

# Georgia - EU Strategic Investments



AGENCY

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## OVERVIEW OF STRATEGIC INVESTMENTS IN GEORGIA

According to several international rankings, Georgia ranks as one of the easiest countries to do business with. The country of Georgia is located at the crossroads of Western Asia and Eastern Europe. It has a small open market that actively engages in international trade, its key sectors being tourism and transportation. Since 1991, the country has actively run economic reforms that have produced a relatively well-functioning and stable market economy.

During the period 2005 - 2019, the average growth rate in Georgia was over 5 per cent, and its global rankings improved in the ease of doing business, governance, corruption, and other indexes. Since 2005, Georgia has moved from 112th place in the World Bank's Doing Business indicators to seventh place worldwide, ranked 12th in the 2021 Economic Freedom Index by the Heritage Foundation, 8th in the Economic Freedom of the World Index by Frazer Institute, and 45th in the Corruption Perception Index by the Transparency International.

Georgia's fiscal and monetary policy are focused on low deficits, low inflation, and a floating real exchange rate, which has been affected by regional developments, including sanctions on Russia, the dollar getting more robust since the beginning of 2022, and other external political factors.

Although, the COVID-19 pandemic reversed some of the past achievements and introduced significant pressure on the domestic currency and local economy, including the tourism sector, which suffered due to travel restrictions and closed borders. According to [the World Bank](#), Georgia "has a sound macroeconomic framework, an attractive business environment, and robust public financial management arrangements that are expected to support the post-COVID recovery. Georgia's governance indicators typically exceed Europe and Central Asia and upper-middle-income country averages."

Transit and logistics are priority sectors for Georgia as the country significantly benefits from East/West trade routes which pass through the country. The Baku-Tbilisi-Kars railroad has boosted Georgia's transit prospects, leading the Georgian government to be looking for ways to enhance international trade.

The significant investment-related reforms since 2003 have put Georgia on the map for investors, leading to numerous improvements in the business climate, taxation, innovation, financial markets and export development.

The E.U. and Georgia signed an Association Agreement in 2014, which entered fully into force in July 2016. This agreement provides the foundations for political association and

economic integration. Key benefits building blocks from this relationship include a Deep and Comprehensive Free Trade Area (DCFTA), which opens the E.U. market to Georgian businesses and products, and visa-free travel to the Schengen area for Georgian citizens since 28 March 2017. The European Union is Georgia's largest investor and provides over €120 million worth of grants supporting Georgia's ambitious reform agenda.

Georgia also has a strong relationship with China and the United States. Tbilisi is the only government in the Caspian region to secure an FTA with Beijing and the only country in the world to implement both a Deep and Comprehensive Free Trade Area (DCFTA) with the European Union and an FTA with China.

## GEORGIA – EU RELATIONS

Georgia and the European Union have a very close and positive relationship, striving for political association and economic integration. In 2014, the European Union and Georgia signed the EU-Georgia Association Agreement, which entered into force on 1 July 2016. The agreement introduces a Deep and Comprehensive Free Trade Area (DCFTA) to create a closer economic integration and increase market access between the European Union and Georgia. DAFTA provisions have been applied since September 2014. Since March 2017, Georgian citizens can travel visa-free to the Schengen area.

The EU is Georgia's largest trading partner and provides over 350 million GEL (€120 million) to Georgia annually in grant assistance.

In 2009, the European Union launched the **Eastern Partnership (EaP)** program, a specific Eastern dimension to the European Neighbourhood Policy countries. The goal of the Eastern Partnership is to strengthen and deepen political and economic relations between the European Union and its Member States and six Eastern European and South Caucasus partner countries - Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine.

The EaP supports many global policy objectives, such as the Paris Agreement on Climate Change, the U.N. 2030 Agenda and its Sustainable Development Goals. The partnership's overall goal is to increase the stability, prosperity, and resilience of the European Union's neighbours, as set out in the E.U.'s Global Strategy for the foreign and security policy.

