

Georgia.

A new European partner

With the signing of an association agreement with the EU, Georgia is now taking its place among the European family. As the wine-producing country in the Caucasus opens its doors to partners from the West, myriad opportunities abound in sectors from logistics to energy and tourism.





Photo: Invest in Georgia

Signing up for a bright future

INTRODUCTION With big plans to integrate further into the European Union, Georgia’s European dream looks set to become a reality, while the EU values the pro-business, pro-Western nation for its essential role in securing European energy supplies

Following another peaceful transition of power, further cementing Georgia’s status as a true democracy, the country’s new government is building on the progress made since the 2003 Rose Revolution to transform it into a modern European state and a key partner for the West. Just seven months after taking office, prime minister Irakli Garibashvili signed an historic association agreement with the EU, which includes a far-reaching free trade pact, and is now putting in reforms to bring the Caucasian nation’s systems and institutions in line with those of the bloc.

“When we complete these reforms, we will have an agenda for the European Union and how to make Georgia a European state,” he says. “This will elevate the country’s standard of living.” And it’s not just the Georgians who stand to benefit from the reforms. Holding a very impressive eighth place in the 2014 World Bank Doing

Business ratings, and with its GDP tipped by the institution to grow by over 6 percent this year, Georgia also has a lot to offer foreign investors. While British oil giant BP is its largest investor,

“When we complete these reforms, we will have an agenda for the European Union and how to make Georgia a European state”

Irakli Garibashvili
Prime minister of Georgia

Georgia also has strong European participation in its food and beverage, infrastructure and tourism sectors, to name a few. But the major plus point of Georgia’s renewed

focus on Europe is the vital role it plays in securing the continent’s energy supplies as it facilitates the flow of Caspian gas to Turkey and beyond. This, together with the country’s carefully crafted political and diplomatic relationships with both its neighbours and countries further afield, has positioned Georgia as an important intermediary between East and West. Recognising this, NATO has offered the nation unprecedented steps to improve cooperation, although membership isn’t yet on the cards.

Today, Georgia-Europe ties are strengthening in every dimension, something not only reflected by the upward trend in European investors entering the country to take advantage of its numerous opportunities, but also by the growing number of tourists who have started to discover Georgia’s stunning scenery, unspoilt nature and ancient traditions.

★ Georgia's progress toward EU integration	1992 EU-Georgia relations begin, as Georgia regains its sovereignty following the break-up of the Soviet Union	1999 A partnership and cooperation agreement (PCA), which regulates EU-Georgia bilateral relations, enters into force	2006-2011 An action plan from 2006-2011 involved a significant degree of economic integration and deepened political cooperation	2014 Negotiations of the association agreement, including a deep and comprehensive free trade agreement, concluded in July 2013 and came into force in June 2014
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Georgia upgrades its ties to the West

Writer: Eleanor Wragg

RELATIONS Georgians have high hopes for the impact of a recent strategic agreement with the European Union, and are now setting their sights on NATO membership

After more than a decade of economic, social and political reforms, Georgia’s signing of the EU association agreement on 27th June this year marked a key milestone along the country’s journey towards European integration. Coupled with a deep and comprehensive free trade agreement (DCFTA), the deal is tipped to boost Georgian exports to the EU by around 12 percent, and also creates attractive conditions for European exports and investments in Georgia. On the political front, the agreement is seen as a nod from Europe for Georgia’s young democratic institutions and legal framework, although for Alex Petriashvili, the country’s minister of European and Euro-Atlantic integration, this is not the end of the process, but rather the starting point for a country which sees its future as an EU member state. Georgia’s European aspirations are backed, according to the minister, by 85 percent of its population, although this does not mean the country has turned its back on its neighbours. Boasting excellent relations

“Culturally and historically, Georgia has always belonged to Europe”

Alex Petriashvili
Minister of European and Euro-Atlantic integration

with Turkey, Armenia and Azerbaijan, Georgia plays an important role as a regional intermediary. “We are the only country in the region that has good relationships with all three neighbours,” says Maia Panjikidze, minister of foreign affairs.

While the association agreement is not a guarantee of future membership of the EU, it is seen as a step closer, and according to Petriashvili, Georgia’s place is in Europe. “Georgia in Europe is not a recent idea,” he explains. “Culturally and historically, Georgia has always belonged to Europe.”

Now, this Caucasian nation, which has been assisting the NATO-led International Security Assistance Force (ISAF) in Afghanistan since 2004, is looking to further cement its links with the West by seeking full membership of the alliance.

“We want to move forward,” says Panjikidze. “We are ready to contribute more to international security and we are ready to go with our allies wherever we are needed.”

JOINT DIALOGUE Georgian leaders are adamant that their European and Western aspirations will not impede good relations with their neighbours, including Russia



Are you concerned that Georgia’s ambition to join the EU and NATO will damage relations with Russia? Look at the Eastern European countries and the Baltic States. It was possible for them to join the EU and NATO and still improve their relationship with Russia. This can happen in the Georgian case too.



Dr Maia Panjikidze
Minister of foreign affairs

What challenges do you foresee for Georgia as it moves towards economic integration with Europe? I see a lot of challenges. We know that it’s not an easy process; nor is it a cheap process. We need to transform many things. However, we will improve our production, and this will bring more jobs for the country and the better quality will allow us to be in competition with others. It’s very good that the association agreement foresees some financial and technical help because it’s very difficult for our economy to transform everything in a very short period of time.

What does Georgia represent for the EU and NATO? The enlargement of the European Union, and at the same time NATO, enlarged the zone of democracy, peace, rule of law, protection of human rights and economic prosperity. I believe that it’s not only in the interest of countries like Georgia to join the EU and NATO but also for both of these unions to enlarge the zone of stability because it makes this



Photo: Miranda Goderdzishvili

Alex Petriashvili
Minister of European and Euro-Atlantic integration

How can Georgia balance its aspirations of NATO membership with the normalisation of relations with Russia? This can be done if we manage to convince Russia that none of the integration processes are aimed against them. The prime minister, when he entered office, appointed a special representative and opened an additional channel of communication with the Russians. They have held four bilateral meetings and as a result we have got Georgian goods back into the Russian market and we have also made some progress on transport issues and air communication issues.

In the context of EU economic integration and potential NATO membership, what will the approach be with regards to the occupied

regions of Georgia? We are hoping that the EU will make a decision on visa-free travel for Georgians. This will permit the Abkhaz and Ossetians who are ready to take a Georgian passport to travel visa-free to European Union and to the Schengen Zone. This is a very important signal and message for them and will help to build trust and confidence. We have to demonstrate that we are serious that the only solution is a peaceful solution. We will never again try to regain territorial integrity by military means.

Is the signing of the association agreement with the EU a turning point for Georgia? The signing is not the end of the process. It is in fact a starting point. This is the beginning of a very challenging but worthwhile journey which will end in the democratic family of European nations, and this is where we believe we belong. The basic democratic values and fundamental rights which are appreciated in the European countries are appreciated by us.

“The basic democratic values and fundamental rights which are appreciated in the European countries are appreciated by us”



Timeline

November 2013

Takes office as prime minister of Georgia

November 2013

Initials EU association agreement in Vilnius on the first day of the Eastern Partnership summit

January 2014

Meets with Olivier Deschamps of EBRD to discuss European investment

February 2014

Meets with European Commission president Jose Manuel Barroso to discuss Georgia-EU cooperation

March 2014

Finalises EU association agreement signing date as June and attends the EU economic integration conference in Tbilisi

May 2014

Welcomes William Hague to Tbilisi and officially endorses association agenda for 2014 – 2016

June 2014

Signs the EU association agreement which also provides for a deep and comprehensive free trade area, opening a new market for Georgia's exporters



INTERVIEW

Leading the way for a new Georgia

Irakli Garibashvili
Prime minister of Georgia

Following the enactment of Georgia's new constitution, which turned the country into a parliamentary rather than a presidential republic, former interior minister Irakli Garibashvili took office as prime minister in November 2013. Today, the determined and energetic young leader is injecting a new dynamism into Georgia's ambitions to become a modern, democratic European state, with a firm focus on the West

Read the full Q&A
theguardian.com/the-report/georgia

What are your plans to transform Georgia?

