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Irakli Gharibashvili:

Prime Minister of Georgia

“Georgia ranks 11th in the Business Bribery Risk Index, surpassing many developed countries”



Aleksii IASASHVILI
FactCheck

On 13 January 2015, during a meeting with the Estonian delegation, Prime Minister Irakli Gharibashvili spoke about the steps made in the direction of creating a free business environment. He also noted that Georgia was promoted in international rankings. Mr Gharibashvili stated: “Georgia ranks 11th in the Business Bribery Risk Index, surpassing many developed countries.”

FactCheck took interest in the accuracy of the Prime Minister's statement and verified it.

As the survey showed, Georgia indeed ranks 11th among 198 countries in the Business Bribery Risk Index published by Trace International and the RAND Corporation.

This Index is oriented on the business sector and pro-

vides trustworthy information concerning bribery risks associated with the business environment. Each country is assigned a score from 0 to 100. A high score corresponds with a high risk of bribery.

The survey has been carried out in four main directions: interactions with government, anti-bribery laws and enforcement, governmental and civil service transparency and capacity for civil society oversight. In the last of the four main directions, Georgia did worse as compared to the other directions and lagged behind many countries that ended up in lower positions in the overall ranking.

Georgia is ahead of many developed European countries including Norway, Switzerland, France and the United Kingdom. Georgia has a significantly better position as compared to these countries, especially in the second direction that concerns anti-bribery laws and enforcement. On the other hand, Georgia

notably lags behind in terms of capacity for civil society oversight.

Considering the fact that the Index has been presented for the first time, it is impossible to monitor changes in the countries' positions and define whether or not a position has improved as compared to previous years. However, the Business Bribery Risk Index is planned for an update in two years thereby rendering the comparison possible.

It is noteworthy that the image and country positions presented in this ranking slightly differ from other popular indices such as the Corruption Perception Index by Transparency International (TI). Georgia ended up in the 52nd position among 175 countries in the TI ranking. As Trace International explains, the reason for this is that it uses a different matrix than the others which significantly altered the overall score if any of the directions exceeded or lagged behind the others.

Rank	Country	Risk Score	Interactions with Government	Anti-Bribery Laws and Enforcement	Governmental and Civil Service Transparency	Capacity for Civil Society Oversight
1	Ireland	20	15	24	30	4
2	Canada	22	25	22	20	9
3	New Zealand	23	13	48	23	18
4	Hong Kong	23	4	51	27	30
5	Sweden	23	9	53	25	20
6	Finland	24	11	52	26	23
7	Singapore	26	1	54	37	35
8	Japan	26	33	17	6	10
9	Germany	27	28	31	33	1
10	USA	27	35	23	1	7
11	Georgia	27	17	24	19	39
12	Norway	28	21	52	32	16
13	Netherlands	29	20	55	29	21
14	France	29	32	38	27	14
15	Chile	30	33	30	20	25

CONCLUSION

As FactCheck determined, Georgia ranks 11th in the Business Bribery Risk Index by Trace International and the RAND Corporation. Despite other indices showing slightly different results, Georgia surpasses many developed countries according to this survey. Therefore, FactCheck concludes that Mr Gharibashvili's statement: “Georgia ranks 11th in the Business Bribery Risk Index, surpassing many developed countries,” is TRUE.

TRUE



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Bank of Georgia Brings Relief to its Borrowers



The FINANCIAL
By MADONA GASANOVA

Bank of Georgia has offered its borrowers the chance to extend their loans without extra interest rate, which there would otherwise be under general restructuring terms. The Bank decided to offer this relief to its customers due to the recent depreciation of the Georgian Lari towards the USD. The slump of the national currency towards the USD has increased the monthly payments of borrowers by 30%. Meanwhile, it has not resulted in the growth of the overdue loan portfolio of Bank of Georgia.

Individuals who earn income in the national currency and have a credit responsibility in USD can apply to the Bank to prolong the terms of their loan from Monday, 2 March. The proposal is affordable for borrowers with an accurate credit history.

“The monthly instalment in place prior to the devaluation will remain unchanged, we will just achieve the relief with loan term prolongation. Extension of the term will be made automatically. Consumers will not need to face any bureaucracy. In general, restructuring, more specifically, term prolongation, causes an increase of interest rates. In this case we will not do it,” said Irakli Gilauri, CEO at Bank of Georgia.

