lack of infrastructure are among the major challenges the private sector faces in terms of growth and development.

Lack of infrastructure is a challenge, especially in the regions. However, infrastructure projects, either current or planned, are robust and we have high expectations that in the medium term a major part of Georgia will be covered with all necessary hard and soft infrastructure.

As for the legislative environment,



the private sector welcomes changes of legislation as they are both necessary for development and inevitable, given that Georgia has the obligation under the EU Association Agreement to harmonise its legislation with the EU. What the private sector is concerned about is the pace and process of introducing new regulations or making changes to the existing legislative framework. The investment environment would benefit greatly if Georgia introduced RIA into its legislative process and allowed all stakeholders to review changes before final decisions are made.

The biggest problem facing Georgia, however, is a lack of qualified workers. Both the private and state sectors face difficulties in finding qualified employees with the appropriate skills and training. In some sectors, such as civil engineering, agriculture, and food technology, it is almost impossible to find and employ local professionals. The national education system fails to produce highly qualified professionals and there is a significant mismatch of skills and market demand. For this reason, a large part of the private sector's resources is spent on hiring foreign consultants. On the plus side, Georgia is making significant progress in vocational education

and we hope to see the results of these efforts in the coming years. However, we believe that a comprehensive education reform programme covering all levels of the education system to be of the utmost importance. Only major reform can ensure that the country creates the capacity to continue its social and economic development.

I will end my short review of the Georgian investment climate on a positive note. The outlook for Georgia is promising. Again, this is a statement backed-up not only by macro parameters but by our latest research, where a majority of businesses confirmed that their expectations are positive and that they intend to grow within a five-year period. The country has all the necessary preconditions to move to a higher level of development. The major factor that will greatly determine success in both the short and long-term is timely and proper education reform.

Irakli Aslanishvili is the executive director of the Business Association of Georgia (BAG)

Stuck in Neutral: Georgia's Constitutional Reforms

 Lincoln Mitchell



The Georgian banking system is the most robust in the region, with its two largest banks now listed on the London Stock Exchange and included in the FTSE 250.

It has been almost five years since the Georgian Dream's (GD) substantial and unexpected victory in the parliamentary elections in Georgia. During these five years, the frenetic pace of events that defined much of the previous nine years, when the United National Movement (UNM) was in power, has ebbed.

Georgian politics is no longer characterised by frequent widespread demonstrations, prison abuse scandals, the peripatetic and unpredictable behaviour of a president, threats of war and a manic energy, which both brought rapid reforms but just as rapidly rationalised away undemocratic excesses.

The slower pace and lack of drama that we see under the current government does not mean that nothing is happening in Georgia. The GD has had some major successes during its time in power. It has consolidated the country's pro-Western course; has reversed, or at least stopped, Georgia's slide towards authoritarianism during the later years of UNM rule, has avoided a shooting war with Russia and has improved Georgia's reputation as a tourist destination with an exciting food, wine and fashion culture.

As concerns democracy, the story is more complex. In most respects, Georgia is freer than it was at the tail end of the UNM period, but significant problems remain. The challenge that frames all of these problems is that Georgia is still struggling to institutionalise pluralism while simultaneously avoiding being mired once again in one-party rule. That last sentence could have been written at almost any point during this century, demonstrating the nagging difficulty of the problem.

Last year, a much anticipated par-

liamentary election resulted not in a more multi-partisan or contested national legislature but in a resounding victory for GD. The primary reasons for this were not election fraud or a high approval rating for the governing party, but an opposition that was disunited and an UNM that foolishly used the election to advocate for regime change, something for which the Georgian electorate had little appetite. The result was that the GD, despite not being beloved by the electorate, won 115

“ Some of the proposed changes are reactionary, others petty ”

of the 150 seats and was handed a constitutional majority in the parliament.

Since winning that constitutional majority the GD has proposed a series of constitutional reforms. Some, such as defining marriage as something between a man and a woman, are reactionary. Others such as abolishing the direct election of the president may seem petty, while the way amendments will change how parliament is elected will make it more difficult for opposition parties.

Collectively, these reforms are likely to strengthen one-party rule in Georgia and will create more barriers to the establishment of a strongly pluralist system. These proposals raise

the spectre of one-party rule returning to Georgia, but the process also demonstrates that, in Georgia, the constitution continues to be used as yet another tool for the ruling party to stay in power, rather than a document that establishes the ground rules for a democratic polity. In this respect, little has changed in Georgia. It should be remembered that the UNM frequently engaged in constitutional machinations, when they were in power, to ensure that they would remain so.

Over the last five years, the GD has demonstrated that it has not been able to solve all of Georgia's problems, nor to consolidate democracy throughout the country or entirely shake off the influence of its founder Bidzina Ivanishvili, who has wielded extraordinary power as a private citizen, since leaving office in late 2013.

However, the GD has also shown little interest in returning Georgia to the chronic low level instability, democratic rollback and human rights abuses of the late UNM era. There is plenty to be concerned about in the constitutional reforms, but there is a fair amount of truth to the notion that if the GD wanted to either make Georgia a much less democratic country, or move it closer to Russia, it would have done so by now. Die hard UNM supporters and their most hard-line supporters, in the west, might believe this has occurred, but nobody else does anymore.