Although we have carried out a number of successful reforms, there is still a lot to be done. We are fighting against poverty, we're fighting against unemployment. Agriculture is something that needs to be developed as

government's European and foreign policies. This encourages us to move forward and drive Georgia towards the EU. We want to be better human beings, live a better life, have better conditions, better education and better healthcare and that's what the EU represents.

We have experienced many bad things in the last century. After the collapse of the Soviet Union we had many difficult years. We had a civil war, we had wars in Abkhazia and South Ossetia, and our people have simply made a decision between the past and the future and we believe that our future is in Europe.

Georgia is a success story. I want us to be an example to others in the region

soon as possible. It's a big shame for me both as prime minister and as a citizen of Georgia that 85 percent of our agricultural products are imported from outside. The energy sector is another key sector we want to develop, by building hydropower stations on our rivers. Technology can take the population to a higher level, and education is also key.

How confident are you about your government's approach?

I believe we will succeed and prove that we are a constructive, normal and predictable government. Stability, predictability and constructiveness is the only right approach. We are a small country surrounded by big neighbours and we have to be smart. It is not the time for radical approaches which will only harm our people.

If you look for example at the policy of the new government towards Russia, it works. We tried to change our attitude towards them; we have made a number of constructive steps and we have made progress. Russia has now opened the market that was shut to our products for many years and we have increased our exports there. We also increased our exports to the European market by 65 percent last year. We are looking to the US, to China and now we're focussed on the Middle East, which is a potential market for our mineral water.

Why do you believe Georgia belongs in the EU?

Georgia has always tried to get closer to Europe because we feel that we are European. We share the same values, we share the same culture, and we have many things in common. It is a very natural process for Georgia to become a member of the European Union and to transform itself into a real, democratic, modern European state. This is our ambition.

I believe that we will achieve this goal because 85 percent of the Georgian population supports our

What role can Georgia play in the future of the EU?

Everyone knows and understands the importance of my country's geographical location. My ambition is to make my country a leader in the region in terms of democratic reforms and changes. We want to be an example to other states in the region and I think we have everything in our hands to do this.

Georgia is the biggest non-NATO contributor to the ISAF mission in Afghanistan, so we are contributing to global security. In addition, my government has taken the decision to contribute to the EU's military mission in the Central African Republic. After France, we will be sending the largest number of troops. This underlines Georgia's willingness to participate and contribute.

Besides that, Georgia can also play a very important role when it comes to energy. We have already implemented a successful project, the Baku-Tbilisi-Ceyhan pipeline, and in December last year I went to Baku where we signed the final investment decision for Shah-Deniz Stage Two. This is a multi-billion dollar project in which several giant players are participating. It will change the energy map of Europe when it is fully realised. If there is no peace and stability in our country then this project will not happen, so it is in everyone's interest to guarantee peace and security in Georgia.

We also offer the shortest route to China and Europe. We are on the historic Silk Route and I have a dream to restore this Silk Route. Our ambition is to transform Georgia into a regional hub.

What does the future hold for Georgia?

Georgia is in a very privileged situation. We have made it very clear that we are moving toward the European Union and this process is irreversible. Our country remains the most successful of the Eastern Partnership Project. Georgia is a success story. I want us to be an example to others in the region. I hope the Europeans feel the same way too.

Education: the key to Georgia's future



As part of his vision to transform Georgia, prime minister Irakli Garibashvili is tackling the education system

"Economic growth cannot exist without a proper education," he says. "We are going to build vocational schools, and I have established an international education centre where I'm going to sponsor the best students to study abroad in the best universities."

This two-pronged assault is set to change the face of the education system in Georgia. Garibashvili believes that there are too many young Georgians who obtain a university qualification only for it to "sit on the shelf", which he attributes to a hangover of the Soviet mentality. He wants to combat this by establishing technical training centres to equip Georgia's young people with marketable skills instead.

Himself a graduate of the Sorbonne in Paris, the prime minister also believes that receiving an education abroad is important for the country's young people and serves as a way to bring new ideas and processes to the small nation. He also looks to tap the network of educated Georgians overseas to contribute to the country's development. "We have many successful Georgians worldwide who studied abroad, stayed there and became successful businesspeople," he says. "This is the intellectual resource of our country. I am opening the doors to bring them back to the country."

With funding earmarked for fostering a global education for Georgians, and financing available for both master's and doctorates, all Garibashvili asks of budding academics in return is that they come back to Georgia and share their knowledge with their compatriots. "When they come back they will serve their country for at least three years," he explains.

★ Partners in trade

With imports and exports rising, over recent years the relationship between Georgia and the EU has grown stronger and more lucrative

22%

of Georgia's exports from January-May 2014 were to the EU

28%

of imports into Georgia between January-May 2014 originated from the EU

US\$35m

FDI from the UK in the first quarter of 2014

3rd

The UK is the third largest investor in Georgia

Q&A

Giorgi Kvirikashvili
Minister of economy and sustainable development

What makes Georgia an attractive investment destination?

Georgia can become a gateway between Central Europe and countries such as Azerbaijan and Armenia. We offer logistics possibilities and capabilities because of our excellent geographic location and outstanding business environment. Georgia can also become a very interesting place for manufacturing, even for Russian investors, because of trade with the EU. We have the lowest taxes in the region, simplified border-crossing procedures, a corruption-free environment and excellent public services. No other countries in our region can offer this spectrum of positive factors. Georgia has less bureaucracy than in the European Union because of the government's high flexibility. We can say this will be a very interesting country for investment for at least 10-15 years from now.

What is the government doing to drive economic growth?

We are developing everything further, from public services to customs and taxation. Unlike previous administrations, we are ensuring property and ownership rights are absolutely inviolable. Corruption is something that I think Georgia is now vaccinated against, but we should continue to be very cautious. Predictability is the most important area. Ours was very low in the past, because of political tensions and continued hostile rhetoric against our neighbours. We need to de-escalate and this policy, I think, makes people more relaxed, not only investors, but the general population.

How would you assess international involvement in the banking and finance sector?

We have Societe Generale, and banks from Germany, Azerbaijan and the UAE. More banks are interested in coming. One of the most underdeveloped areas is the capital market and this needs a lot of attention. We are now overhauling our entire securities legislation.

“No other countries in our region can offer this spectrum of positive factors”



Read the full Q&A
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georgia

Photo: Miranda Goderdzishvili

The new place to be for European investors

Writer: Chris Mugan

INVESTMENT Georgia offers Europe a path to the Caucasus not only due to its geographically strategic location, but its readiness to work with international investors in a transparent, business-friendly manner



Photo: Ajara Tourism

While Georgia may be under the radar for many investors, several major players have seen potential in this small nation, from BP to the United Arab Emirates' Ras Al Khaimah Investment Authority (Rakia).

Now that the deep and comprehensive free trade agreement (DCFTA) has been forged between Georgia and the EU, further opportunities are set to arise. With this in mind, in April 2014 the British-Georgian Chamber of Commerce opened an office in Tbilisi, to further its aims of facilitating business growth and contacts at senior levels. Setting up the chamber in London seven years ago, co-founders Lord Cromwell and director Mako Abashidze, along with original members BP, HSBC and law firm Baker & McKenzie, saw the need for an organisation to give information on doing business in Georgia and its culture. “Setting up the Tbilisi office is a vital next step at an opportune time,” Abashidze believes. “We work very closely with the government and it's a very good partnership.”