## STRATEGIC INVESTMENTS OF THE EUROPEAN UNION IN GEORGIA

Georgia is one of the few non-EU member countries that received support from the European Investment Fund. In 2007, the European Investment Bank started its operations in Georgia to support economic and social developments in the country. The EIB operates in line with the



European Neighbourhood Policy (ENP), the Eastern Partnership (EaP), and other bilateral agreements of the European Union. Working together with the Government of Georgia, the Bank implements strategic reforms to reach a more robust economy and promote connectivity and inclusion in the country.

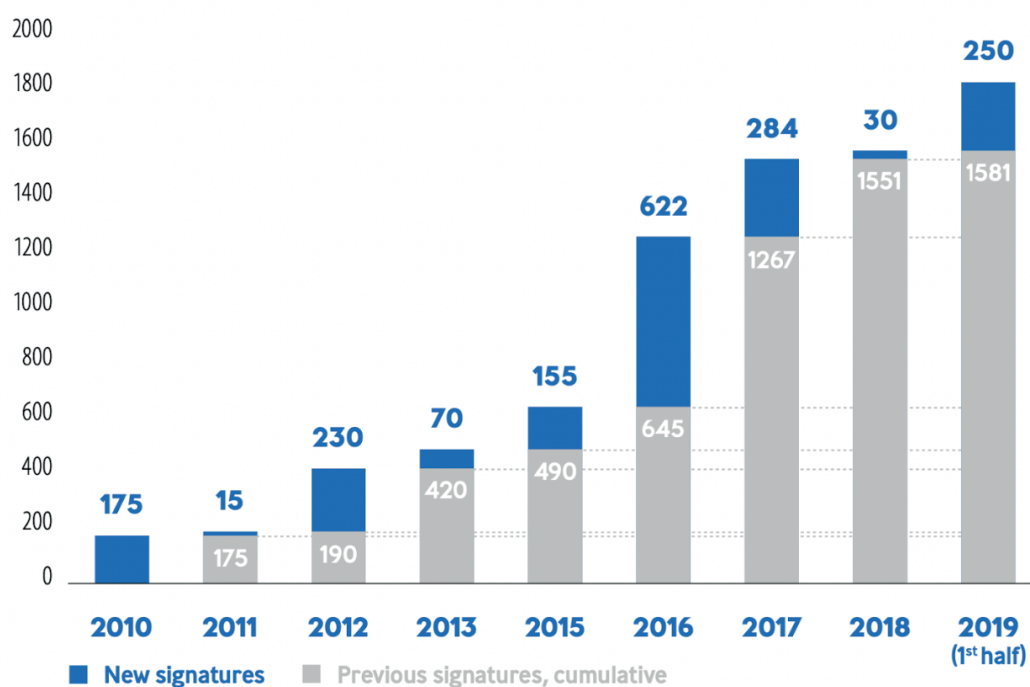
**Under the current External lending mandate (ELM), the Bank's key objectives are:**

- The development of social and economic infrastructure.
- Support of private sector development and small businesses.
- Mitigation and adaptation of climate change.

Since EIB started its operations in the country in 2017, the Bank has invested in 23 projects. The same year, Georgia and the EIB signed a framework agreement that outlines the Bank's activities in Georgia. The Bank also opened its regional office for the South Caucasus in Tbilisi in 2015.

With the signing of the 2014 Association Agreement and DAFTA between Georgia and the European Union, the Bank stepped up its support, increasing its lending portfolio to €1.83 billion. This made Georgia the primary lending beneficiary of the European Investment Bank per capita in the E.U.'s Eastern Neighbourhood region.

**EIB lending in Georgia in € m (2007 – 1<sup>st</sup> half 2019)**



Source: *The European Investment Bank in Georgia* [report](#)

The European Investment Bank finances most of its projects in Georgia under the E.U.'s External Lending Mandate. The Bank guarantees social and economic infrastructure projects, local private sector development, and climate action covered by the European budget.

Some of the EIB-backed projects are:

- Rehabilitating Tbilisi infrastructure damaged by the floods in 2015
- Extending road sections of the East-West Highway. The East-West highway is part of Georgia's extended Trans European Transport Network (TEN-T). Since 2012, it has received nearly €1 billion of the Bank's long-term financing, combined with several grants from the E.U. Neighborhood Investment Platform for a total of €25.5 million.
- Supporting microfinance services for income-generating activities, granted to small and micro enterprises in the country's urban and rural areas
- Providing funds to support small businesses in the food and healthcare sectors.