The number of borrowers at Bank of Georgia is 450,000. Out of them, only 6% have

taken out loans in a foreign currency while their income is in the national currency. The good news is that most consumer loans are taken out in the national currency, and this greatly simplifies the situation. The problems mainly relate to mortgages, which are usually denominated in USD, while borrowers mainly have income in GEL.

According to Gilauri, the devaluation of the Georgian Lari towards the USD that started from November 2014 and reached its peak in February did not increase the overdue portfolio. In addition, as of January 2015, the overdue loan portfolio has slumped by 0.2% in comparison with the same period last year.

“With this new offer we want to reward the loyalty of our customers that have been accurately meeting their loan responsibilities,” he added.

According to the Association of Banks of Georgia, 80% of loans granted to individuals are issued in the local currency. The devaluation of the GEL affects about 20% of borrowers who receive their income in GEL and cover a credit debt in dollars - their loans have risen in line with the devaluation of the national currency - by 30%.

In Gilauri's words, during the present week, the USD has reached its most excessive rate and will now start stabilizing. Georgia has a floating currency exchange. The fact is that the population is not used to a changing currency rate. “The depreciation of the GEL towards the USD

has indeed reached its highest measure, however, for us it is more important that the inflation rate has been just 2%. Fuel prices have sharply decreased and this helps to balance this shortage.”

Gilauri positively estimated the recent initiative of the Government that aims to relieve the ongoing devaluation of the national currency. “The privatization process will accumulate foreign currency in our economy. The tax exemption for construction companies that started constructions before 2008 and have still not completed them, is also a positive step.” However, Gilauri does not think that the creation of labour inspections will bring about any good for the business sector.

Murtaz Kikoria, Deputy CEO at Bank of Georgia, stated that interest rates have not been reduced on already-issued loans. However, he did not rule out the possibility that some corrections might be made regarding new loans. “The price structure has changed and this will have its impact. However, I do not think that it will be a significant change,” said Kikoria.



Raised Import Affected Local Production

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will be focused on increasing working capital,” said Giorgi Bidzinashvili, Founder at Milko Food.

According to Bidzinashvili, during the last 2-3 months the demand for his products has been increasing. However, he finds it hard to say whether this was caused by the GEL devaluation. As in his words, the demand for dairy products changes seasonally. Winter is one of the most active periods by sales.

“Milko Food makes up 30-33% of the market. Recently Milko Food implemented a new project. In this line we started producing 6 new assortments. This is a healthy line, which combines a premium product and of course this is a completely natural product. This product is enriched with bifido bacteria

and iodine. The products are recommended by paediatricians and endocrinologists. These are especially beneficial to the health. We plan to launch several new products. Against this background the company expects significant growth in sales in 2015,” said Bidzinashvili.

“Since the GEL devaluation Nikora has not increased the prices of its products. However, we do not exclude anything. Given the absence of local farming, Nikora, like other manufacturers, imports raw material for its products. In accordance, we are dependent on import,” said Nona Dzeladze, Director of Marketing at Nikora JSC.

“The exchange currency has not stabilized yet. It has been followed by the Lenten period. During this time meat sales decline in general. Consequently, it is too early to define what percent is made up by the period of Lent and

what is due to GEL devaluation. Analysis of the data will be available only after a certain period,” said Dzeladze.

The market share of Nikora is over 25-30%. “Like in previous years, Nikora was planning a sales increase in 2015. The exchange rate instability is ongoing. Accordingly it is too early to make specific predictions. It is possible that at this point vindicating indicators of realization might become a priority,” Dzeladze told The FINANCIAL.



HOW CAN GEORGIA IMPROVE?



By DIMITRI SHELVIDZE

It is not news that many countries build their economy and strategy mainly on tourism. The hospitality sector plays a huge role in a country's further development and assists in changing its essence - moving from the developing country's 'list' to the developed. Georgia's strategy and vector is mainly correct but the country still needs improvements in many areas.

The main factor is that tourism in Georgia should be boosted in numerous ways and supported by the appropriate agencies, ministries and officials. Our country, despite being very small and suffering from territorial problems, is rich in nature and beauty: rivers, ponds, deserts, mountains, seaside and ski resorts, hills, forests, rich history and cultural heritage - that can all be actively used and must be, in fact. Currently it seems that there is no clear strategy on where and how our country can be advertised. If such a plan exists, we are not aware of it and then it is a problem of internal communication or maybe a lack of information. I would like to create a small list of what can be done in order to make international business travelers, investors or tourists interested in our country:

Advertisement - Georgia used to have nice ads that were actively distributed in many EU countries. I consider this practice necessary to be continued, though expanding the area of distribution. Currently Georgia could be very interesting for the U.S., the central and eastern part of the EU, and our neighbors (mindful of the conflict in the north though). An international ad team can also be hired and would be proved to be a worthy investment.