A vital prerequisite for business is stability, both political and economic. Here, Georgia boasts an enviable track record: in successive elections, this former Soviet state has accomplished democratic and peaceful transitions of power,

allowing a series of administrations to make positive strides in pro-business reform. The current government, led by the Georgian Dream party, has maintained continuity by pursuing policies that favour a free market, low regulation and a liberal tax regime.

A bridge between Europe and Central Asia

With these reforms, Georgia seeks to make the most of its advantageous position, accessible from Europe, but close to the dynamic economy of Turkey, Azerbaijan's oilfields and Russia. Although growing links to the EU are vital to its development, Georgia maintains close relations with its neighbours to the East.

“We already have free trade agreements with every CIS country,” says Giorgi Pertaia, director of the Georgian National Investment Agency, adding that this alone provides the country with customs-free access to a market of around 400 million. “You can be in those countries, selling your products, but you are based here and you are treated in the same way as companies are treated in Europe.”

Pro-business government

World Bank rankings, based on such metrics as gaining credit, registering property and protecting investors, place Georgia as the world's eighth easiest country to do business. The institution has hailed the country's sustained reform, which has seen it jump from 112th place in 2005, as “un-

precedented”. Meanwhile, the Doing Business Reformer Club awarded the country its ‘Top Reformer’ position on a five-year measure of cumulative change. Pertaia proudly notes that an investor can set up a company there in one day, “and if you have the right documents ready, you can do it in hours.”

Perspectives on investment



“Georgia's banking sector has become absolutely on par with western standards”

Lasha Papashvili
Director general of Redix Group

Founder of Bank Republic, Lasha Papashvili formed Redix Group in 2007 to inject modernity and dynamism into Georgia's real estate sector. He is achieving these goals through projects ranging from Signaghi's elegant Hotel Kabadoni to business centres across Tbilisi.

“Georgia will soon have free trade with the European Union so it's a great opportunity for many companies in the surrounding countries”

Giorgi Kvirikashvili
Minister of economy and sustainable development



GATEWAY TO THE CAUCASUS
Strategic opportunities

Georgia's strategic location offers huge opportunities for investors, as it provides an easily accessible entry point to Central Asia and the Caucasus. On the eastern shore of the Black Sea, Georgia lies between the economic

powerhouse of Turkey to the south and Russia on its northern flank. Georgia shares eastward borders with its landlocked neighbours Armenia and Azerbaijan (though the latter does face the inland Caspian Sea). It is easy to reach

this nation of five million people from most major cities in Europe and the Middle East, and its airports offer 40 direct international connections. Georgia also boasts two major seaports, Poti and Batumi, plus an oil terminal at Kulevi.

“The European Bank for Reconstruction and Development (EBRD) has been impressed with Georgia's progress”, says Bruno Balvanera, the institution's director for the Caucasus, Moldova and Belarus. “Georgia is a country that has got rid of corruption. You have rules, transparency and it ranks very well in the Doing Business list.” The EBRD now plans to develop a financial instrument following the free trade agreement to help Georgian companies comply with European market standards.

Liberal taxation

Since 2004, Georgia's tax authority has simplified its tax code, improved administration and increased enforcement. It has reduced the number of taxes from 21 to just six today: income, corporate profit, VAT, excise, import and property, without any payroll or social insurance taxes. Georgia's 15 percent corporate income taxation rate is lower than all of its immediate neighbours, including Russia, Armenia and Turkey. Rakia is developing a free industrial zone near the Black Sea port of Poti, where businesses will be exempted from 99 percent of taxes. CEO of Rakia Georgia, Guga Tsanava, explains that this is a priority above the fund's investments in retail and tourism. “We think it has huge potential because it is one of a kind in Georgia. We are in active negotiation with a couple of anchor companies, offering whatever assistance is necessary. We are also working towards international financial reporting standards.”



“The sooner you come, the better the projects you can find”

George Bachiashvili
CEO of Georgian Co-Investment Fund

As CEO of the US\$6 billion Georgian Co-Investment Fund, the largest of its kind in Central and Eastern Europe, George Bachiashvili aims to use fund management, project coordination and consulting experience to sustainably boost the economy.

Photo: Miranda Goderdzishvili



Q&A

Giorgi Pertaia
Director of the Georgian National Investment Agency

How is Georgia perceived as an investment destination?

One big problem Georgia has is lack of awareness. We are a post-Soviet country, and the perception is that it's a country with high levels of bureaucracy, corruption and grey-coloured buildings, but the reality is very different. According to Transparency International, Georgia has the lowest corruption rate in the region. When we talk about doing business, we are the best in the region. Customs clearance in Georgia takes an average of 15-20 minutes. A lot of factors place us in the global top ten.

Is Georgia's ambition of developing into a regional commercial hub realistic?

In recent years, many companies coming to the South Caucasus have set up headquarters in Georgia, simply because they have to

cover Azerbaijan and Armenia as well, but because of the conflict between them, by default people come to Tbilisi.

Lately, low taxes, low crime rate and low corruption create further attractions, and companies that base themselves here now also cover Kazakhstan and Ukraine. There's quite a large transit volume going back and forth between the landlocked Central Asian countries and Europe and this creates a lot of possibilities for warehousing, cold storage and so on.

What are the main challenges to overcome in convincing investors about Georgia?

One aspect is convincing people to invest in a small country with a market size of 4.5 million. But the important thing to remember is our network of free trade agreements.

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GEORGIAN NATIONAL INVESTMENT AGENCY

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With a range of Free Trade Agreements, Georgia has access to a market of 900 million that is not subject to customs tax, including EU countries, all CIS Countries and Turkey.

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Providing energy security to Europe



The EU currently depends on Russia for 39 percent of its natural gas imports, and ever since the winters of 2006 and 2009, when conflicts between Russia and Ukraine led to disruptions in the energy supply to several member states, the bloc has strived to reduce its exposure to external energy shocks by reducing its reliance on any single supplier. Today, in view of current events in Ukraine, finding an alternative route for Europe's energy supplies is once again a key issue for Brussels, and one which looks set to be addressed by the opening of the Southern Gas Corridor, which will see Georgia play a key role in transporting Caspian gas directly to European countries.



Photo: Invest in Georgia

Photo: GOGC

An energy superhighway

Writer: Eleanor Wragg

ENERGY Georgia's location between the oil and gas reserves of the Caspian Sea and the vast consumer market of the European Union ensures the country a key role in the energy sector. Both foreign investors and Georgia's business community have rushed to get a piece of the action

Georgia has long been a conduit for international commerce, dating back to the days of the Silk Route when merchants trekked back and forth from Europe to the Far East. The country's status in the 21st century has been given a substantial boost by a different sort of cross-border trade in the form of massive pipelines – an energy superhighway – that connect the oil and gas reserves of the Caspian Sea with the consumers of Europe. Running 1,768km across three countries, crossing a mountain range and linking two seas, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline represents an incredible feat of engineering. Built at a cost of US\$3.9 billion, US\$800 million of which was invested in Georgia, its completion in 2005 – although first oil did not reach Ceyhan until the following year – saw Georgia become a crucial oil transit player in the region. Following the same route as BTC, in order to minimise environmental disruption, is the US\$1 billion South Caucasus Pipeline (SCP), which carries gas to Turkey through Georgia from Azerbaijan's Shah Deniz field. Together, the pipelines are the only way for Caspian hydrocarbons to reach Western markets while avoiding Russia – a boon for the European Union, which has sought to improve its energy security and reduce its reliance on an increasingly volatile Moscow ever since the 2006 and 2009 gas crises. “Georgia plays a vital role in the energy security of the region,” says Kakha Kaladze, Georgia's minister of energy, explaining that as Europe's energy needs increase, so will his country's role as a transit country. “Because of the