Unfortunately, it is likely that the constitutional reforms will pass. The amendments will make Georgia more illiberal, particularly in regard to LGBT rights and they will help entrench the GD as the ruling party. They will also ensure that politics remains characterised largely by the issue of democracy itself with elections that are rarely more than referenda on the ruling party. Thus, while much of the criticism

of the current constitutional processes suggests that democracy is being lost in Georgia, the more accurate way to see this is that democracy has stalled in Georgia. That is not exactly good news, but it is also a reason to not give up hope and a reminder that while much has changed in Georgian politics over the last decade, much has stayed the same.

Constitutional processes and Georgian politics, in general, are made more complicated by another factor. Georgian politics have always occurred within an international context. That is still true but that context is now in a period of significant uncertainty. For the years from roughly 2008-2016, Georgia was caught between a Russian regime that had annexed a portion of Georgia, was opposed to Georgia becoming a member of NATO and in important ways never fully recognised Georgia as a genuinely independent state, and a group of western allies that saw Georgian independence as unequivocal and, with varying degrees of enthusi-


asm, generally wanted to see Georgia move closer to the EU and NATO. That dynamic often left Georgia in the maw of geopolitical rivalry between Russia and the West, but it was unambiguous and Georgia knew who its allies were.

That has changed a lot in the last year or so. Russia's position remains the same, but conditions in the West, particularly the US, are different. The relationship between the Trump administration and Russia are complex and remain somewhat vague, but they are a departure from the hawkish posture of the mainstream of both the Democratic and Republican Parties.

Similarly, the democratic rollback that is occurring in the US and parts of Eastern Europe, as well as a battery of issues within the EU ranging from Brexit to refugee related crises, has cost the West a lot of leverage in places such as Europe. Earnest protestations about constitutional reform, from places such as the Venice Commission, or statements of concern from western NGOs are even easier to ignore, given

these developments.

For Georgia, constitutional reforms and changing global dynamics mean that the danger, and path of least resistance, is not an authoritarian regime like the ones in Moscow or Baku. Rather, it is being stalled in a semi-democratic limbo where elections are pretty good, every decade or so power changes hands and rhetoric is always heated, but politics remains a game for the elite dominated by accusations and re-litigation of the past rather than interests competing for political outcomes.

 Lincoln Mitchell

Lincoln Mitchell is a writer, pundit and specialist in political development having worked on democracy and governance related issues in the former Soviet Union, Eastern Europe, the Caribbean, the Middle East, Africa and Asia.



The EU & Georgia: **What Comes Next?**

 *Ivane Chkhikvadze*



Georgia must decide if it wants to push for EU membership on its own, or part of a larger, regional enlargement, says Ivane Chkhikvadze of the Open Society Georgia Foundation.

EU-Georgia relations reached a crucial milestone in March 2017, when the EU decided to lift short term visa requirements for the citizens of Georgia. This decision was, on the one hand, a strong political signal for the Georgian political elite and on the other huge relief for citizens, who no longer had to collect dozens of papers and stand in queues at the consulates of EU member states in order to obtain visas.

Abolishing the need for visas, and the signing of an Association Agreement (AA) between the EU and Georgia has kept Georgia high up on the EU's agenda. Now, however, EU-Georgia relations have got to the point where it is fair to ask: What comes next? It is a question with no clear answer and neither the EU and its member states, nor the Georgian authorities appear able to elaborate.

Brexit, the migration crisis, terrorism and challenges to democracy in some of the EU's member states have caused the EU to become ever more inward looking, and as such less clear on relations with Georgia. Consequently, the EU (and in particularly those member states which are sceptical about enlargement) stress

that the next stage in bilateral relations should be implementation of the Association Agreement. The AA does not have a clearly defined end date and theoretically, its implementation could be continued endlessly. At this stage, the European Union does not have the interest, appetite and resources to reach out and think about its immediate neighbours, potentially harming the Union. Unlike NATO, the EU has never given Georgia the promise that the country would eventually become a member state.

The last summit of the Eastern Partnership (EaP), held in Brussels on November 2017, clearly demonstrated that the EaP has either reached its limits or is very close to them. The European Union has no clear-cut view on what the programme's end game is. The EaP partner states all have diverse aims towards integration, varying from limited ties, as with the case of Belarus, to full EU membership in the case of Georgia.

Georgian officials stress that eventual membership of the European Union is Georgia's foreign policy priority. Moreover, in 2017 the government of Georgia adopted an official communication strategy for 2017-2020 to explain costs and

benefits of Georgia's EU membership to the local population and to formulate some external messages. However, despite the document, the Georgian authorities also do not have answer to the question as to what should be the next step in EU-Georgia relations, as implementation of the Association Agreement is not a prerequisite of EU membership. Whilst the ultimate goal is clear, there is lack of clarity on how to achieve it.

At the end of 2017, the Georgian Prime Minister Giorgi Kvirikashvili pledged that the ultimate goal of Georgia is full membership of the EU and tasked the Georgian authorities to elaborate a strategic road map, a document which is intended to be much wider than the Association Agreement and which will formally set Georgia on the path to membership.

