# Investment Climate & Opportunities in Georgia

## Georgian National Investment Agency (GNIA)

2014

INVEST IN GEORGIA
GEORGIAN NATIONAL INVESTMENT AGENCY

# Georgia - Country Overview


| | |
|---|---|
| Area: | 69,700 sq km |
| Population: | 4.5 mln |
| Life expectancy: | 76 years |
| Official language: | Georgian |
| Literacy: | 100% |
| Capital: | Tbilisi |
| Currency (code): | Lari (GEL) |

| | |
|---|---|
| GDP 2013: | USD 16.1 bln |
| GDP real growth rate 2013: | 3.2% |
| GDP CAGR ‘08-’13 (USD) | 5% |
| GDP per capita 2013: | US$ 3,597 |
| Inflation rate 2013: | -0.5% |
| Total Public Debt to Nominal GDP (%) 2013: | 34.5% |

# Advantages of Investment Climate in Georgia

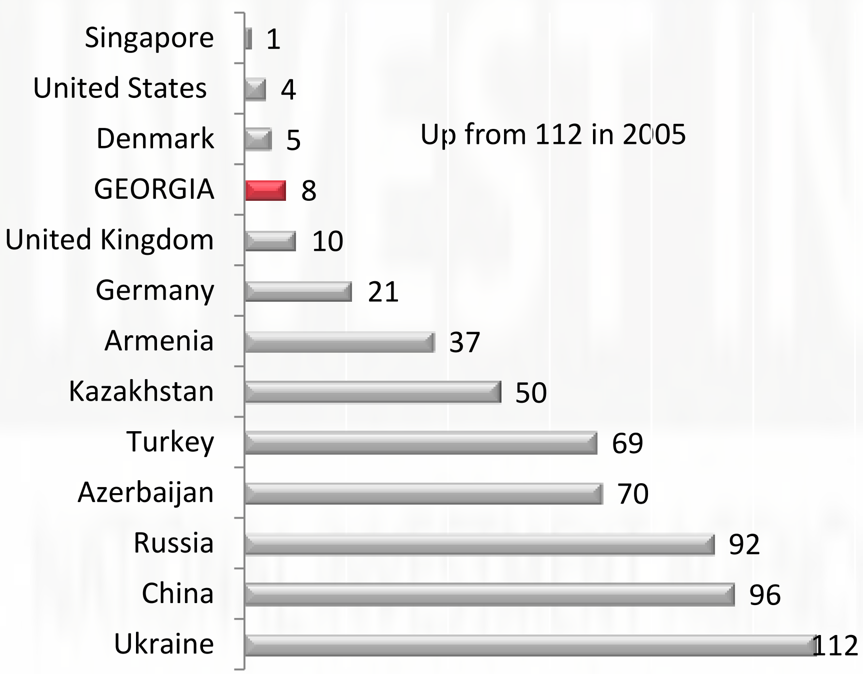
- Efficient, pro-business and corruption-free government
- Enlargement of market size by FTAs
- Entry gate in the region
- Competitive cost of labor and energy
- Solid sovereign balance sheet
- Stable banking sector
- Very low crime-rate

| Standard & Poor's | Fitch Ratings | Moody's Investors Service |
|---|---|---|
| BB- Stable | BB- Stable | Ba3 Stable |

# Doing Business in Georgia

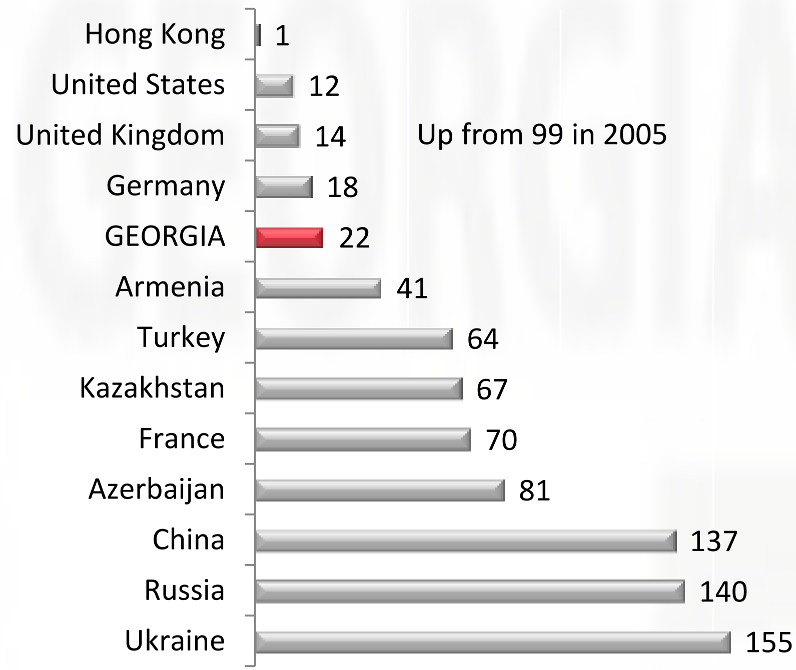
Country's impressive progress in improving business climate has been well documented in a number of international indices.