Photo: GOGC

Georgia's status has been given a substantial boost by massive pipelines that connect the oil and gas reserves of the Caspian Sea with the consumers of Europe

Georgia, the nation's fortunes are set to increase even further with the new US\$28 billion deal underway for the Shah Deniz 2 project. Signed off in December 2013, the project will add a further 16 billion cubic metres per year (bcm) of gas to the 9bcm already coming out of the gas field in Azerbaijan. It also means the opening of the Southern Gas Corridor through

situation that we have in Ukraine, it's important for Europe to have alternative sources of supply,” he adds. British oil and gas company BP, one of Georgia's major investors, is the technical operator of SCP and the manager and largest shareholder of the 11-company BTC consortium, which includes Azerbaijan's SOCAR, Norway's Statoil and American super-major Chevron among others. While the pipelines already represent the largest foreign investment project in

20%

The energy saving in Georgia that can be provided by energy efficiency measures.

In October 2013, Georgia joined the Eastern Europe Energy Efficiency and Environment Partnership (E5P), which brings together funds from the EU and other donors to reduce energy use, pollution and greenhouse gas emissions while avoiding market distortion

and increasing competitiveness. As Georgia's energy use is over 2.5 times the EU average, the partnership envisages significant scope for savings in the production of goods and services, as well as investment in efficient technologies such as LED street-lighting.

★ Partners for energy efficiency



Photo: GOGC

the expansion of the SCP across Azerbaijan and Georgia, the construction of the Trans Anatolian Gas Pipeline (TANAP) across Turkey and the connection of the Trans Adriatic Pipeline to Italy – essentially creating a direct link to Azeri gas for Western Europe. Once the project is underway, Georgia will receive more gas to satisfy its own energy needs, and will also receive a further US\$2 billion in foreign investment, of which around US\$400 million will go to local companies. The country also expects to see the creation of 2,000 local jobs. Work is scheduled to start in January 2015, with Georgia's section of the works set to be completed by the end

Once the project is underway, Georgia will receive more gas to satisfy its own energy needs and a further US\$2 billion in foreign investment, of which around US\$400 million will go to local companies

Georgia, there is a bottleneck.” As a result, Georgia is yet again taking its place as an important international player, key to the fortunes of both West and East.

of 2016. According to BP, first gas is targeted for late 2018, with supplies to Georgia and Turkey; gas deliveries to Europe are expected just over a year after first gas is produced offshore Azerbaijan. Georgia's role as a midstream partner has an important impact on the country's economy, as Kaladze points out. “It's vitally important for us to develop these projects because they bring economic development to Georgia. Not only do these projects foster the ability of Georgia to further develop its economy, but they also give it the ability to develop its own natural resources.”

Perspective



Aieti Kukava
CEO of JSC Alliance Group Holding

“We have one of the largest untapped hydro resources per capita in the world”

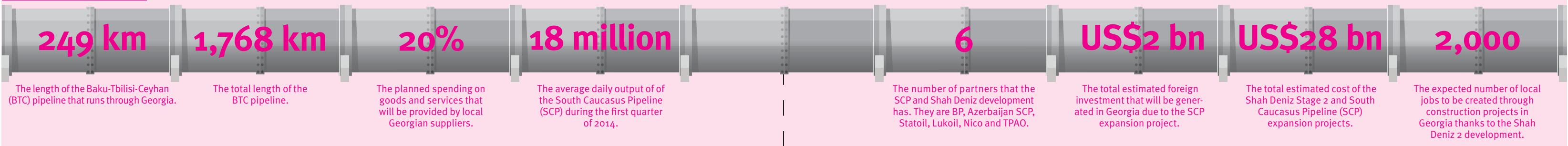
Where are the opportunities for foreign investors?
In energy sector and real estate. Georgia has utilised only 18 percent of its energy project opportunities in hydropower and we have opportunities in solar and wind as well.

What scale are the hydropower projects?
We have 33 projects from 10MW to 600MW. Investors can put it as little as US\$100,000 and become a co-owner.



Georgia's pipelines in numbers

The two major pipelines that cross Georgia – the Baku-Tbilisi-Ceyhan (BTC) which transports oil and the South Caucasus Pipeline (SCP) which transits gas – have an enormous impact on its economy



Q&A Kakha Kaladze
Minister of energy

What is Georgia's function in the energy chain from the Caspian Sea to Europe?
Georgia plays a vital role in the energy security of the region, transporting energy from East to West. We are already party to the infrastructure which exists in the region, including the Baku-Tbilisi-Ceyhan pipeline and Shah Deniz project. Through these types of projects, Europe will receive additional natural gas and additional sources of energy.

How would you appraise Georgia's power infrastructure?
When it comes to hydropower resource usage and supply the network is vitally important. We are diligently working on this. We have recently opened up the Black Sea Transmission Network which transmits energy from Georgia to Turkey and we are also renewing and developing existing networks in order to bring them closer to European standards. For future projects we are working with European financial

institutions to obtain funding.
What are the best prospects in the energy sector for foreign investors?
Hydropower plants and stations are the biggest draw, although we are also working on developing wind power. We have about 70 hydropower projects which are ready for investors and we are working towards bringing new possibilities for new projects to be introduced to the investors as well.

Wind: another promising energy resource



Regularly buffeted by the winds that cross the Caucasus, Georgia represents a rich untapped source of wind energy, estimated by the government at some 4 billion kWh, and the country is looking for outside participation in order to develop the sector.

As the developer of a 30MW wind park, the Georgian Energy Development Fund (GEDF), which was set up by the government to invest in renewable energy projects, is one of the first on the country's wind-power scene. And Giorgi Bezhuashvili, the fund's CEO, is optimistic about the future of the sector. “For wind power, Georgia is very interesting. On the left

we have the Black Sea, on the right we have the Caspian Sea, and these two huge reservoirs of water create different air mass movements. In winter, the wind generally comes from the Black Sea to the Caspian and then in summer it starts to blow back. There is therefore a corridor between these two lakes where there are masses of wind.” The government has identified several key

spots for wind-power plants, including the mountainous regions of southern Georgia, the lower part of the Black Sea coast and the central region of Kolkheti Valley, and Bezhuashvili is enthusiastic: “We have a whole range of projects,” he says, adding that the GEDF is currently looking for an investor to take part in the 30MW wind

project. “We have done a pre-feasibility study and now we are offering shares in the company.”

“For wind power, Georgia is very interesting”

Giorgi Bezhuashvili,
CEO of the Georgian Energy Development Fund

30%

The maximum participation of the GEDF in any joint venture with a foreign investor.

A hydropower bonanza

Writer: Ed Peters

ENERGY Georgia's greatest natural resource is its water system, which cries out for hydropower development. Its massive potential is luring developers from around the world, while the government has made the investment process attractive with straightforward regulations



Photo: Invest in Georgia

For investors with the financial and technical ability, Georgia's burgeoning hydropower industry offers rich opportunities for investment. Although the country boasts 26,000 rivers, less than a quarter of its estimated potential 40 billion kWh of economically feasible hydropower has been harnessed to date. As Georgia currently buys in electricity to meet demand in winter, the government's energy policy aims to reduce dependence on imports by encouraging further development of domestic hydropower resources, hence the call to private developers. With a simple tax system and favourable business environment, the government has endeavoured to ensure

“Georgia's hydropower industry offers rich opportunities”

the requirements to build, own and operate a hydropower plant are relatively simple, and has even identified potential sites. Energy minister Kakha Kaladze says his ministry has around 70 hydropower projects awaiting foreign investment, and anticipates many more over the coming years.