The Georgian authorities still have to reflect on several issues. Among them is whether to seek an EU membership perspective from the European Union itself (similar to what the EU granted the Western Balkan states at the Thessaloniki EU summit in 2003) or press for eventual membership without a membership perspective. Georgia also needs to think about when will be the right time - a window of opportunity - to submit its membership application to the European Council. Then there is the question of what Georgia should do internally to get ready for submitting its application, and what kind of communication it should have with the European Union, especially with those member states which are largely sceptical of enlargement. Finally, Georgia must decide if it will push for regional enlargement - together with Moldova and Ukraine - or if it will pursue membership on its own, without being linked to the other EaP countries.

The views expressed in this opinion editorial are the author's own and do not necessarily reflect position of Open Society Georgia Foundation



NATO integration is getting a boost—but still lacks an end game



Joseph Larsen



The Trump administration has so far provided Georgia with a great deal of military support, although NATO membership still looks to be a long way off.

April 3 marks one decade since NATO issued the Bucharest Declaration, a document that promised eventual membership for Georgia and Ukraine. Since then, Georgia has made major progress in functionally integrating its military with NATO, largely due to support provided by the US. However, full membership is still not on offer.

Georgia's pathway to NATO remains unclear, but it's not for lack of trying. Despite an uneven record on democratisation and human rights, former President Mikheil Saakashvili and his United National Movement (UNM) undertook major efforts to set Georgia on the path toward NATO. In 2004, the country began contributing to the International Security Assistance Force in Afghanistan; in 2005 it agreed to facilitate the transit of NATO forces. Also in 2005, Georgia's National Security Concept called for "fully-fledged integration into Europe's political, economic and security systems."

Due largely to UNM's dogged lobbying in Washington, Georgia became a cause célèbre for the Bush administration's "Freedom Agenda." In 2005, Bush called Georgia a "beacon of liberty for this region and the world"—expressing hope that the Rose Revolution would serve as a model for other countries in Eurasia.

The Bush administration was convinced that Georgia and Ukraine—then led by pro-Western President Viktor Yushchenko—were ready to start moving toward membership. It pushed to extend Membership Action Plans (MAPs) to both countries at the 2008 NATO Summit in Bucharest. Germany disagreed, arguing such a step would needlessly antagonise Russia. With the support of several other Western European NATO members, Germany succeeded in blocking extension of the MAPs.

The result was a compromise we now refer to as the Bucharest Declaration—a

document that satisfied no one and was ultimately used by Russia to justify later invasions of its neighbours. Just one week after the summit, Russian General Yuri Baluyevsky stated that Russia would consider military action if it felt threatened by developments in neighbouring countries. Four months later it did exactly that, invading Georgia following the latter's attempt to forcibly regain control over the breakaway territory of South Ossetia.

The war served Russia's main objective, rattling NATO and effectively taking enlargement off the table. Nonetheless, Washington remained Georgia's biggest cheerleader. Now on its third administration since the August 2008 war, US support for Georgia has ebbed and flowed but never run dry.

Surprisingly to some, support has remained firm under the Trump administration. The State Department recently agreed to sell 75 million US dollars worth of Javelin anti-tank missiles to Georgia—something the Bush and Obama administrations regarded as a step too far.

This spring will bring the launch of the Georgia Defense Readiness Programme—in contrast to previous US military aid programs which focused on interoperability with NATO forces, the new initiative will train Georgian troops to defend their own territory against invasion. Given Georgia's current security situation, that couldn't be more relevant.

Vice President Mike Pence also made a powerful symbolic gesture when he visited Georgia last July. During the visit, Pence stated that "President Trump and the United States stand firmly behind the 2008 NATO Bucharest statement which made it clear that Georgia will, someday, become a member." Those are just words, but his strong affirmation of the Bucharest Declaration contrasted sharply with the guardedness of Obama administration officials.

The US Congress has also stepped up its support for Georgia. On July 24, 2017,

Congress passed the Countering America's Adversaries Through Sanctions Act. The Act codified existing sanctions against Russia while imposing some new ones, directly referring to its "illegal annexation of Crimea in 2014, its illegal occupation of South Ossetia and Abkhazia in Georgia in 2008, and its ongoing destabilising activities in eastern Ukraine."

The Trump administration isn't oriented by anything resembling the Freedom Agenda. Rather than shared values, it appears to be supporting allies out of rational calculations of interest. Nonetheless, it's providing Georgia with a great degree of support, especially of the military kind.

That reveals something big—despite changing administrations and shifting foreign policy priorities, Georgia's strategic importance endures. The country is no longer a beacon of democracy. Instead, it's an important part of the European security architecture. That may prove a better formula for lasting strategic cooperation.


Does that mean NATO membership will happen under the Trump administration? Not likely. Despite labeling Russia a major threat to its interests, the US recognises that bringing Georgia into the Alliance would come with tremendous risk.

Perhaps more importantly, there's very little appetite for NATO enlargement on the part of the Western European members. Montenegro was recently accepted into the Alliance, but that country doesn't share a border with Russia.

Ten years after Bucharest, Georgia doesn't appear to be any closer to NATO membership. It will have to settle for functional integration for the time being. However, given the strong support provided by the US—even under a president known to be fond of Vladimir Putin—that isn't such a bad thing.

Joseph Larsen is an affiliated analyst at the Georgian Institute of Politics.