## Ease of Doing Business




***Source: World Bank, 2014 (Rank out of 189 countries)***

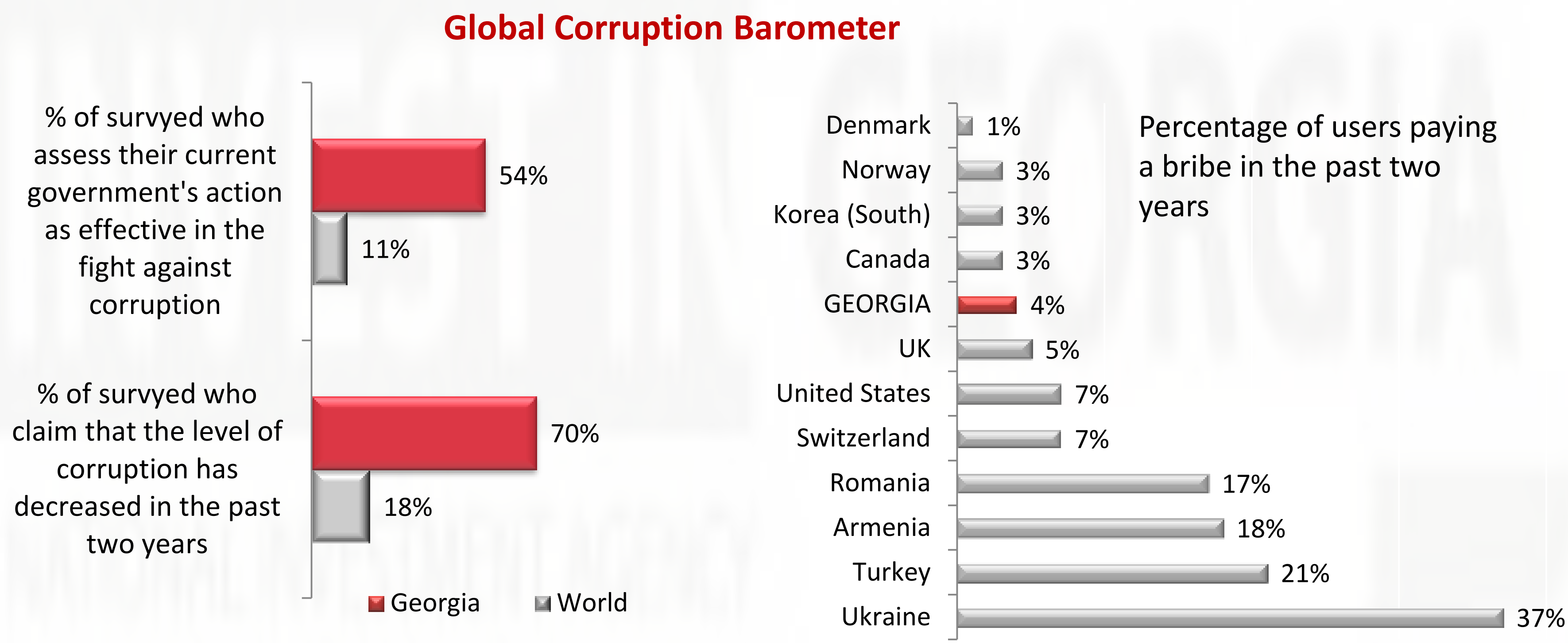
## Index Of Economic Freedom




***Source: The Heritage Foundation, 2014 (Rank out of 178 countries)***

# Corruption Free Country

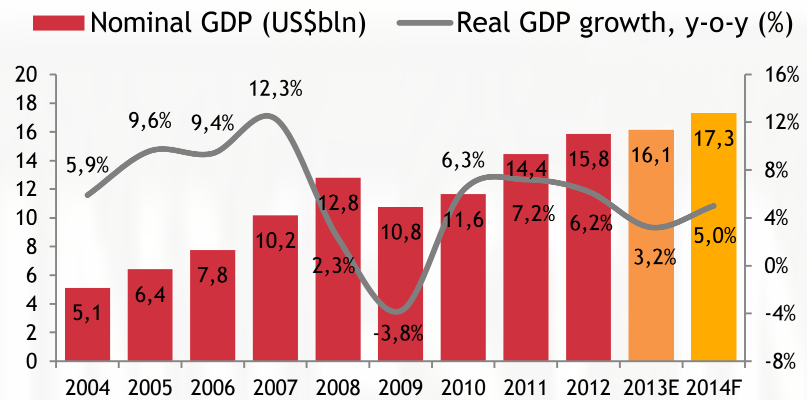
Georgia is considered as essentially a corruption-free investment destination where rule of law have been given the right way.




***Source: Transparency International 2013 (GLOBAL CORRUPTION BAROMETER)***

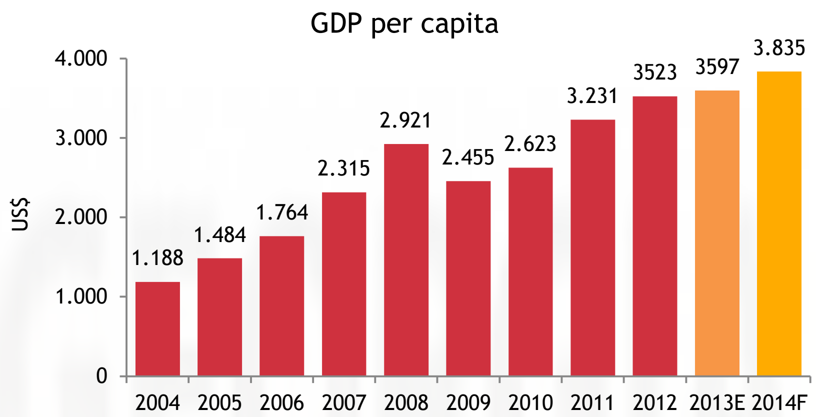
# Economic Structure and Trends

## GDP: Strong rebound after a relatively small contraction in 2009



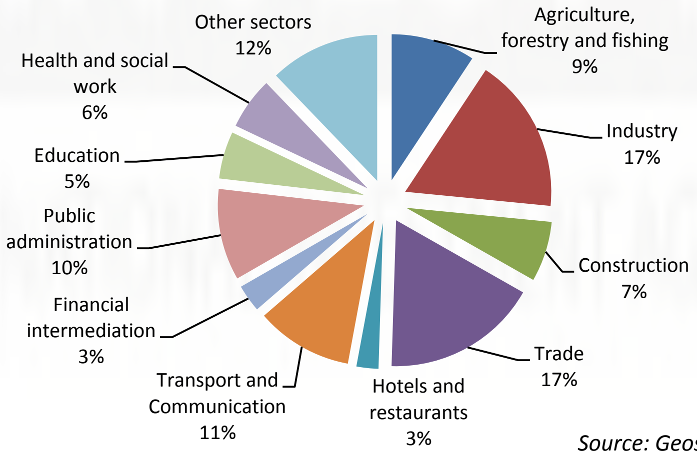

*Source: Geostat, MOF*

## Rapidly growing GDP per capita



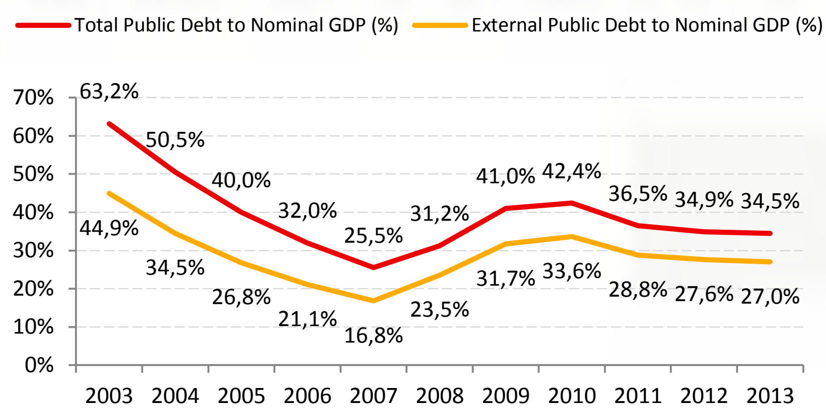

*Source: Geostat, MOF*

## Broad-based and diversified nominal GDP structure in 2013




*Source: Geostat, MOF*

## Favorable public debt situation




*Source: Geostat, MOF*

# Liberal Trade Regimes

- Very simple and service oriented customs policy and administration – customs clearance in 15 minutes
- ~80% of goods free from import tariffs
- No quantitative restrictions

**Preferential Trade Regimes:**

- FTA with Turkey and CIS countries
- DCFTA (Deep and Comprehensive Free Trade Agreement ) with EU will be singed on June 27, 2014
- GSP+ with EU - 7200 products to the EU market duty free or with lower tariffs
- GSP agreement with USA, Norway, Switzerland, Canada, Japan
- Member of WTO