The Black Sea Transmission Network, partially funded by the European Bank for Reconstruction and Development (EBRD), will provide the opportunity to send any surplus electricity generated to neighbouring Turkey, whose demand for power is tipped to double by 2020.

“Turkey continues to grow faster than the world average,” says Bruno Balvanera, director for Caucasus, Moldova and Belarus at the EBRD. “They are energy importers and Georgia can provide energy to them on a long-term basis. We are focusing on a few hydro projects.”

It's not just foreign investors who are getting involved. Gela Bezhuashvili, chairman of Georgian Industrial Group, the country's largest holding company, sees myriad opportunities in the renewable sector. “Energy is already a core business for us. We run hydropower stations, and we are going to build some more,” he says. “There are upcoming projects that we are negotiating with the government.”

Feel the energy

ENERGY LEADERS With a stable government, an advantageous geographical location, and a lot of hard work and determination, Georgia is set to become an energy titan, as three of its business leaders make abundantly clear



Dr Samson Pkhakadze
Chairman of Wissol Group

Although Georgia has no natural resources itself, Georgia can transit lots of oil and gas coming from Azerbaijan, Kazakhstan and other countries. Through Turkey these products are being delivered to European countries. We have to remind Europe of our strategic position.

“Georgia's geographic location is remarkable and we have to exploit this”



Giorgi Bezhuashvili
Director of Georgian Energy Development Fund

We have hydropower projects; one is a 30MW project made up of a cascade of five small hydropower plants on one river. We have small projects in the east of Georgia of around 7MW and 3MW. We currently have a further seven under feasibility study. We sold a 15MW project last year.

“We have a whole range of projects”



Giorgi Gachechiladze
CEO of Georgian Water and Power

We have a dam and a big water reservoir and also hydropower generators and turbines with a 80MW capacity. We also have a smaller hydropower station with a 12MW capacity. We are currently constructing a third. As a utility company, we are very happy to have partners to share experiences and new technologies.

“There are a number of advantages which this country can offer”

In March 2014, the EU's commissioner for enlargement and European neighbourhood policy Stefan Füle signed two financing deals in Tbilisi that will contribute to public finance reform in Georgia, and strengthen both the role

of the Georgian parliament and the country's parliamentary democracy. These agreements, worth over €22 million, form part of a third stage of EU support for Georgian public finance management, building upon the success of two

previous public finance programmes. For the first time, the new agreements bring together the ministry of finance, the Georgian parliament and the state audit office in an effort to increase overall accountability.

Increasing accountability ★

A small yet stable financial sector

Writer: Ed Peters

FINANCE Thanks to forward-thinking government policies, Georgia's finance sector is resilient and growing



Designed by Italian architects Massimiliano and Doriana Fuksas, the Tbilisi Public Service Hall houses a number of government agencies, including the National Bank of Georgia. Photo: Invest in Georgia

By near-universal acclaim, the finance industry is the best-run sector in the country. Its runaway success dates back to the 1990s, when the cumbersome state-run banking system was fully privatised and opened up to private investment. For savvy international and local financiers, the liberalisation was a clarion call to action. Today Georgia is host to 17 commercial banks, and three foreign banks also maintain branches in the country, while there are also 18 credit unions and 64 microfinance organisations. Two of the country's banks are now listed on the London Stock Exchange, including TBC Bank via global depository receipts. Georgia's banking sector is highly concentrated, with more than three-quarters of total assets controlled by just five banks, with the Bank of Georgia and TBC Bank being the major players. International banks from Germany, France and Russia have also established a significant presence in the country, while 15 commercial banks in Georgia are currently foreign-owned.

Georgia's modern and sophisticated financial systems reflect an economy which is developing at an encouraging pace. Energy, agriculture and tourism form the economic tripod which has assisted the country's development, and foreign direct investment has been a driving factor behind the country's growth over the previous decade. Improvements in Georgia's economic makeup have been spurred on by a free market-oriented policy, low taxes, a reduction in the number of licenses and permissions, and vastly simplified administrative procedures. Added to these are the benefits of Georgia's convenient geographic location, a well-developed transport infrastructure, and a workforce that is educated, skilled and motivated.

Georgia's financial makeup was further improved by the introduction of a new tax code in 2011, which streamlined procedures, making Georgia one of Europe's most liberal tax jurisdictions.

+
Going for growth

The World Bank has forecast Georgia's growth at over 6 percent over the next three years, however Giorgi Kvirikashvili, minister of economy and sustainable development, has said he regards the estimates as conservative, citing 8 percent growth in recent months. As well as highlighting major new projects starting in 2015 which will impact significantly on GDP, he also pointed to special financing mechanisms for SMEs to help young people realise their business potential. The overall aim is to achieve more inclusiveness in the economy.



Nodar Khaduri
Minister of finance

How do you plan to increase access to finance in Georgia?

The ministry of economy and sustainable development is supporting an increase in savings. We are working actively with the EBRD and IFC to convince them to allocate their securities on the Georgian market, and we are perfecting the legislation base in order to attract other players.

Has Georgia done enough to diversify its export markets?
Currently, Georgian exports are equal to 35 percent of GDP. We plan to increase this to 55 percent. One factor of great importance is the association agreement we have signed with the EU, which includes a com-

prehensive free trade agreement. We also consider it very important that we were able last year to return to the Russian market, which was significant for the agrarian sector. We are actively working towards enabling Georgian products to reach other markets.

How can Georgia attract foreign investment?

What an investor needs is a stable environment, then a favourable tax environment, and then a market where it will be possible to sell products. The association agreement with the EU will be the major stimulus for investors to come to Georgia, and we are currently expecting a significant increase in investments coming to the country.

“The Georgian banking system is one of the most successful sectors in the economy”



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Transparency International ranks Georgia as the most effective non-EU, Post-Soviet Union state in terms of fighting corruption. According to the Global Corruption Barometer 2013, 0% reported paying a bribe to the Tax Revenue service, 5% to the police, 2% to the Registry and Permit services and 4% to the Judiciary system*.

*Transparency International's Global Corruption Barometer 2013

www.investingeorgia.org

A destination for all seasons

TOURISM A growing number of tourists visit Georgia every year, enjoying the country’s ski resorts in the winter, mountain treks in the spring and autumn, seaside resorts in the summer, and its dynamic capital all year round



▲ AN HISTORIC CAPITAL

Tbilisi spent much of its history as the economic, cultural and political centre of the Caucasus, and this has contributed to its vibrant identity today.

With plenty to attract tourists, the spirited capital of Georgia has year-round appeal. In today's Tbilisi, antiquated charm and modern infrastructure co-exist side by side. Rustaveli Avenue, the city's main street, bustles with local professionals and tourists visiting cafes and shops, while the historic district of Old Tbilisi is lined with cobbled streets and buildings dating as far back as the fifth century – leading to it being placed

on the UNESCO World Heritage tentative list. With accommodation ranging from five-star hotels with conference facilities to homely bed and breakfasts, there is something for everyone, and its airport, just 11km from the city centre, provides easy access for international visitors.

Photos: GNTA, Invest in Georgia



◀ GEORGIA’S SPIRITUAL HEART

Mtskheta, a short drive from Tbilisi, is one of Georgia’s oldest cities, its former capital and a UNESCO World Heritage Site. The town boasts exquisite stonework monuments and historical sites. The eleventh-century Svetitskhoveli Cathedral and the sixth-century Jvari Monastery represent two of the most historically significant religious monuments in the country, and Mtskheta remains the seat of the Orthodox Church. Visitors can explore the dramatic ruins of the nearby Armaztsikhe fortress, which dates back to the third century BC.