Georgian-Russian Relations: Past, Present & Future

 Revaz Koiava



Despite some progress on a number of minor issues, neither Georgia nor Russia appears ready to cross any red lines anytime soon.

The history of Georgian-Russian relations is the history of Georgia since the fall of the Soviet Union. Russia has played the major role in the creation and development of the modern Georgian state. It was directly connected with all the important events in Georgia's recent history. For Georgian political elites, the relationship with Russia does not only relate to the Russian Federation, but also towards the independence and the freedom of the country, towards political values and the Soviet past.

Georgian-Russian relations were reset in 2012 when the Georgian Dream coalition took office in Tbilisi. The new government revised Mikheil Saakashvili's policy towards Russia, aiming at improving the mistakes made by the previous government.

The need for the restoration of relations was due to the permanent threat of war, which was morally and physically destructive for Georgia. The demand for a normalisation policy with Russia was high on the agenda of Georgian society and the policy was supported by the West. At the same time, Georgia had to keep some distance because of Russia's aggressive policy and so called red lines.

The normalisation policy reflects the ambivalent attitude towards Russia that exists in Georgian society: on the one hand, supporting cooperation with Russia in economic and social-cultural issues, and on the other, the necessity to distance from it. Such attitudes have historical roots.

Georgian-Russian relations are discussed in two formats on the political level. Talks in Geneva have been ongoing for 10 years without a political breakthrough. The positions of both parties are pre-determined and they are not likely to change in the foreseeable future. The situation is complicated by Russia not recognising its responsibility for the conflicts in Geor-

gia, and positions itself as a neutral actor. Nevertheless, this is currently the only multi-lateral format and source of communication between the two countries, and it might become more important in the future.

The Abashidze-Karasin negotiation format was created after the new Georgian government took over in 2012 and it often represents the subject of internal discussions. The opposition accuses the government of making concessions to Russia and believes that the format can't solve the

loyal political class and public attitudes in Georgia. However, contemporary Russia lacks sufficient material and ideological resources to pursue an effective soft power policy in the region. Outside its territory, including the post-Soviet space and Georgia, Russia cannot legitimise its policies and ensure prestige. Russia cannot provide an attractive model of development to neighboring countries.

In the nearest future, it is expected that the two countries will cooperate in the spheres of transit routes and combating terrorism. After the defeat of Islamic State in Syria and Iraq, former combatants from Georgia and Russia might return to their homelands: that will force the pragmatic cooperation between two states in security issues.

At the end of 2017, Georgia signed a contract with the Swiss testing and inspection company SGS on carrying out cargo monitoring through three trade corridors between Georgia and the Russian Federation. Now it is Russia's turn, which will probably sign a contract with SGS in 2018. Nevertheless, enactment of agreements is hard to imagine as the de facto authorities of Abkhazia and South Ossetia firmly oppose them.

In conclusion, we can say that a particular breakthrough in Georgian-Russian relations or sharp deterioration is not expected in the near future. The normalisation policy will continue in the economic and humanitarian fields but the limitations of the Abashidze-Karasin format mean that they will not go any further. Agreements in the economic, cultural and humanitarian fields were reached soon after the launch of the format: soon afterwards, dialogue became deadlocked. In the nearest future neither of the two sides will be ready to cross its red lines, especially when, for Georgia, those lines relate to fundamental issues of statehood.

Revaz Koiava is a researcher at Caucasian House.

“ Georgian-Russian relations were reset in 2012 ”

problem of territorial integrity. However, the format was not created to discuss the conflict, or related security issues; these issues are discussed during the Geneva talks. During five years of existence of the Abashidze-Karasin format, the two sides have achieved significant success in the areas of trade, humanitarian aid and transport. Meanwhile, Georgia has not compromised any principal issue, as was feared by the opposition parties and the government's critics. In the absence of diplomatic relations, this platform is important for cooperation in areas where the interests of two countries do not contradict each other.

Recently, discussions about Russian soft power became one of the major topics on the Georgian political agenda. Certainly, Russia is interested in the existence of a

Young, Skilled and Competitive: Georgia's Labour Market



Irina Guruli



Much of Georgia's two million-strong labour force is young, highly skilled, and competitive: average monthly earnings stand at 940 lari, around 380 US dollars.

The labour force in Georgia is equally distributed between rural and urban areas, slightly more than half - 57 per cent - resides in rural areas. The unemployment rate stands at 12 per cent with prevalent self-employment rates - 57 per cent of those employed are self-employed. The labour force activity rate stands at 67.5 per cent with a gap between the urban (58 per cent) and rural (78.2 per cent) populations. The latter is mainly due to the economic structure: namely, self-employment mainly prevails in rural areas and represents engagement in low-value added generic activities, primarily subsistence agriculture. A lack of formal jobs accounts for significant underemployment in the country. Employment opportunities are particularly low in rural areas, where only 22 per cent of those employed are formally employed, the rest are considered as either self-employed or unemployed.

While the average monthly salary as of 2016 is 940 lari, there is a significant gender wage gap with a female-to-male earnings ratio of 0.62. Salary gaps are significant by industry as well. Among the highest paid jobs are in construction and financial consulting, while the lowest paid industries include the manufacturing, transport and communication sectors.