**Import Tax-Free access to the 0,9 billion market provided by FTAs and DCFTA**

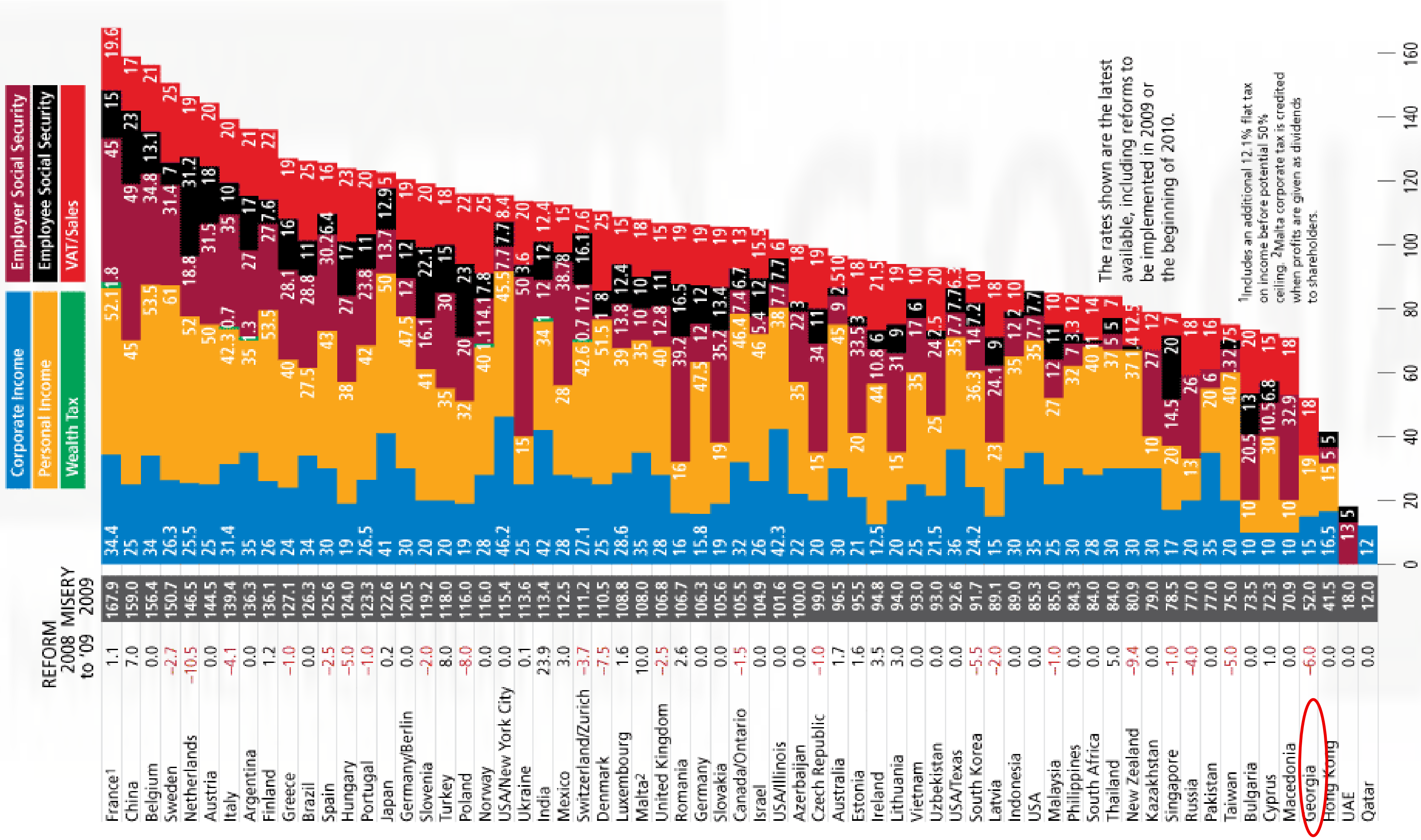
# Taxation - simple, low, efficient and fair

| | Before | Current | Change year |
|---|---|---|---|
| Number of Taxes | 21 | 6 | 2005-2007 |
| VAT | 20% | 18% | 2005 |
| Personal Income Tax | 12-20% | 20% | 2004 - 2009 |
| Social Tax | 33% | - | |
| Corporate Profit Tax | 20% | 15% | 2008 |
| Customs/ import Tax | 0%, 5% or 12% | | |
| Excise Tax | Depends on goods | | |
| Property Tax | Up to 1% | | |

- No payroll tax or social insurance tax
- No capital gains tax
- No wealth tax and inheritance tax
- Personal income tax for interest, dividend, royalty – 5%
- Foreign-source income of individuals fully exempted
- Accelerated depreciation on capital assets
- Loss carry forward for corporate profit tax purposes (10 years)
- No restrictions on currency convertibility or repatriation of capital & profit
- Double taxation avoidance treaties with 44 countries

# Leader in Forbes rating (Tax Misery & Reform Index)

According to the latest Tax Misery & Reform Index, released by Forbes Business & Financial News, **Georgia is the fourth least tax burden country after Qatar, UAE and Hong Kong**



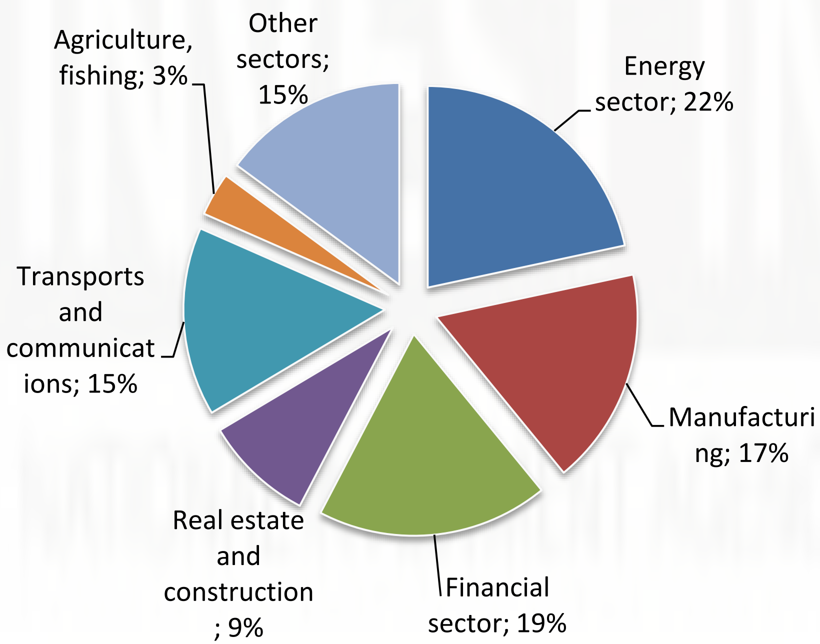
# Labor Availability

- Unemployment rate – 15%
- Young labor – 50% -of unemployed population are aged between 20-34
- Average monthly salary in 2013 – 480 USD
- Flexible Labor Code
- According to Heritage Foundation, Labor Freedom Index in Georgia is 91.2 out of 100 score
- All ILO core conventions are ratified by Georgia
- Vocational Education Training Centers around Georgia provide professional courses in different types of practical subjects and most of the course's fees are financed by the Government of Georgia.

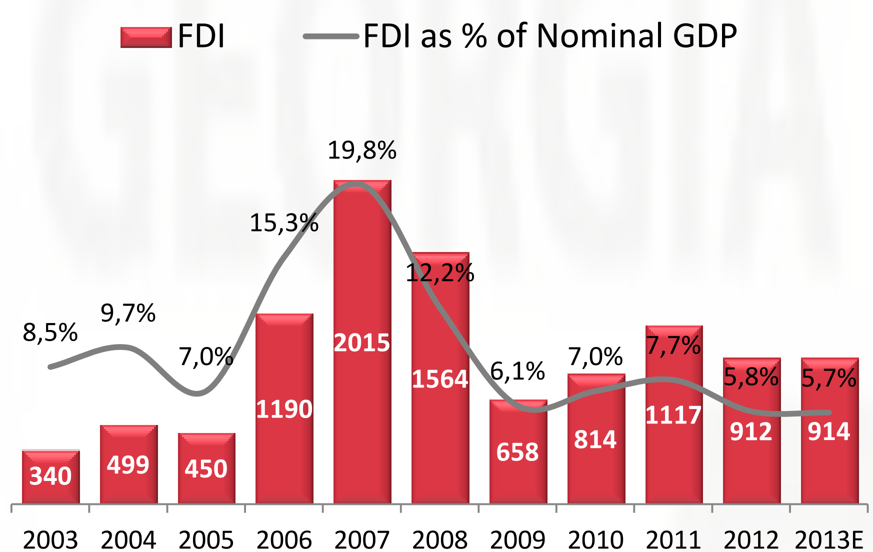
# Foreign Direct Investment

- Georgia has Bilateral Investment Treaties (BIT's) with the 32 countries (negotiations launched with 24 countries) and is member of ICSID Convention (since 1992).