Photo: Invest in Georgia

TRAVELLER VIEWPOINT

Fred W Finn, who holds the Guinness World Record for most air miles flown by a passenger, is known as ‘the world’s most travelled man’, and has visited around 150 countries. He says Georgia stands out for its hospitality – the best he has ever experienced in any destination. Recently appointed as an honorary ambassador of tourism to the Georgian National Tourism Administration, he describes the country as safe, historic and spectacular.



Photo: Fred W. Finn

“Georgia has a magic that unfolds with every-where you visit.”



Georgia in spring and autumn offers the nature-loving tourist national parks, volcanoes, hiking, and picturesque resort towns. Borjomi, where Georgia’s famous brand-name mineral water is produced, is home to thermal sulphur springs and diverse hiking trails in the Borjom-Kharagauli National Park. The Borjomi Museum of

Local Lore boasts a collection of china and glass from the Romanov Palace, and the first bottle of Borjomi mineral water ever produced. Svaneti, home to some of the highest mountain peaks in the Caucasus, offers an unparalleled hiking experience for adventure-seekers. Tourists can explore its imposing landscape on

▲ OUTDOOR ATTRACTIONS

foot or horseback. Ushguli, a community of four villages in upper Svaneti, is home to buildings that make up part of a UNESCO Heritage site in the region, including the twelfth-century Ushguli Chapel.

Photos: Invest in Georgia, GNTA



◀ SUN, SEA AND JAZZ

In summer, tourists enjoy Georgia’s seaside resorts, beaches and seasonal events. Batumi, Georgia’s best-known Black Sea resort, is a popular destination for families and young people alike. Batumi’s casinos and hotels attract party-goers and gamblers from around Europe, while families seeking a mellow holiday gravitate towards its charming historical sites and villages. The popular annual Batumi Jazz Festival draws large crowds of music lovers. Far away from the sea, some of Georgia’s most outstanding mountain terrain opens up to tourists exclusively in summer. Tusheti, accessible from June to September, hosts the country’s most rugged, rural and awe-inspiring mountain range.

Photos: Ajara tourism, GNTA



◀ A SKIER’S PARADISE

In winter, Georgia’s resplendent mountainous landscape becomes a haven for snow sports. Two large ski resorts – Gudauri in the Greater Caucasus mountain range and Bakuriani in the southeast of the Borjomi district – offer a range of winter activities for both amateurs and professionals. Gudauri, the higher of the two resorts, is easily accessible from Tbilisi. Its vast slopes are popular among tourists, from snow hikers exploring serene trails to heliskiers seeking thrills.

Photos: Invest in Georgia, GNTA

Q&A



Read the full Q&A
theguardian.com/
the-report/
georgia

Giorgi Sigua
Head of Georgia National Tourism Administration

What makes Georgia a unique destination for tourists?
In a small area of 70,000 square kilometres, we have all kinds of nature. We have very high mountains, we have five UNESCO Heritage sites, we have wine and cuisine. There are possibilities for all different types of tourism: adventure tourism, hiking, kayaking, skiing, beach tourism, gambling, even medical spas. It is also inexpensive.

What does Georgia’s Black Sea coast have to offer?
Along the coasts there are a lot of resorts, including Batumi, which is sometimes called the Las Vegas of the Black Sea because there are a lot of luxury casinos and world famous hotel brands. We are the only country in the region which has gambling, so Batumi is very famous for gamblers.

“According to Georgian spiritualism, the guest is the ambassador of god”

What are some of the lesser-known spots in Georgia?
In the southern part of Georgia we have some very magical and relatively unknown places, which we are increasingly promoting. One place that really stands out is Vardzia, which is the Georgian answer to Machu Picchu. In Akhaltsikhe we have the Rabati fortress, a large castle with a synagogue, mosque and a church within its walls, representing the peaceful cohabitation of the religions. This is the crossroads of civilisation.

What is the government’s strategy to boost tourism?
This new government approaches tourism very carefully and intelligently. We are now working with the World Bank and international experts to have a strategy for at least the next ten years on how the country should act within this sector. For us, hospitality is a very holy thing. If you come to our home you get the best food, the best drink and the best treatment. According to Georgian spiritualism, the guest is the ambassador of god, and we need to make sure this is reflected in our tourism strategy.

How important is tourism as a means of changing perceptions about Georgia?
Tourism helps us increase awareness of what Georgia is, who Georgians are, what Georgian culture is, how European we are, how close we are to the European family and how we can be trusted. Tourism brings potential investors and friends to the country, people who like us and talk about Georgia positively.

★ A new spot for European tourists

Georgia experienced a 22 percent increase in international arrivals in 2013 compared to 2012, the highest increase in Europe that year, according to the World Tourism Organisation. The majority of these travellers came from

Over 5 million European visitors came to Georgia in 2013

Europe, and many were first-time visitors to Georgia. Georgia expects to welcome more European visitors soon, as it prepares to host the European Youth Olympic Festival in 2015. Over 4,000 athletes from 49 countries will take part.

22%
The increase in international arrivals to Georgia in 2013



▲ THE BIRTHPLACE OF WINE

Levan Davitashvili, chairman of the National Wine Agency, the body that regulates the Georgian wine industry, believes that wine is Georgia's contribution to civilisation. "Wine was born here," he said. "It's part of our life." Indeed, Georgians take pride in the unique charm of their national wine. Wine is infused into Georgian culture and religious traditions. Many locals raise a glass to uphold the Georgian tradition of giving long, hearty toasts at dinner tables, and wine is an integral part of several rituals at Georgia's Christian Orthodox churches. Davitashvili points out that Georgian wines are produced, stabilised and filtered naturally,

preserving their healthful antioxidants. Many winemakers, including those at the Teliani Valley company, still make their premium products using 'qvevri', the age-old method using clay vessels underground. Georgian reds range from the distinctive semi-sweet, such as the Akasheni, to the more conventional dry, such as the Mukuzani. Whites from the Kakheti wine-producing region have won awards in major international wine competitions. The Saperavi grape, Georgia's most famous, produces a variety of wines, from deeply-coloured reds to rosés. Davitashvili has high hopes for this rich purple grape, saying it could lead the Georgian wine industry on to the international stage. Georgian winemakers have successfully marketed their products in Eastern Europe, and look to do the same in the United States, which offers a less

conservative wine market than Western Europe. Wine is not the end of the story – the distinctive flavours of Georgian grapes are also well-suited to producing brandy spirits. Elguja Bubuteishvili, director general of Sarajishvili, a Georgian brandy company, explained that his company is marketing aggressively toward Europe. "We want to become a worldwide brand," he said. Shota Kobelia, CEO of Teliani Valley, is optimistic about the potential of Georgian wines on the international market. "We were the world's first winemakers," he said. "People can trust us because we know how to do it."

Photos: GNTA, Invest in Georgia

THE SPORTING WORLD COMES TO GEORGIA

In preparation for hosting the European Youth Olympic Festival (EYOF) in 2015, Georgia is rapidly developing its sports infrastructure. Construction is underway of six new sports venues and an Olympic Village project in Tbilisi. Georgians take pride in their athletic traditions, namely traditional Georgian wrestling, which is set to be included by UNESCO on its list of intangible cultural heritage, and judo. These two sports account for most of Georgia's Olympic medals.



"A true celebration awaits [EYOF participants] in the capital"

Leri Khabelov
President of National Olympic Committee



Being at the crossroads of Europe and Asia has given rise to a unique array of national dishes in Georgia. It takes a few tries before one learns to properly eat a Georgian dumpling, known as khinkali and filled with meat, usually a mixture of beef and pork, and the meat's juices. In rural areas, khinkali leftover from dinner may be cut up and fried for breakfast. Sulguni, a salty semi-firm white cheese, is often melted onto flat bread to make another well-known dish called khachapuri. Georgian brandy, called chacha, is a popular accompaniment to these dishes.