Georgia has a flexible labour code, and one of the most liberal labour environments in the region means that the country ranks high in the Labour Freedom Index. Hiring and firing regulations are quite liberal and there is no minimum wage requirement.

Education

Education determines and shapes a country's labour force. Georgia prioritises education and continuously imple-

ments reforms upgrading the education system, improving access and quality of the country's educational institutions. According to the OECD, the country is the region's top performer for primary school enrolment and length of schooling. The Georgian population is well educated with 33 per cent of all adults having post-secondary education, and there is a high level of educational attainment amongst the labour force. Enrolment statistics for higher educational institutions show that the most popular subjects are social sciences, including business and law, followed by health and social care. The latest graduate data

**More than
33 per cent of
all adults have
post-secondary
education**

from secondary professional schools by specialisation illustrates that public health, physical training and sports are the most popular specialisations, while industry and construction are amongst the least popular.

Labour Market Challenges

A number of challenges also need to be mentioned. These include structural unemployment, skill mismatch and high informal employment rates. Unemployment is especially high among young people with higher education.

Unemployment rates amongst the 20-29 age group are as high as 37 per cent. International organisations frequently quote skill mismatch as the major cause of high unemployment rates. Transition from school to work is particularly difficult, resulting in the underutilisation of the high potential of young workers. A World Bank report from 2013 states that over 50 per cent of the unemployed have a secondary school diploma, while 40 per cent have a higher education degree. Many of the jobs that require vocational skills are occupied by workers with tertiary education, hence the country faces the challenge of what is known as overeducation. The phenomena also referred to as a vertical skill mismatch is due to two interrelated reasons. On the one hand, people investing in acquiring higher education and on the other, low demand for a highly skilled workforce due to the structure of the economy. Overeducation of course does not imply a limiting of education, but rather putting the workforce into productive use through identification of the right investment opportunities. To conclude on a positive note, given the characteristics of the Georgian labour force paired with the favorable investment and business climate of the country, there is a potential to expand and create new sectors in the country with high value-added activities. The creation of new job opportunities will motivate a highly educated workforce to further invest in upgrading their skills and acquiring new knowledge. Currently, a lack of job opportunities is partially responsible for the low motivation of the workforce to attain additional knowledge through training and professional development programmes.

Irina Guruli is the deputy director of the Economic Policy Research Centre (EPRC)

The Sights and Smells of Georgian food



Carla Capalbo



The author of Tasting Georgia explains what first drew her to Georgia, the country's food, its wine and its amazing hospitality.

A giant clay pot helped me fall in love with Georgia. I was immediately seduced by the majesty of the egg-shaped terracotta qvevri with their swollen bellies and pointed bottoms designed for natural winemaking. When you enter a traditional wine cellar in Georgia you walk into a seemingly empty room. Unlike most of the rest of the world, Georgians place their crushed grapes into qvevri that are buried in the ground, so in a Georgian cellar the wine is being made and stored below your feet, safe in the earth's or 'mother's embrace'. It's been done this way for at least 8000 years, and qvevri are now recognised by UNESCO as an intrinsic part of Georgia's intangible cultural heritage.

"Making qvevri is an unbroken tradition that's been passed from generation to generation through the millennia, just as I'm now passing it to my children," says Zaliko Bodzhadze, one of only a handful of potters whose families still have the inherited know-how to keep the qvevri-making going. The orange wines made in qvevri from white, macerated grapes are unlike others I've tasted. They combine the structure and tannins of a well-made red wine with the flavours of exotic teas and dried apricots that are more associated with aromatic whites.

Feast

By the end of my first week in Georgia I had decided to write what turned out to be a large book about the culture of the country's foods and wines. I travelled often to Georgia over the next three years, visiting small houses in tiny villages where the women cook local specialities in their uniquely generous way, often

from kitchens without running water. In Meskheti, southern Georgia, for instance, a few miles from the monumental 12th century cave city of Vardzia, a woman produced one of the finest and most complex meals of my life cooking over a wood-burning stove in her bedroom. She made an array of dishes from just a handful of dried stinging nettles, cracked wheat, fermented blossoms, sun-dried plums, courtyard chicken, home-made cheese, flour and clarified butter.

The food at such a supra – or feast – is varied and abundant, with at least eight to 10 different dishes being served during the course of the meal. The flavours range from earthy to spicy, from sharp to sweet, so it takes an unusual wine to accompany them all. That's where the macerated whites come in: they complement this articulated range of tastes much better than the reds or whites we're used to.

In the course of my research, I listened to – and then retold – stories of courage and resistance, with all the detail of a battle freshly fought. One of my favourites has to do with wine. In past centuries it's said that the men would leave their villages to go to war with a few clippings of their favourite grapevines tucked safely under their chain mail.

I assumed this was in case they were killed in battle, so that from the remains of their bodies new vines would grow. But it seems I had it the wrong way around.

"As they left their homes, the men took the most precious thing they had – cuttings from their many local varieties of grapevine – in case they might return home to find their villages razed and their vineyards destroyed," explains

Giorgi Barisashvili, a wine historian. "This way they could start their patrimony again, like a phoenix rising from the ashes."