**FDI Breakdown by sectors 2013**




**FDI by years**



# Investment Opportunities in Georgia

HYDRO POWER HUB

TOURISM

MANUFACTURING

AGRICULTURE

REGIONAL LOGISTICS CORRIDOR

REGIONAL SERVICES HUB

# Hydro Power Hub

## Significant Hydro Power Potential

- Installed capacity of > 2,700 MW
- Additional potential > 4,500 MW

- Generation cost among the lowest in the region, ~50% lower than target market Turkey

## Export Capacity

- The only net electricity exporter in the region, with rapidly growing consumption rates
- Construction of new 400 kV power transmission line from Georgia to Turkey was completed in 2013

## Opportunities

- Several large scale projects (> 100 MW)
- ~ 70 small/medium projects (< 100 MW)

# Hydro Power Sector Overview

**Strong demand growth prospects**

- Domestic: Demand growth and increasing share of renewables requires an extension of hydropower generation by around 65% until 2020
- Export: Georgia is surrounded by countries with a projected structural power deficit (e.g. Turkey, Russia South) or expensive power generation, opening up attractive export opportunities

**Importance of the sector low in terms of GDP and employment**

- Power generation accounts for 3% of GDP and ~ 1% of employment but is of high strategic importance to Georgia
- ~ 10% of power production are exported, but Georgia still needs to import power during winter

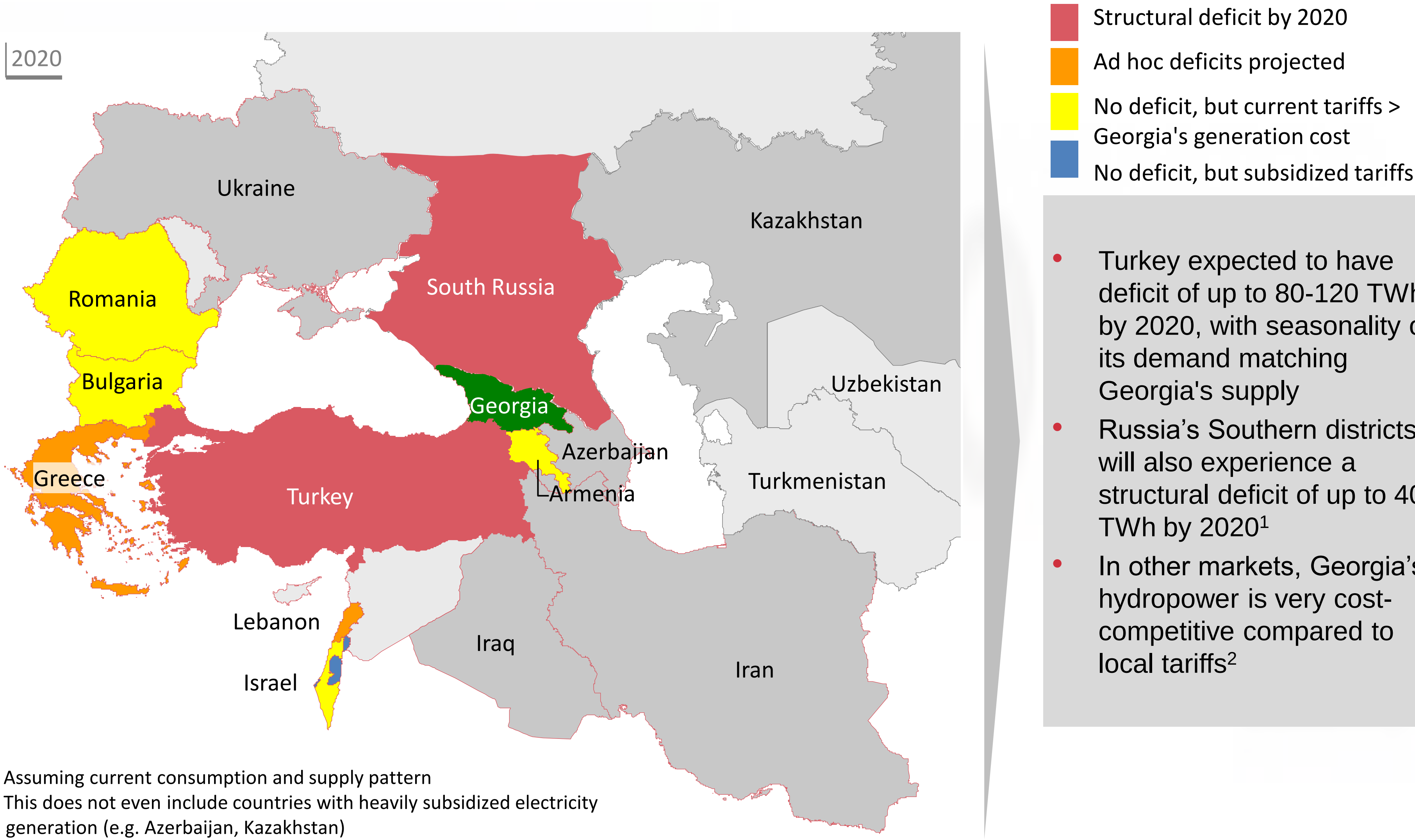
**Power sector with strong focus on cost competitive HPP**

- Georgia boosts significant and economically viable HPP potential – already today 82% of power generated via HPP (2,700 MW) – 18% via thermal (mainly gas)
- All new HPPs operate in a liberalized market
- Cost of hydropower generation is very competitive in the region


**Large projects have been placed and pipeline is filled**

- FDI inflows amounted to USD 203 million in 2013(22%) and are growing
- 75% of economically viable potential not yet exploited
- 20HPP Projects of up to USD 1.5 billion have been conceded to/under construction by investors from e.g. India, Norway, Turkey, Czech Republic and other counties.
- Pipeline well filled with under licensing 48 HPP projects with total installed capacity of 1800MW including several large scale (100-702 MW) and small projects

# Georgia surrounded by countries with a structural power deficit or expensive power generation




- Turkey expected to have deficit of up to 80-120 TWh by 2020, with seasonality of its demand matching Georgia's supply
- Russia's Southern districts will also experience a structural deficit of up to 40 TWh by 2020[1]
- In other markets, Georgia's hydropower is very cost-competitive compared to local tariffs[2]

1 Assuming current consumption and supply pattern
2 This does not even include countries with heavily subsidized electricity generation (e.g. Azerbaijan, Kazakhstan)