In order to make advertising effective, Georgia must change. It must transform into the travelers' favor. Exploring successful international practices, we should implement only the best out of them. Currently there is a need for infrastructural improvements in Tbilisi and on a regional basis as well. For instance, Georgia suffers from a lack of sufficient number of WC's within cities and on the roads. Many minor issues can be listed in this section: roads, signs, accessibility, parking, safety infrastructure, cleanliness.

Taxation - Many EU coun-

tries have used tax reliefs to invest more in their businesses. For example, VAT for the hospitality sector in many western countries is reduced to 6-8% whereas in Georgia this index stands at 18%. The research by Deloitte made in the UK concluded that lowering VAT for accommodation will lead, ultimately, to greater revenues to the Treasury, stronger consumer demand and thus more jobs. Simply speaking, it can stimulate tourism, lower costs of accommodation and make these businesses even more profitable. The research showed that a cut to 5% will generate about 79,000 jobs in the UK. So, this can be equally effective for Georgia. Obviously, there are other high percentage taxes that affect businesses as well - such as income, etc. Several times it has been announced in Georgia that taxes would be lowered, but this has not yet been done, however it should be as soon as possible.

Make tourists come to Georgia and spend here - organizing international forums, fairs, meetings, concerts of famous stars will also facilitate Georgia's tourism attractiveness. For example, Maroon 5 will be holding concerts in EU countries this May-June period. Georgia could have also hosted one of their concerts and thereby, boosted their popularity among neighbor countries that tend to be interested in such kinds of events. This is only one small example: Georgia's location enables us to host international forums, business meetings of a large scale, etc. In this case, not only Tbilisi but regional centers can also be hosting places. For example - the Adjara region, especially in the summertime. We welcome the fact that this Spring-Summer period some of the above-mentioned activities will take place in Georgia - the EBRD Meeting, UEFA SUPER CUP and Youth Olympic Games, but it is a very small number and needs to be increased.

Make our country attractive for investors - local and international. The most significant issue is how the Government meets and talks to new, possible investors (or maybe existing). I would like to describe to you one small example: In a hotel, a guest may find that the TV does not have some of the channels that he/she likes, or he/she might not like the length of the bed, etc. but if the hotel's staff are attentive, respond to requests and are helpful, then minor problems will not have any influence on the guest's overall impression and he/she will come back again. This will certainly work for Georgia as well. Attitude is the most important thing - how you meet, help and assist. Value of Investment is not important. Let me describe this section in more detail:

Growing Up - One of Georgia's biggest problems is a shortage of qualified labor. Indeed, qualified labor is a precious resource whose inadequate supply could pose significant risks to the coun-

try's growth trajectory. It can influence tourism and investment capabilities severely. For instance, if FORD decides to construct a factory in Georgia and start producing cars for the CIS region, the company will face difficulties in finding appropriate candidates to work in the factory. This occurs in many sectors. The Government must assist its youth to become professionals in new, in-demand fields by offering new courses, hiring international experts and at the same time communicating with appropriate companies to invest in Georgia. Having an effective workforce and demand for them is equally vital.

Effective Legal System - The Government must effectively take away rules/provisions/laws that are unnecessarily preventing existing and future investors from investing more and instead promote the feeling that money spent in any sector will bring income, not problems.

Coordination - All agencies, ministries or other officials must work in coordination in order to be very effective. Each ministry is in charge of a certain area and can boost tourism capabilities in many ways: If international film festival organizers are interested in holding a festival in Georgia, the Ministry of Culture, Foreign Affairs and Economics can be in charge to cordially support organizers, and advertise this festival on a local and international level. Subsequently, tourism administration and other agencies can work together to plan incoming tours for this festival. Even the Maritime Agency can spread word to their partners, or the Ministry of Sport and various federations can be in charge if films shown at the festival are about sports. Their contribution will lead to attracting many tourists and business representatives to spend money in Georgia, become attracted and feel comfortable. This meeting in fact enables various people to communicate and plan new activities.

Implementing new, effective policy on preserving ecology. Georgia now suffers from exhaust fumes that old cars (as there are few factories) produce. Currently there is no clear policy about importing old, damaged cars, their obligatory inspection or even ban on importing right-hand drive cars that often result in car accidents. I consider this practice necessary to be changed soon and cars which are in compliance with at least euro 4 standards only to be accepted for import.