The story of the last 20 years in Georgian winemaking is not far from that kind of resurrection. At the start of the 20th century, Georgia could boast 525 native grape varieties. By the 1970s, due to the collective Soviet winemaking regimes that favoured quantity over quality, wines were being produced in bulk from just four of these varieties. Now, thanks to painstaking work from many individual winemakers, the national collection is back up to about 460. For the Georgians, wine has become a symbol of the reclamation of their country's rich cultural heritage: it's been threatened many times but, luckily, not lost.



Photo: Carla Capalbo



Photo: Carla Capalbo

My Wife's Friends

Now totaling more than 500 episodes spread over a dozen seasons, the prime-time *My Wife's Friends* remains one of the most popular television shows in Georgia. Why? Probably because it talks about the country's desires and dreams – not least integration with Europe – and, naturally, the social changes these might bring. **Keti Devdariani**, the show's **script writer**, spoke to Tamara Karelidze about how important it is to trigger discussion about taboos and stereotypes.

Tamara Karelidze: The show is focused on social issues that are quite sensitive for Georgians. It strengthens typically Georgian values and habits but it also promotes open-mindedness. Does bringing these issues up on television help increase awareness?

Keti Devdariani: Unfortunately, I don't have the exact answer to this question.

Unlike television ratings, which can be measured, nobody has checked for an increase or decrease in public awareness. So I don't know how this television show works. We produce what we want to say and because it is broadcast, it gets heard. We don't have the aim of changing someone's position and attitude but of course, everything might have an impact on an individual's life. It doesn't

matter whether it is a bird which flies from one tree to another, some philosophical work or an old legend from a grandmother's stories.

TK: But you do deal with issues that are controversial in Georgian society: for example male nannies, sexual minorities, domestic violence, religion, etc. Does the audience's response meet your expectations?

KD: When a discussion starts it is already very good. Talking about taboos starts from a discussion. It does not matter how intensive, sensitive and hard a debate it is. Of course, we have had cases when the audience has loved a particularly odious character, but it does not start and end with 'Friends of my Wife'.

TK: Let's look at the sexual minorities issue, which is very sensitive to society. The character of a transgender lady you brought in one season made a big impact. In general, people took to Nino – which of course is one of the most popular female names in Georgia, a Christian saint. Why do you think such a character was important?

KD: We have almost every kind of character in our show. Transgender women and men are part of our society and the fact that somebody does not want to accept their existence does not mean that they do not exist and that we should not say anything about them. Simply being different from others can make some people so aggressive that they are ready to kill them. That was what we wanted to show with the story of Nino.

TK: Is it effective to discuss myths about the West on television? Does it help the process of integration?

KD: Integration is a complex issue from geopolitics to media or music. Everything supports or disturbs this process. Even prohibition of jeans and Kraftwerk did not



Photo: Giorgi Dadiani

happen by chance in the Soviet Union.

TK: In Georgia, there are a lot of projects whose goal is to increase awareness, especially in the regions, for example one involving celebrities who often go to the regions and have a conversation regarding the West, the EU and the importance of western integration. You were part of one of these projects. What do these people expect from the West?

KD: The main problem in the regions is poverty. I often heard people saying "I do

not care about NATO, the EU or the UN when I can't sell my crop." We try to explain that there is a direct connection between EU integration and the increase of welfare in the country and in the regions as well.

TK: How possible is it to use TV shows or movies in order to bring Georgia closer to the West?

KD: I think that very pro-Western people have to do this. From western movies, we know that the West is good. Now, it's time to believe that we can also be part of this world. We have to stop talking about the

glories of the past and start working hard to build the future. Of course, it is possible to produce a product for western countries, which spreads information about Georgia, but it needs a lot of money, great desire and round-the-clock work.


TK: What are the most pressing social issues that need to be processed and understood by Georgians?

KD: People have to realise that while the EU and the West is oriented towards human beings, Russia is regressing to the days of totalitarianism.



Photo: Giorgi Dadiani

'I LOVED GEORGIA SO MUCH, I ORDERED A SINISTER GEORGIAN PHRASEBOOK'

 Tim Ogder



Tim Ogder first visited Georgia in 2007. Since then he has learnt to love the country and believes that its future, despite ongoing problems, is bright.

I first visited Georgia for a period of three weeks in 2007, and moved here on a permanent basis in 2011. My attraction was instant, although what it was I found so appealing was initially difficult to define – I eventually concluded that it was the people, or their national spirit, and the way in which they had experienced hardships beyond my comprehension. I was fortunate enough to be raised in a privileged household and sent to an expensive private school, and as a 16-year-old on my first visit to Georgia, meeting people of a similar age who had seen war, poverty and political turmoil was eye-opening. To put it another way, it did not compare with my other experiences abroad, in which I had infested some of the nicest and most scenic parts of Europe, the United States and Japan.

I returned to England and school a changed youth, feeling nothing but a desire to go back to what I decided was the 'real' world, and no doubt behaving like an American war veteran back from Vietnam. I lost interest in the trivia of adolescent life at my posh school and spent my evenings reading whatever I could find about Georgia, and even ordered an outdated Georgian phrasebook from an obscure American website, at certain risk (I felt) of having my bank details and identity stolen.