# Hydropower pipeline boosts several new megaprojects above 100 MW capacity

| Potential Hydropower Projects | Installed Capacity (MW) | Forecast Invest. Volume (USD millions) | Ready to invest? |
|---|---|---|---|
| Namakhvani Cascade | 450 | 926 | |
| Khaishi HPP | 400 | 620 | |
| Oni Cascade | 270 | 599 | |
| Nenskra HPP | 210 | 491 | |
| Tobari HPP | 200 | 310 | |
| Fari HPP | 180 | 297 | |
| Lentekhi HPP | 120 | 189 | |

- Additional potential of about 70 small/medium projects (<100 MW capacity)

# Tourism

## Fast growing sector

- Tourism contributed 6.5% of GDP .
- Number of visitors increased by 38% reaching  2.8 million in 2011 and by 56% in 2012 reaching 4.4 million. Georgia had 22% more visitors  in 2013 reaching 5.4 million. In Q1  of 2014 number of international arrivals reached 1 006 267.
- Majority of tourists come from: Turkey (29.6%) Armenia (24.%), Azerbaijan (19.9%), Russia (14.2%).
- Tourist number from Europe in 2013 increased by 22 %
- Average duration of stay - 5 nights, average spend - USD 650
- Already operating international hotels - Sheraton, Radisson, Marriot, Holliday Inn, (under construction - Kempinski, Hilton, Rixos, Intercontinental,Park Inn,) etc.

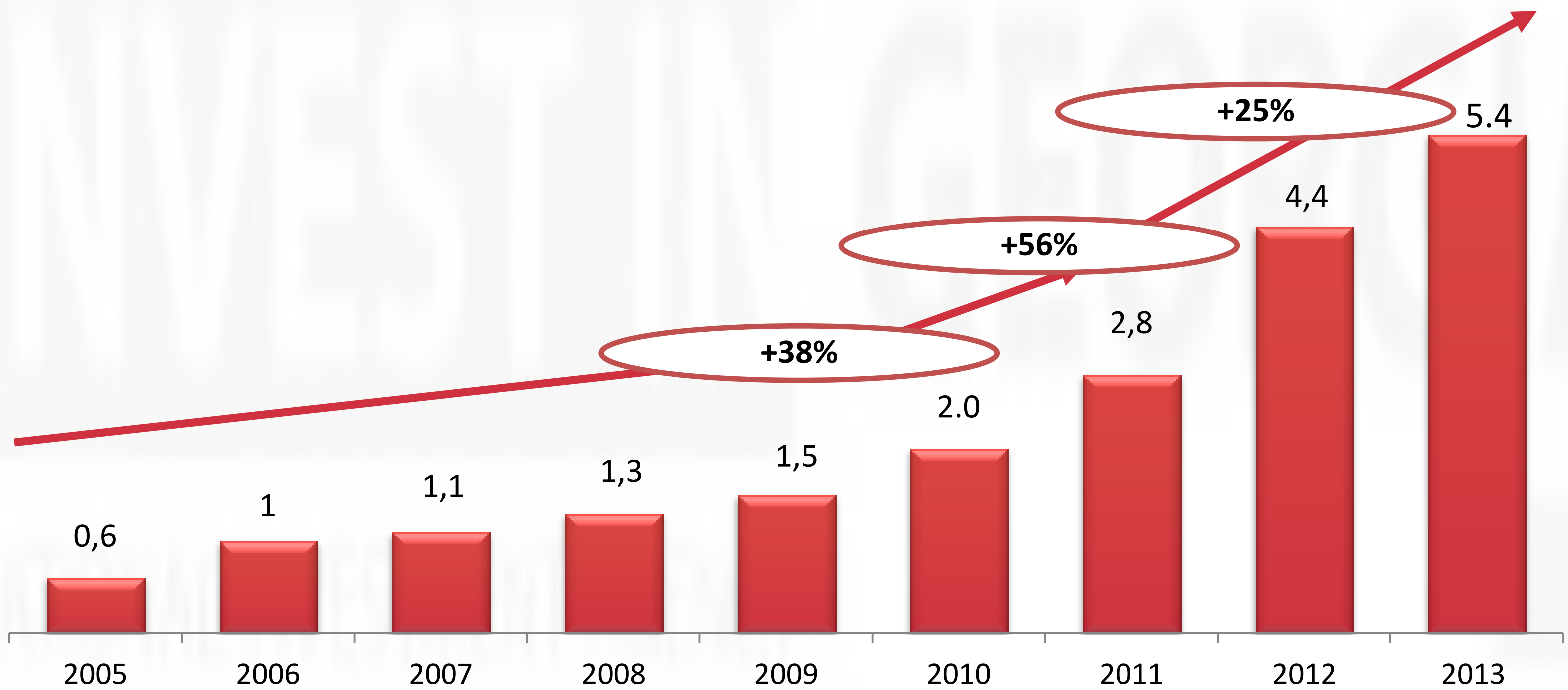
## Potential

- Youth Olympics in 2015
- UNESCO heritage sites
- 8 national parks
- According the IUCN criteria there are 84 different categories of Protected Areas(Total area – 520 811 ha; 7,47% of the country's territory)




# Georgia is expecting significant growth trajectory in tourist arrivals

Number of international visitors has been growing rapidly




***Source: Georgian National Tourism Administration***

# More international luxury hotel chains are coming to the market…

## Existing Hotels

*With the growth of tourists the demand for hotel rooms has been growing in the last years in Georgia, which has stimulated investments in the hotel sector.*

*Supply of the rooms increased, but still there is a huge capacity for development of Hotel Industry.*

*Average occupancy rate of international brand hotels in Tbilisi Reached to 80% in 2013*

## Upcoming international hotel brands

| | |
|---|---|
| Hilton | **Batumi** |
| InterContinental | **Tbilisi** |
| Holiday Inn | **Batumi** |
| Kempinski | **Tbilisi**<br>**Batumi** |
| Hyatt | **Tbilisi** |
| Rixos | **Likani** |

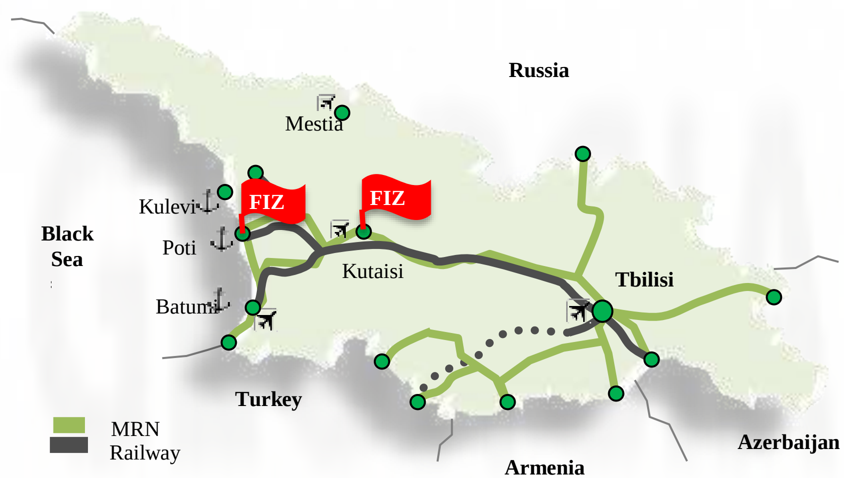
# Investment opportunities in tourism sector