Georgia is among a few non-EU member countries that benefit from the European Investment Fund's operations. These programs are designed to support small and medium-sized enterprises (SMEs), providing risk-sharing instruments. Through the Eastern Partnership Technical Assistance Trust Fund (EPTATF), the EIB works with local authorities to prepare and implement technologically complex projects.

## Public sector investment

Public infrastructure is an important area of EIB lending in Georgia, taking up to 79% of its operations. These include projects in transport, energy, water and wastewater areas. Since 2016, the European Investment Bank has also committed funding to urban reconstruction and development and upgrading of municipal infrastructure. The EIB has supported **11 public sector projects** in transport connectivity, energy security, and municipal and environmental infrastructure with loans totalling **€1.48 billion**.

## Private sector investment

The Bank offers credit lines to address the scarcity of long-term funding for small and medium-sized enterprises in Georgia. The private sector is the key driver of economic growth, job creation and innovation — small businesses are its backbone, accounting for over 90% of enterprises and 40% of business sector employment. The EIB launched a direct investment loan to businesses, including a €21.5 million long-term loan directed to Tbilisi's water utility service, Georgian Water and Power. The project will support the water and wastewater infrastructure and upgrade its ability to reduce water losses and improve energy efficiency.

The loans for small and mid-size businesses are currently available through Bank of Georgia, TBC Bank, ProCredit Bank Georgia, and Credo Bank. From 2007 to 2019, the EIB loans to local banks translated into attractive financing for up to 1,300 sub-projects of eligible businesses.

## Climate action support

The European Investment Bank plays a crucial role in unlocking Georgia's renewable energy potential and ensuring its energy security. The European Union also launched a €5 million grant from its Neighborhood Investment Platform to support a €23.5 million loan from the European Investment Bank to finance the rehabilitation works at the Enguri and Vardnili hydropower plants cascade, which account for 40% of Georgia's total energy production.

Overall, since 2007, the EIB dispersed €85 million, contributing to climate change mitigation and adaptation.

The European Investment Bank and Kreditanstalt für Wiederaufbau (KfW), a German state-owned development bank, created a Green for Growth Fund (GGF). The Fund is aimed to attract private institutional investors to projects that foster energy efficiency, generate renewable energy and promote efficiency in water and waste management in the Southeast Europe region, the European Neighborhood region and the Middle East and North Africa.

The Green for Growth Fund's portfolio in Georgia has currently an exposure of nearly €56 million, aimed at projects on hydropower and wind energy and credit lines to local financial institutions.

Advised by EIB, the Global Energy Efficiency and Renewable Energy Fund (GEEREF), an innovative fund-of-funds attracting private sector capital to clean energy projects in developing countries and economies in transition, has committed \$13 million to the Caucasus Clean Energy Fund in Georgia, a private equity fund investing in small and medium-scale hydropower plants across the country.

## A new investment plan for the Eastern Partnership

On 2 July 2021, the European Commission and the European Union's High Representative for Foreign Affairs and Security Policy outlined a proposal on bringing forward European Union's priorities for cooperation with its Eastern partners in the coming years. The agenda is based on five long-term objectives for the future of the Eastern Partnership, which were defined in March 2020. They will be underpinned by €2.3 billion in grants of the **Economic and Investment Plan**, blending and guarantees, with a potential to mobilise up to €17 billion in public and private investments to stimulate jobs and growth, support connectivity and the green and digital transition.

The Economic and Investment Plan aims to facilitate other E.U. public and private investments, investments from the European Investment Bank, the European Bank for Reconstruction and Development, and other international financial institutions. The plan should also be supported by the development finance institutions of the E.U. Member States, partner countries' national, regional and local governments, municipalities, and private investors. Therefore, **the plan is expected to leverage up to €17 billion in public and private investments** to support the post-pandemic recovery.

The Economic and Investment Plan underpins the **Investment pillar** of [the post-2020 priorities for the Eastern Partnership](#), which supports post-COVID 19 socio-economic recoveries and aims to build back the economy by accelerating the green and digital transition.