Nothing deterred me from my dream to return to Tbilisi: not my parents' scepticism, nor my friends' bemusement, nor the Russian war of 2008, nor the sinister phrases in my Georgian language book (it seemed to recommend I learn: "Help me, I have been raped" and "Are there landmines in this area?" which suggested that Georgia wasn't Tuscany, exactly). My correspondence with the few friends I made in 2007 became more frequent with the advent of Facebook, and I moved in 2011, finally able to start my life in Tbilisi.

What little I had learnt and seen in my brief visits in 2007 and 2010 had ap-

pealed to me greatly, especially as I was exacerbated and frustrated with matters in my own country. Georgians were proud of their history and knew it well; my fellow Britons, especially those of my enlightened generation, knew little of our nation's history but still apparently felt compelled to feel ashamed of it. Georgians had apparently all but eradicated street violence – I barely felt safe walking to my local corner shop. Georgians were friendly; Britons were cold.

I had it in my head at this point that Georgia was a little nation that, against the odds and under the radar, had somehow managed to get it all right. It took me some time to notice the cracks: the streets might not be dangerous, but domestic violence against women was (and is) a major issue; their friendliness and much-vaunted hospitality lasted until the point of disagreement; and their knowledge of their history and traditions was used to justify discrimination against sexual minorities. It was clearly not the social utopia that I had initially believed it was.

But nowhere is perfect, as I came to realise, and there was still much to like about Georgia, not least because for Western foreigners it was a land in which one could do anything. During my years here I have worked as a teacher of English (conversation classes, mostly, which is like being a poorly paid chat-show host), boxing coach, university lecturer, actor (for a soap opera nobody saw and a product that turned out to be a hoax, both roles given due to nobody else wanting the job), and – best of all – a journalist, which I describe as my main career. My work in media has led my name to being published in newspapers in England and America, as well as being invited to discuss politics on Georgian television, and I also had the honour to be an invited speaker at a conference last year attended by a member of our own House of Lords. I have met


both the Georgian President and Prime Minister, both of whom were gentlemen whose conduct contrasted nicely with my experiences of dealing with my MP in Britain, who would barely give me the time of day. This, I suppose, is one of my main (and most selfish) reasons for living in Georgia – there is the chance to do things and live a life that would be inconceivable in my own country.

But I believe it is still a land of great opportunity, and not just for me – my parents remark on their annual visit that the country changes for the better every time they see it. It is, of course, regrettable that so much of Georgia's future is dependent on foreign powers; coveted EU and NATO membership are yet to be granted, and Russia is becoming increasingly aggressive in its foreign policy.

Domestically, I predict that Georgia will undergo a fracturing of its society, as its vocal minority of young, Western-looking liberals clash with the traditionalist majority. In truth, this has started to happen already, with the populist March of Georgians movement gaining a modicum of traction and the pro-Russia Alliance of Patriots party winning six seats in Parliament.

However, it is important to remember that this sort of social division will not make Georgia much different from its Western allies, especially while Donald Trump occupies the White House. What Georgia needs now is patience – its Western aspirations may still take time, but it is becoming increasingly popular as a tourist destination, and its location on the New Silk Road could see it reap major economic benefits. The future is bright and will remain so – providing Russia does not turn its eyes and armies south.

MY DISCOVERY OF GEORGIA

 John Wurdeman



John Wurdeman fell in love with Georgia the moment he arrived, in 1995. He has never once regretted his decision to make the country his home.

I came to Georgia first in 1995, inspired by a recording of traditional Georgian music I stumbled upon in 1991. In 1996 I was a painting major at the Surikov Institute of Art in Moscow, and had studied a bit of Georgian history, language and culture in preparation for my visit. The very first night in Georgia my gracious hosts invited me for a supra (feast) and amongst the gorgeous food, amber flowing wine accompanying toasts and merriment, singers were invited in, they turned out to be the same group I had bought in a used record shop in Richmond, VA when I was 16. I knew at once my life would be intertwined with Georgia. I came back in 1996 and bought a home in Signaghi, Kakheti, a lively hillside town overlooking the Alazani Valley and the great Caucasus. Georgia had a romantic and wild appeal, it still felt like a very real place, a place for real tears, real laughter, and genuine hospitality. As an artist there was plenty of inspiring imagery, dynamic and various landscapes, evocative architecture, colourful people, and a culture both ancient and in a state of rediscovery after the Soviet experience.

I finished by degree in Moscow in 1998 and moved permanently to my adopted homeland, Georgia. In autumn of 1998 I met my wife Ketevan Mindorashvili, who was singing with family and friends outside at night and I followed them as a lover of traditional songs. We married in August of 1999, and I spent my time painting and doing field recordings, tours and workshops in Georgia and abroad with Ketevan and her group Zedashe. Signaghi back then like most of rural Georgia had little to no electrical supply, water mains didn't function and there was no natural gas. This was exceedingly frustrating to my Georgian neighbours who were used to all amenities in Soviet times, but for me it was delightfully

romantic, and helped me focus on the basics in life.