| | 1 "Sun-beach" resorts | 2 Winter ski resorts | 3 Summer mountains resorts | 4 Spa Resorts | 5 Gambling |
|---|---|---|---|---|---|
| |  |  |  |  |  |
| **Description** | Expansion of summer "sun and beach" franchise focusing on high-end segment<br><br>All inclusive summer resorts<br><br>New master resort development | Master development of winter resorts with unique profile equivalent to the Alps<br><br>Government is fully committed to provision of basic infrastructure | Four season resort value preposition<br><br>Majestic landscapes allow for a wide range of tourism activities such as camping, climbing, rafting, fishing, hunting etc. | Development of Spa Resorts<br><br>Include hotels, different types of clinics, fitness, outdoor activities | Development of large-scale integrated casino complex to Serve regional markets.<br><br>Include hotels, casino entertainment, family Services and shopping<br><br>Fiscal incentives available |
| **Potential location** | ▪ Batumi<br>▪ Anaklia<br>▪ Kobuleti<br>▪ Other Black Sea locations | ▪ Mestia<br>▪ Gudauri<br>▪ Bakuriani<br>▪ Goderdzi | ▪ Mestia<br>▪ Gudauri<br>▪ Bakuriani<br>▪ Goderdzi<br>▪ Kazbegi<br>▪ Other locations | ▪ Tskhaltubo<br>▪ Akhtala<br>▪ Other locations | ▪ Batumi<br>▪ Tbilisi<br>▪ Other locations |

# Manufacturing Sector

## Overview:

- Georgia`s natural advantage as a gateway between the Europe and Asia provides many benefits to investors in manufacturing sector. Specifically, Georgia offers competitive labor and energy costs, logistics network and business friendly environment for serving the region, as well as many raw materials.
- Average monthly nominal salary in the manufacturing sector is 400 USD. Furthermore, salaries can be expected to remain competitively low given the high level of unemployment in Georgia.
- Manufacturing account for around 11% of GDP and ~ 5% of employment
- 2 Free Industrial Zones - In FIZ, businesses are exempted from all tax charges except Personal Income Tax




## Opportunities:

- Large import overhang of goods that are not usually traded extensively between the countries provides **regional import substitution potential** in food processing, construction materials, household goods etc
- Georgia’s current advantages in terms of handling large transshipment flows, business stability, low cost of power generation and existing raw materials/intermediate products provide opportunities for **large industrial bets**, like production of iron and steel products, aluminum etc

# Several highly attractive regional production opportunities

**Food processing**

- Preparations of fruits and vegetables - oils, juices, jams, pickles, pasta, sauces etc.
- Dairy - milk, cheese, butter, yogurt
- Meat - poultry, beef, pork

**Plastics**

- Packaging materials
- Tubes, pipes and hoses
- Other articles of plastics

**Construction-Building materials**

- Articles of stone, plaster, cement, asbestos, concrete and similar materials
- Articles of iron and steel - structures, tubes, pipes etc.
- Articles of wood - plywood and laminated wood

**Construction-Finishing elements**

- Ceramic products - tiles, sanitary ware
- Glass - windows and glassware
- Furniture

**Chemicals**

- Cleaning materials
- Coloring materials

# Opportunities arising from Georgia's trans-shipment flows and resources

| Opportunity | Current advantages to be leveraged | Potential for Georgia |
|---|---|---|
| **Steel production**<br> | • Georgia mines Manganese ore<br>• Georgia produces ferro alloys, largely for export (USD ~260 mln)<br>• Large imports of iron and steel products to Georgia (USD ~320 mln) and neighboring countries | • Vertical integration of value chain by adding production of iron and steel and related end products<br>• Regional import substitution |
| **Aluminium**<br> | • Large transshipment flows of raw materials/input (Bauxite) and aluminium cross Georgia to/from Tajikistan (largest aluminium plant in Central Asia)<br>• A lot of water recourses and large hydropower plants in the pipeline | • Value chain integration<br>– Production of aluminium<br>– Production of aluminium products (fabricated or end products) |
| **Copper**<br> | • Georgia and Armenia export copper ores, copper waste and scrap<br>• Import overhang of copper products (alloys and final products e.g. wire, tubes, pipes) amounts to USD ~200 mln in the region | • Production of copper alloys and end products (regional import substitution) |

# Agriculture

**Overview:**

- Over 21 micro-climates - a wide range of grain, vegetables, hard and soft fruits, meat and dairy could be produced
- Agriculture accounts for 9% of GDP. It contributes ~53% of employment mostly in subsistence farming (average farm size of 1.55 ha)
- Traditionally Georgia has strengths in wine, nuts, fruits which account for more than 60% of agriculture exports

**Opportunities**:

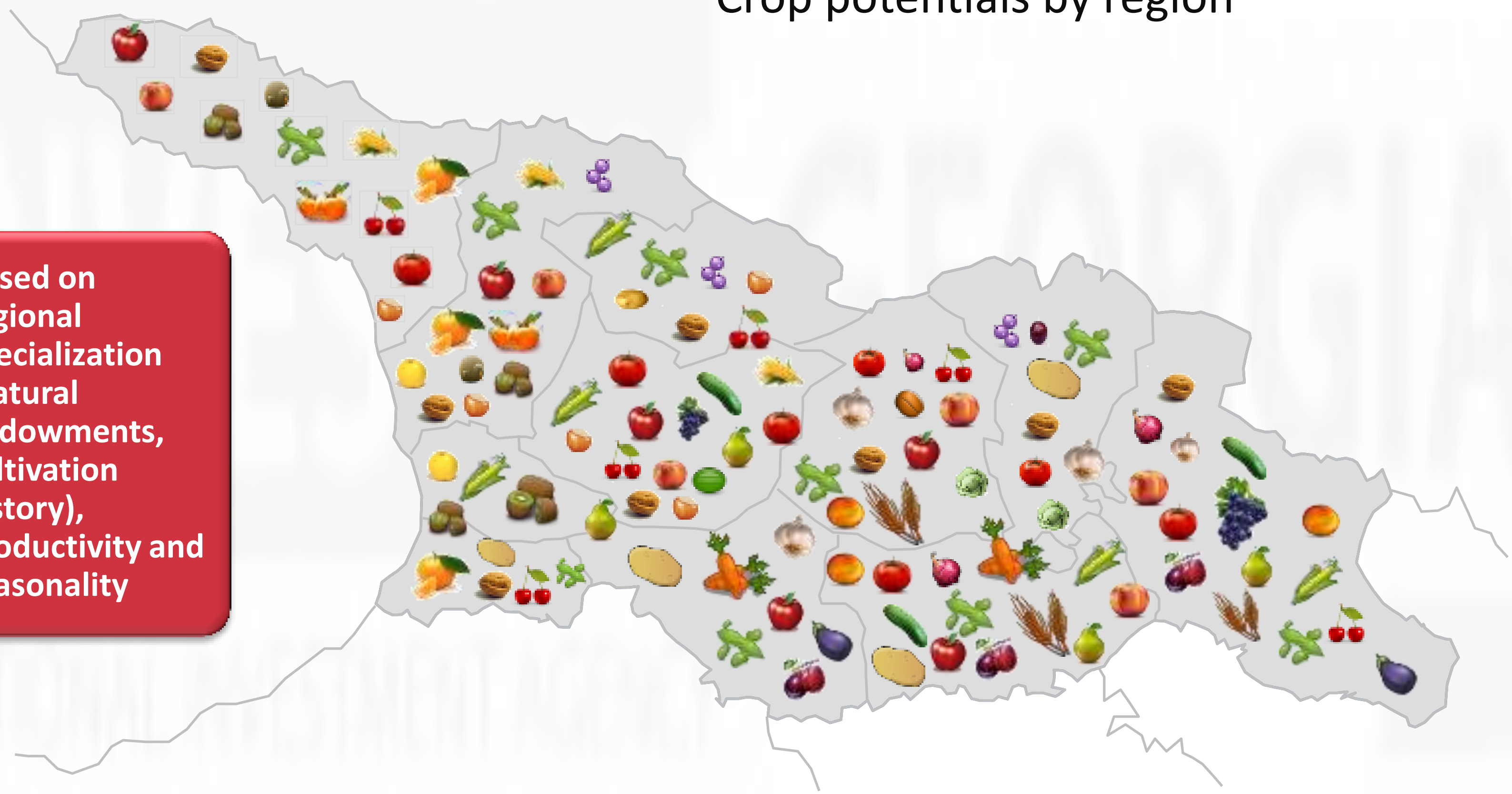
- Import substitution opportunities - meat, dairy products, vegetables, fruits, etc
- Export opportunities - wine, walnuts, hazelnuts, citruses, fruits, sheep meat, etc
- Productivity gain opportunities – tomatoes, apples, cucumbers, potatoes, stone fruits, citrus etc