Georgia's geography has also generated diverse cultural traditions, including various forms of traditional dance. These dances explore themes ranging from war, as in the Khorumi dance, to romance, as in the Kartuli dance. Dancers perform in vibrant costumes, bringing to life the country's elaborate history.

Photos: GNTA, Invest in Georgia



Q&A

Levan Kipiani
Minister of sports and youth culture

What strategy does the ministry have for sport development in Georgia? Three main priorities of our ministry are: development of sport infrastructure; promotion of sport education; and regulation of sport legislative base. As a result of intensive work and negotiations every municipality of the country considers sport infrastructure in the top priorities.

Georgian Olympic-level athletes

have a strong history in wrestling and judo. What role do you think culture plays in their success? We not only view wrestling as a sport, but also consider it an important part of Georgian culture. The ministry pays a great deal of attention to Georgian wrestling, building wrestling arenas and holding regular competitions in the regions. In this way, we discover talented athletes and ensure their future success.

A Georgian football revival

Writer: Ben H Quandt

FOOTBALL Ever since the fall of the Soviet Union, Georgia's once-thriving football scene, starved of money and infrastructure, was on its knees. But today, as FC Dinamo Tbilisi – the country's most successful club – invests in an academy to train Georgia's young stars, a new optimism abounds about the future of Georgian football

It's not every day that the world's best footballer arrives in Tbilisi, but that is exactly where Cristiano Ronaldo was on a summer's day in early July 2013. The occasion? The grand opening of the newly constructed football academy of Dinamo Tbilisi. The modern three-hectare training complex – named for the late legendary Georgian footballer and former Dinamo player, Vitaly Daraselia – aims to be the incubator for a new generation of Georgian footballing talent. Since taking over the country's most iconic and successful football franchise in 2011, club president Roman Pipia has set about reinventing the sport in his native country. "In Georgia, football was

always a big sport, but for a long time football lost its way, so we have really had to relaunch the football atmosphere," he says. The multi-million dollar facility boasts two full playing pitches, tennis, a gymnasium, a recreation room with table tennis, plus an onsite dining hall where the young athletes enjoy nutritious meals. The academy starts training children at eight years old – there are some 600 enrolled – and the organisation assists the youngsters academically. Heading up the coaching staff of 27 is former Dutch player and coach Luc Nijholt, who alongside a medical team of five ensures that

"The future of football in Georgia is the young kids"

Roman Pipia
President of FC Dinamo Tbilisi

the sporting hopefuls are given the support required to succeed. The new recruits can expect to train four times during

a typical week, before showcasing their prowess on weekend game days. The ultimate goal for these aspiring footballers is to make it onto the legendary Dinamo first team. Pipia describes

himself as a realist, but has faith in a long-term vision for both club and country. "We need another five to six years so that our team, with the aid of the new generation, really achieve a level that we are hoping we can get back to. The future of football in Georgia is the young kids." So perhaps on another summer's day, years from now, it will be a young star fostered at the Dinamo Academy inspiring yet another generation of intrepid footballers.



Q&A

Roman Pipia
President of FC Dinamo Tbilisi

What led you to buy Dinamo Tbilisi?

My initial motivation for the purchase of the football club was not to gain profit, but to develop, enhance and enrich Georgian football by training a new generation of football players. This is a long-term investment for ten plus years. Most businessmen are motivated from an economic standpoint, but this

"For a long time football lost its way in this country so we have really had to relaunch the football atmosphere"

investment stands for something different for me. My goal first and foremost is to improve Georgian football.

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★ An effective transit hub for Europe-Central Asian trade

Located next to one of the most important Black Sea ports, the Poti Free Industrial Zone, owned and operated by the Ras Al Khaimah Investment Authority, provides a tax-free base for manufacturers, IT companies, warehouses, and other industries to take advantage of East-West trade flows.

ity, provides a tax-free base for manufacturers, IT companies, warehouses, and other industries to take advantage of East-West trade flows.

Georgia strengthens its position as a logistical hub

Writer: Jonathan Andrews

LOGISTICS With new rail links and a deep-sea port, Georgia aims to build upon its strategic location to revive old economic ties between East and West

Badri Tsilosani, owner of Georgian Carriage Builders Holding, has seen his company's fortunes rise along with Georgia's own development. The company manufactured freight cars and passenger trains under Soviet control until the Union's collapse, when the company then became privatised. Tsilosani, himself a worker at the time, bought shares in the company. After hitting bankruptcy not long after, and surviving, the company has become a leading example of Georgia's infrastructure and logistical development in the last 10 years. "Until 2004, it was difficult to do business in Georgia," Tsilosani admits. "Everything was ruined. There was no bank system, no infrastructure and no telecommunications. But during the past three or four years we have had growth." As a result the company is now producing new models of wagons, including flat wagons that are more profitable logistically, and is branching out to new containers which meet high European standards. "Geographically our country is a transit country. All countries transport cargo through our country so we have to

make the infrastructure to facilitate this," he adds.

Crossroads

Historically positioned on the old Silk Route, Georgia's government is aware that with a small population of 4.5 million its fortune lies as a logistical hub between Central Asia and Eastern Europe. Government-owned Georgian Railway aims to capitalise on the country's location and is busy modernising its extensive electrified rail network linking the Black Sea with the Caspian Sea to be able to deliver containers within 48 hours between both ports. As part of this process two large tunnels, at a cost of US\$350 million, are being dug to connect the east of the country with the west



Photo: Invest in Georgia

TELECOMMUNICATIONS Mobile phone penetration of almost 100 percent including high-speed HSDPA+ connectivity means Georgia's telecommunications infrastructure is the best in the region. This will shortly be joined by high-speed fibre optic cable.

LAND The 826-kilometre Kars-Tbilisi-Baku railway, scheduled to be running next year, will be able to transport three million passengers and 15 million tonnes of freight upon completion.

★ Facilitating access between Europe, the Caucasus and Asia

As a member of the EU-backed Transport Corridor Europe-Caucasus-Asia (TRACECA), Georgia is working to streamline transport tariffs across more than 10 countries in the transport corridor on all major types of cargo, including containers.



Photos: Invest in Georgia

AVIATION Since the opening in 2007 of Georgia's modern new airports in Tbilisi and Batumi, airline traffic has grown steadily, with the number of flights to Tbilisi rising from 5,835

in 2007 to 10,187 last year. As the country works with the EU on harmonising laws and standards, the aviation industry has benefited from improvements in air safety rules and systems.

and to relieve bottlenecks caused by the mountainous topography. The company is also involved in the construction of a new railway linking Baku in neighbouring Azerbaijan, the Georgian capital Tbilisi, and Kars in Turkey that will connect with the new Marmaray tunnel under the Bosphorus Strait in Istanbul. Other countries are lining up to become part of this key corridor including Turkmenistan, Uzbekistan and most importantly China.

"We will be able to deliver containers, freight and passenger traffic from this part of the world to Europe, avoiding maritime transport entirely," explains Mamuka Bakhtadze, CEO of Georgia Railway, adding that this will reduce transport times by around 45 percent. As a logistical hub, Georgia also plays an important role in distributing a steady supply line of oil and gas from Azerbaijan. Bruno Balvanera, director for the Caucasus, Moldova and Belarus at the European Bank for Reconstruction and Development (EBRD), explains that without the help of Georgia, the Caspian nation would be unable to sell its products and commodities into Europe without being dependent on Russia.

Shipping

Shipping has not been left off the agenda either. The construction of a new deep-water port, to be completed by the end of 2016, will further enable possibilities in transit.