To summarize, Georgia is a very promising country in terms of tourism and its abilities must be effectively used. It will result in the country's further development, stability and wealth. Each government must have a feeling of healthy competition and desire to make Georgia better than any other more-developed countries. "If you can dream it, you can do it" - well said by Walt Disney. We can all change Georgia for the better.



Kakha Kaladze:

Minister of Energy and Natural Resources of Georgia



"Seven new hydroelectric power plants have been opened."



Teona SURMAVA

FactCheck

On 30 December 2014, as a guest of the talk show, *Archevani*, the Deputy Prime Minister and Minister of Energy and Natural Resources of Georgia, Kakha Kaladze, declared that a number of significant projects have been implemented in the field of energy and seven new hydroelectric power plants have been opened.

FactCheck obtained information regarding the hydroelectric power plants which were opened in 2014.

The construction of Shilda HPP, which is located in the village of Shilda, was launched in 2012 and the hydro power plant (HPP) was opened in 2014. The capacity of the plant is 5mWh and it is able to generate 30 million kilowatts per hour annually. USD 5.5 million was invested in the construction of the HPP which belongs to the Georgian Energy company.

Bakhvi HPP-3, located in the village of Mitsipiri in the Ozurgeti district, is a joint project of the international holdings Kusto Group and the Silk Road Group and implemented by Bakhvi Payer LTD. The construction of the HPP was launched in 2011. The total amount of investments attracted was USD 13.5 million. The capacity of the plant is 9.8 mWh and it is able to generate 38 million kilowatts per hour annually. The HPP was opened in September 2013.

The construction of Paravani HPP was funded by the European Bank for Reconstruction and Development in the amount of USD 52 million with the work on its construction having started in 2011. The capacity of the HPP is 87 mWh which means that it will be able to generate 410 million kilowatts per hour annually. USD 200 million was invested in the project sponsored by Georgia Urban Energy. The Paravani HPP is scheduled to open at the beginning of 2015.

Larsi HPP, which is located in the Kazbegi district, has a capacity of 19 mWh and is able to generate 100 million kilowatts per hour annually. The HPP is of a derivative type¹ and its construction was launched in 2011. USD 20 million was invested to implement this project. Larsi HPP was opened in 2014.

The investment value of Kazbegi HPP equals USD 2 million and it has a capacity of 6 mWh which enables the HPP to generate 30 million kilowatts per hour annually. The construction of the HPP was launched in 2011 and it was opened in 2014.

The construction of Akhmeta HPP, located in the Municipality of Akhmeta, was launched in June 2013 and the HPP was opened in 2014. It has a capacity of 9.4 mWh and will generate 500 million kilowatts per hour annually. The project's value in terms of investments is assessed to be USD 9.8 million which was allocated by the Bulgarian Hydrolea company with the assistance of local banks and

international financial institutions.

The construction of Aragvi HPP was launched in February 2012 and was finished in February 2014. The HPP has a capacity of 8 mWh and is able to generate 50 million kilowatts per hour annually. The project's value in terms of investments is assessed to be USD 13 million. Aragvi HPP is the first hydroelectric power plant which was constructed by a joint partnership of Georgian and Austrian private investors.

According to the information of the Ministry of Energy and Natural Resources of Georgia, Nabeghlavi HPP was also opened in 2014. The HPP was constructed in Guria, on the Gubazouli River, and its value in terms of investments is assessed to be USD 2.8 million. The capacity of Nabeghlavi HPP is 1.9 mWh.

According to the statement of the Ministry of Energy and Natural Resources of Georgia, construction of the HPPs is crucial to ensure the energy security of the nation. Considering Georgia's geographic location and the country's position on foreign policy issues, achieving energy security implies enormous political, energetic and economic importance for the country. Water and hydro resources are on the top of the list among Georgia's natural riches. Georgia's hydropower potential, as compared to the total area of the country, is one of the largest in the world. Therefore, the construction of new HPPs is crucial for the energy security of the country.

1. This is a so-called run-of-river (derivative type) hydro power plant which operates with or without a small dam. A part of the river downstream is directed to turbines through a pipe or a channel for electricity generation.

CONCLUSION

According to the information posted on the official website of the Ministry of Energy and Natural Resources of Georgia, seven new hydroelectric power plants were opened in the years of 2013-2014. **FactCheck** concludes that Kakha Kaladze's statement is **TRUE**.

TRUE


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