# 14 potential priorities crops/livestock to focus development efforts

| | High potential projects | Georgia's competitiveness |
|---|---|---|
| Export-led | **Grapes** (cultivation and winemaking) | • Distinctive varieties and growing conditions, traditional strong industry, access to CIS market, large base of experienced and low-cost labor in the sector |
| Export-led | **Nuts** (cultivation and processing) | • Top 5 global exporters of nuts, ideal growing conditions, commitment from Ferrero |
| Export-led | **Lamb** (husbandry and meat production) | • Well-reputed for lamb quality, significant export potentials to Middle Eastern markets |
| Domestic | **Tomato** (cultivation and canned) | • Import overhang, low investment needed in greenhouse and irrigation, quicker to realize quality and yield improvements |
| Domestic | **Cucumber** (cultivation and canned) | • Low investment needed in greenhouse and irrigation, quicker to realize quality and yield improvements |
| Domestic | **Onion** (cultivation) | • Low investment needed, quicker to realize quality and yield improvements |
| Domestic | **Stone fruits** (cultivation and juices) | • Ideal growing conditions, multiple investors already establishing fruit, processing operation, large base of experienced and low-cost labor |
| Domestic | **Citrus** (cultivation and juices) | • Ideal growing conditions, multiple investors already establishing fruit, processing operation, large base of experienced and low-cost labor |
| Domestic | **Pork** (meat production) | • Import overhang, sizeable and fast growing domestic demand, good natural conditions for rearing |
| Domestic | **Beef/dairy** (milk and cattle meat production) | • Big import overhang, sizeable and fast growing domestic demand, good natural conditions for rearing |
| Domestic | **Poultry** (chicken meat and egg production) | • Big import overhang, sizeable and fast growing domestic demand, commercial farms with intensive operations already in place |
| Domestic | **Apple** (cultivation and canned) | • Ideal growing conditions, multiple investors already establishing fruit, processing operation, large base of experienced and low-cost labor |
| Domestic | **Olive oil** (cultivation and processing) | • Large demand for oil-related products, good growing condition, access to CIS markets |
| Domestic | **Tobacco** (plantation and processing) | • Sizable demand for tobacco and tobacco-related products, well-reputed for tobacco quality |

# Regional competitiveness and potentials map

Crop potentials by region



**Based on regional specialization (natural endowments, cultivation history), productivity and seasonality**

# Regional Logistics Corridor

## Trans-Caucasian route

- Strategic location: Georgia serves as an entry gate to the Caucasus and Central Asia as well as a stepping stone to the region
- Around 80% of port cargo and 60% of freight rail are transits
- Great potential of better integration and development of the Region

## Transport Infrastructure

- Rapidly developing road infrastructure
- Ports are cost-competitive vs. alternative routes
- FDI inflows in the logistics sector have primarily targeted transport infrastructure

## Opportunities

- Deep-sea port (PanaMax)
- Containerization and logistical centers
- Direct connection with European and Central Asian railway networks (BTK project)

# Georgia is in a highly strategic location for transshipment

# TRANSPORT NETWORK IN GEORGIA

**Poti seaport**
- 15 berths, 8-11m draft
- Container(450k TEU) oil products /bulk (7 mln. t/year)
- APM terminals
- New ICT

**Batumi seaport**
- 8 berths, 1 offshore, 9-12m draft
- Oil/prodcuts (15mln. t/year), bulk (2mln. t/year), containers (400k TEU)
- JSC KazTransOil

**Kuhlevi oil terminal**
- Crude oil, petroleum, and lubricants (6mln. t/year)
- State Oil Company of Azerbaijan

**Supsa oil terminal (offshore)**
- Crude oil, petroleum, and lubricants

**Deep-sea port Potential**
- 18-20m natural draft
- First phase: Dry bulk (1.5mln tons) and containers (350k TEU/year)
- USD 0.5 bln investment volume

**Main Road Network:**
- 1 500 km international roads (20 000 km all roads)
- 150 km new Highway constructed


**Railway:**
- Infrastructure: 2 100 km (95% electrified); modernization in progress (30mln t/year)
- Rolling Stock: existing ~8 000; planned ~2 500
- Baku-Tbilisi-Kars(2015): link with Turkish railway networks (5 mln t/year)