"There's quite a lot of large transit volume going back and forth between the Central Asian landlocked coun-

SEA Eighty percent of Georgia's port cargo is for transit between the landlocked countries in Central Asia and Europe. The construction of a new deep-sea port will help the country meet its 20 percent year on year growth in shipping.



“There's quite a lot of large transit volume between the Central Asian landlocked countries and Europe, and this creates a lot of possibilities in warehousing for cold storage”

Giorgi Pertaia
Director of the Georgian National Investment Agency

tries and Europe, and this creates a lot of possibilities in warehousing for cold storage,” says Giorgi Pertaia, director of the Georgian National Investment Agency. New infrastructure in shipping and rail will support the role of the free industrial zone adjacent to the Black Sea port of Poti, developed in 2008 by the Ras Al Khaimah Investment Authority (Rakia). Although sometimes seen as competitors, shipping and railway logistics in Georgia are instead viewed as complementary. “Our vision is to make Georgian Railway a fully vertically-integrated company,” says Bakhtadze. “We have started this process in maritime transport in

the Black Sea and we have a subsidiary involved in the construction of container terminals in Kazakhstan.” Without a manufacturing base, a large population or natural resources, leaders from both the private sector and government all agree that the location of Georgia is one of its strongest assets and provides potential for further development. “Georgia has ongoing investment in infrastructure, in railways and in ports,” surmises Giorgi Kvirikashvili, minister of the economy and sustainable development, who believes that the transit potential of Georgia will increase dramatically in the coming years.

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Industry voices

LOGISTICS Georgia’s leaders in industry and transport see the country’s location as its biggest strength



Guga Tsanava
CEO of Rakia Group

What makes Georgia important for foreign investors?
The relationship of Georgia with Turkey, Azerbaijan and Armenia is a gateway to much more. You cannot size a market by its boundaries. What Georgia has is the right location.

“Georgia is the right transit country”

Does Georgia have the potential to become a hub for the rest of the region?
You need ports, you need infrastructure, you need the basic things to be able to provide the logistical fundamentals and Georgia is the right transit country. You just need to pick the right spot and raise adequate investment and do it.



Badri Tsilosani
Owner of Georgian Carriage Builders Holding

What is your current focus?
Today, we are working on our wagon production to reduce energy use and to make more high speed trains. While in the past we worked to Soviet and then Russian standards, we are now moving more towards European standards, which are higher especially in environmental terms.

“We are now moving more towards European standards”

What are your future plans?
The railway business is growing in our region. We want to make flat wagons that will carry containers, which are more profitable from the point of view of logistics. Geographically our country is a transit country and all countries transport cargo through our country. If there are no wagons this cargo cannot cross Georgia.



Mamuka Bakhtadze
CEO of Georgian Railways

What does Georgia need to do to realise its ambitions as a regional transport hub?
The government shouldn't deviate from its commitment to invest in infrastructure and we're extremely happy that the government has already made a decision to construct a deep-sea port. This is really very important because the nature of logistics has changed in our region. In the last ten years it was always 50:50 in the proportion of oil and oil products to dry cargo but the future of the logistics industry will be container shipment and so that's why we have to develop our infrastructure taking into consideration this perspective.

“The future of the logistics industry will be container shipment”



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Poti Free Industrial Zone



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Georgia's agriculture sector is well diversified with export strengths lying in nuts, fruits, wine, tea, livestock, mineral water and dairy products

In 2013, foreign direct investment in agriculture rose 100 percent, from US\$16 million to US\$32 million



The main export markets include Ukraine, the EU, Kazakhstan, Azerbaijan, Belarus, Turkey, USA and, more recently, Middle Eastern countries

Photos: Invest in Georgia, Ministry of Agriculture

Making an agricultural comeback

AGRICULTURE Through reforms, Georgia seeks to reclaim its farming potential

Containing some of the world's most fertile soils, including 22 micro-climates that allow for a longer harvesting season, and a wide range of growing conditions, Georgia has all the natural assets in place to regain its position as an agricultural powerhouse.

Gone are the days, however, when the sector contributed 29 percent of GDP under the USSR. Last year the sector contributed only 9.7 percent of GDP, yet still employed 55 percent of the working population.

Years of underdevelopment and underinvestment mean resources are now sorely needed. The sector is now a top priority for the government to develop as it slowly undertakes reforms to adopt the standards of the European Union.

“Georgia has some of the most fertile lands but people living in the regions don't have the resources to cultivate the lands and develop agriculture,” says Irakli Garibashvili, prime minister of Georgia. “This is why the number one priority for us in the government is to develop agriculture and local production.”

A key component of this is the government's US\$27 million campaign, 'Produce in Georgia'. It aims to eventually boost global knowledge of Georgian produce and create 'brand Georgia'. Increased financial accessibility, real estate assistance and consultation services will all be on offer to those entrepreneurs that create a new industrial and agricultural enterprise.

“The medium to long-term goal is to consolidate [farmers] and have larger-scale operations,” explains Shalva Pipia, minister of agriculture. “It just means producing more effectively at a larger scale, putting in money for producing more professionally.”

Georgia's winemakers eye new markets



Georgia proudly lays claim to being the birthplace of wine making – uninterrupted for more than 8,000 years. Lying on the cherished 42nd parallel, its unique soil and climate enables Georgia to offer more than 500 grape varieties. To Georgians their wine is more than just a liquid but a part of their identity. Qvevri traditional wines were acknowledged last year by UNESCO



as intangible cultural heritage. This process is undergoing a renaissance and uses earthenware vessels rather than barrels and excludes the use of chemical preservatives. Previously known only in the USSR and other Warsaw Pact countries, Georgian winemakers are now seeing 20 percent annual growth as they delve into new markets in the US and UK.

Georgia aims to harmonise all standards to EU levels by 2020. The national food agency has been strengthened and the number of inspectors has increased fourfold. Inspections of producers, processors and retailers are set to triple this year to ensure all operators are up to EU standards.

EU harmonisation to assist agriculture reforms

Q&A

Shalva Pipia
Minister of agriculture



Where can Georgian agriculture exploit a comparative advantage?
We have 22 different climatic zones and 47 different soil types and this can be used as a strength. Concentrating on the production of niche products, high-value agriculture, and organic and biologically produced products is something that Georgia could develop quite well.

How do you aim to tackle inefficiency in the agricultural sector?
A situation where you have half of the population producing less than 10 percent of GDP in primary production is not a healthy situation and it's not the goal. The goal in the long run is to consolidate the land parcels and to reduce the number of people engaged in primary agricultural production.

Which crops could Georgia develop on a commercial scale?
There are several directions where Georgia has historically been quite strong. Grapes and wine are definitely one of those, as are hazelnuts as

“We have 22 different climatic zones and 47 different soil types and this can be used as a strength”

have been going to export. I believe there is the potential to export to the EU. We also have high-value niche products such as off-season vegetables where we have a good potential.

Georgia is one of the largest producers and exporters of hazelnuts worldwide. In the west of Georgia there are about 11,000 hectares of citrus and 100,000 tonnes per year which

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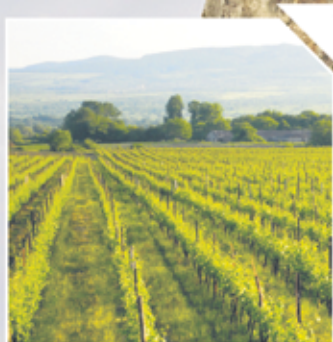


Georgia is the fourth least tax burden country in the world', with 6 flat taxes, no payroll, social insurance, inheritance or wealth tax and Corporate Profit Tax of only 15%.

*Forbes's Tax Misery & Reform Index

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