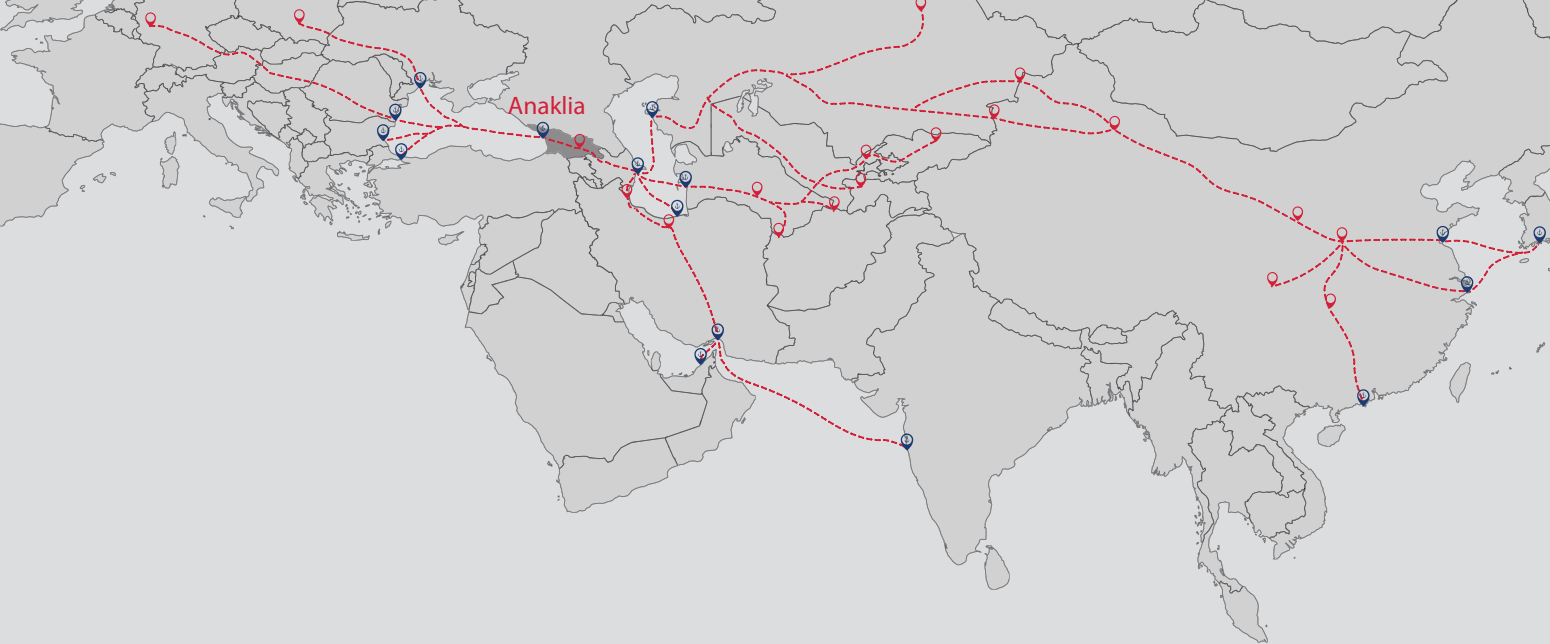
In 2006, the year Russia created an embargo on Georgian wines I met Gela Patalishvili, a young and passionate grape grower who made beautiful traditional wines. Gela was concerned that mass production of Georgian wine was taking over and many of the original varieties were being lost to the practicality of large scale farming and production, and he asked if I would join him on a quest to celebrate and share the authentic and unique qualities of artisanal Georgian wine. In 2007 Pheasant's Tears Winery was founded with three principles: use only Georgian varieties, and try to bring back and study lesser known ones, farm organically, and use qvevri - the clay vessels for fermenting and storing wine until bottling. We poured our first vintage 2007 Saperavi in spring 2008, and since we have expanded to own seven small plots spanned across Georgia and grow many lesser known varieties such as Tetri Tskhenis Dzudzu, Kahkhuri Mtsvivana, and Shavkapito. Very soon though we realised it was not only the wine scene that needed to find new life and reassessment but the culinary scene as well. As great as the blockbuster standard Georgian dishes are, 99 per cent of the menus in Tbilisi restaurants had the same Soviet standardised Georgian restaurant menu, and when travelling collecting songs and looking for rare grape varieties we realised the cheese, bread, fermented vegetables and variety of dishes in the rural regions boosted much greater diversity, and better ingredients.

Many visitors would seek advice on where to find authentic polyphonic music, wine, and food and so many started to come Ia Tabagari and I founded Living Roots, a small inbound travel company trying to help guests find rare wine, music and culinary

experiences while using the profits to help foster indigenous traditions in the villages. These food and wine expeditions helped give birth to a book written and researched by Carla Capalbo, called Tasting Georgia, published last year in the UK (see page 114).

It's been some 22 years since I first came to Georgia. Today you see a country with flourishing tourism, a cutting edge culinary scene in Tbilisi, while young Tbilisi is leaving the city to become winemakers, mushroom foragers, or grow heirloom wheat varieties. There is a generation of young Georgians not marred in the least by the dark years of the succession of Georgia from the Soviet system that bore great violence, poverty, and managed to create a civil war, one of the most dreadful experiences for any nation. Georgia is still trying to hold on to its ancient roots but is also open minded, forward thinking and wanting to rediscover itself in the modern age. This dichotomy of being both very young and ancient at the same time, keeps Georgia full of surprises, and I have never for a moment regretted my decision to come here to live, feel, sing, paint, cook, and make wine. It is forever changing and now is a beautiful time to experience, one of the last ancient living cultures on earth.





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