**Tbilisi international airport**
- ~1 million passengers /capacity: 3 million passengers
- Serving 28 destinations

**Batumi international airport**
- 100,000 passengers

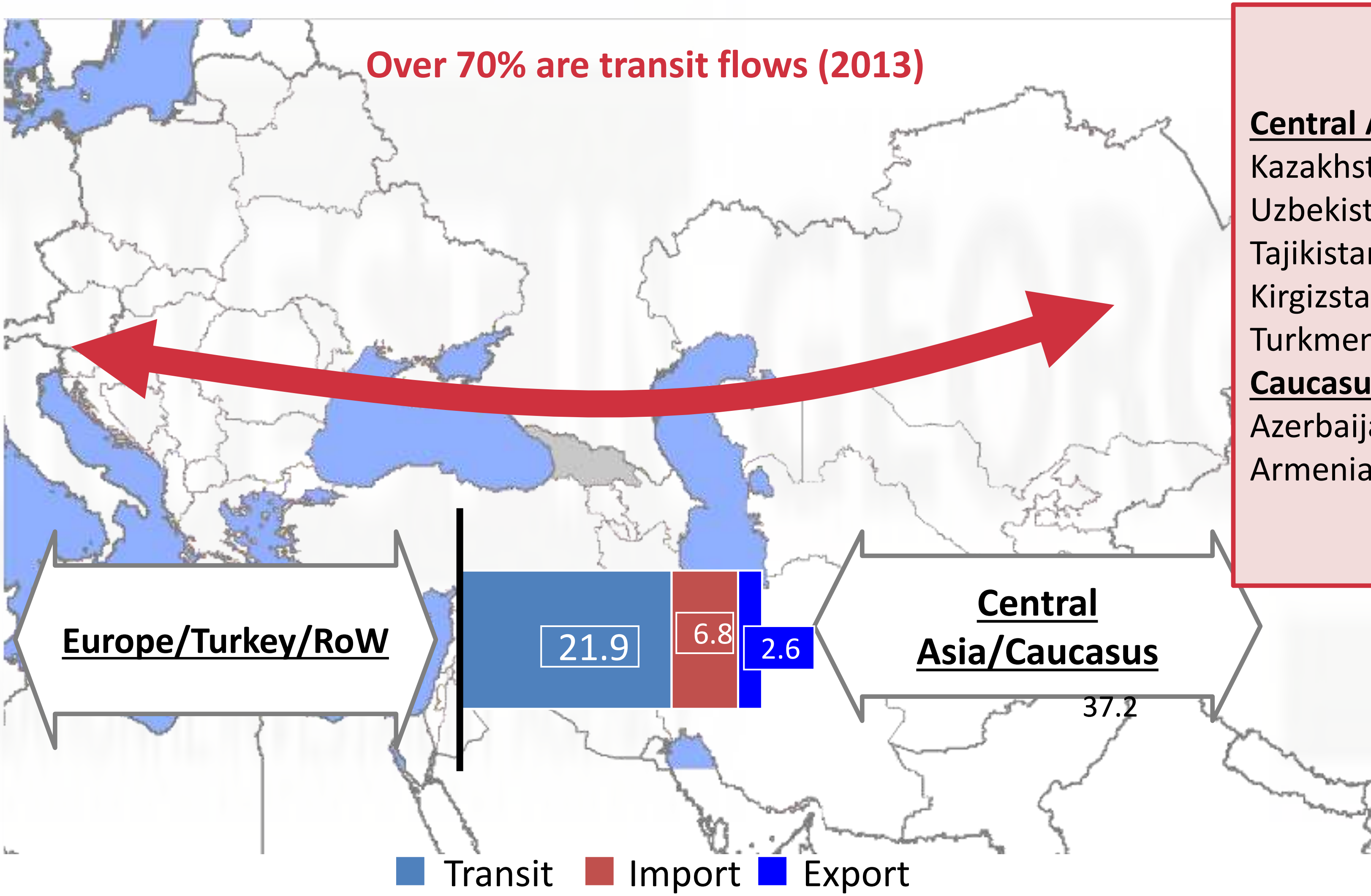
**Kutaisi international airport**
- Passenger, incl. low-cost airlines

**Mestia national airport**

**Oil/Gas Pipelines**
- Baku-Supsa (7 mln t/year)
- Baku-Ceyhan (45mln t/year)

# General and Bulk Cargo Turnover

Transit flows through the Corridor by Rail/Road (million tons per year)




**Central Asia**
Kazakhstan
Uzbekistan
Tajikistan
Kirgizstan
Turkmenistan
**Caucasus:**
Azerbaijan
Armenia

# Georgia serves as the entry gate to a landlocked region boosting significant resource reserves

**Oil**
3%
USD 100 bn

**Gas**
14%
USD 9 bn

**Coal**
5%
USD 28 bn


~126 million tons Addressable cargo flows from landlocked countries

For comparison: region represents only ~1.6% of global population

**Iron ore**
2%
USD 4 bn

**Zinc**
5%
USD 1 bn

**Copper**
3%
USD 3 bn

**Other**
(bauxite, gold, nickel, PGMs)

# Regional Services Hub

- Leading ranks among regional economies in terms of value added and trade
- Services have major share of FDI inflow of ~53% in 2013 (USD ~485 million)
  - Financial sector has grown at 19% p.a. since 2009 and is the leading service sub-sector for FDI attraction with 19% of total inflows in 2013
  - Wholesale/retail trade accounts for 17% of GDP in 2013
  - FDI inflows in healthcare/social work have grown at 146% p.a. since 2007

- Opportunity to capitalize:
  - IT/BPO services
  - Regional headquarters
  - Retail hub as the destination-of-choice for shopping

# Investment Funds

**PARTNERSHIP FUND**
- Established in 2011
- Equity of the Fund: USD 1.4. bn ; 100% state owned
- Operating fields: Energy; Real Estate & Infrastructure; Manufacturing, Agribusiness
- Provides equity and mezzanine (& senior financing in exceptional cases.) financing
- Fitch ranking - BBU (Outlook Stable) in 2012

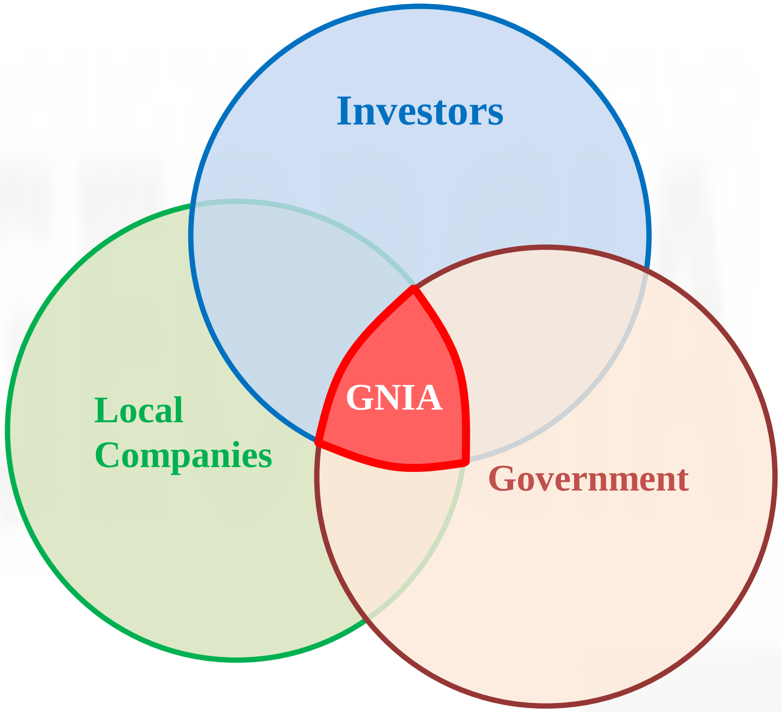
**GEORGIAN CO-INVESTMENT FUND**
- Established in 2013
- Equity of the Fund: USD ~7 bn
- Invests in business projects of total cost: USD ~ 20 mln
- Operating fields: Energy; Logistics; Tourism & Real Estate; Manufacturing, Agribusiness
- GCF Role in Project: 7+2 Formula: 7 years Investing/Development 2 years Exit

**RURAL & AGRICULTURAL DEVELOPMENT FUND**
- Established in 2013 as Npo.
- Goal: to assist to rural and agricultural development in Georgia
- Operating fields: Agribusiness
- Provision of co-funding to profit-oriented agricultural projects

**Successful Cooperation with International Financial Institutions**

# GEORGIAN NATIONAL INVESTMENT AGENCY

- STATE AGENCY
  - Promoting Georgia internationally
  - Supporting foreign investments and investors before, during & after investment process
- "One-stop-shop" for investors
- Moderator between Investors, Government and Local Companies




***Mission** - Attracting Greenfield and M&A Investments*

# WHAT YOU CAN GET FROM GNIA

- INFORMATION - General data, statistics, sector researches
- COMMUNICATION - Access to Government at all levels/Local partners
- Organization of site visits & Accompanying investors
- AFTER CARE - Legal advising & Supporting services

INVEST IN GEORGIA

GEORGIAN NATIONAL INVESTMENT AGENCY

# www.investingeorgia.org

**GEORGIAN NATIONAL INVESTMENT AGENCY**

3/5 Tatishvili Street, 0179 Tbilisi, Georgia

Tel: (+995 32) 2 473 696

E-mail: enquiry@investingeorgia.org