However, these investments must be combined with clear progress in judiciary reform, public administration and human rights. The **Governance pillar** includes support of democratic values, human rights, the rule of law, anti-corruption measures, gender equality, civil society and independent media – all critical values of the European Union.

## The five flagship initiatives for Georgia are:

- 1. Black Sea connectivity — improving data and energy connections with the E.U.** This initiative will further integrate Georgian and the E.U. markets by deploying a submarine fibre optic cable. Georgians will benefit from a faster and more stable direct internet connection with the Black Sea connectivity initiative. Energy interconnectivity between Georgia and the E.U. will be supported by a technical and economic study on the feasibility of deploying a submarine electricity cable between Georgia and the European Union. The overall cost of the investment is estimated at a total amount of up to **€25 million**.
- 2. Transport connections across the Black Sea — improving physical connections with the E.U.** This initiative is aimed to promote trade in goods and facilitate the movement of people by developing new ferry services and refurbishing ports, and creating a direct link with the E.U. Member States. Improved transit connections will boost trade and economic cooperation between Georgia and the E.U. and strengthen Georgia's role as a bridge between Europe and Asia. The overall cost of the investment is estimated at around **€100 million**.
- 3. Sustainable economic recovery — helping 80,000 small and medium-sized enterprises (SMEs) to utilise the full benefits of the DCFTA.** Support will include equity investments into the integration of Georgian SMEs into wider E.U. value chains and diversifying trade between the E.U. and Georgia. A significant part of the E.U. support will go to the agricultural and food sectors. The overall support is estimated to amount up to **€600 million**.
- 4. Digital connectivity for citizens — high-speed broadband infrastructure for 1,000 rural settlements.** The digital connectivity initiative aims to reduce inequalities in the digital sector by developing high-speed broadband infrastructure aimed at 1,000 rural settlements and strengthening 'last-mile' connectivity. These efforts will boost economic development and recovery while promoting digital inclusion with the national broadband strategy.



The investment in this initiative is estimated to amount to up to **€350 million**.

**5. Improved air quality — cleaner air for over 1 million people in Tbilisi.** The European Union will work on improving air quality in Georgia by installing air monitoring equipment, identifying sources of air pollution and improving air quality. The initiative will invest in green and sustainable urban transport in Tbilisi by building two urban cable-car lines. The overall investment is estimated at around **€100 million**.

## Connectivity support

In December 2021, the E.U. and EIB announced a plan to invest in a fast internet connection for rural Georgia. An EIB loan, guaranteed by the E.U., will amount to up to €34 million invested in expanding the national broadband network to rural areas of Georgia. This investment is aimed at delivering fast and reliable internet services to 500,000 Georgians living in 1000 rural and remote settlements.

The EIB will finance the installation of 5000 km of fibre optics telecommunications network and provide open-access infrastructure for Georgian telecom operators to offer fast-internet services. This initiative is expected to boost local businesses and improve digital connectivity as one of the five flagship initiatives for Georgia under the European Union's Economic and Investment Plan for the Eastern Partnership.

## COVID-19 support

In July 2021, the European Investment Bank approved a €50 million loan to the government of Georgia for the procurement of vaccines against the COVID-19 virus through the COVAX facility and other medical equipment essential for the treatment of the COVID-19 patients.

The COVID-relief loan is the second-largest single disbursement for the Bank of the **European Union in Georgia and a part of the €100 million COVID-19 support package** for the Georgian healthcare system provided by the EIB.

In 2020 alone, the EIB Group provided **€210 million in loans and guarantees to support the resilience of Georgia's healthcare system** and speed up economic recovery from the COVID-19 pandemic. The support package from the European Bank includes €100 million invested in reinforcing the resilience of the Georgian healthcare sector and €110 million provided to the Georgian financial institutions for intermediated lending to local micro and small and medium enterprises (SMEs) in the country.

## Energy support

In May 2020, Georgia received a €90 million loan for the "Support of Georgia's Energy Sector

Reform". The Governments of Germany have ensured continued support to the sector reform through the Federal Ministry for Economic Cooperation and Development (BMZ) and France via the Agence Française de Développement (AFD).

The European Union, KfW and the Ministry of Economy and Sustainable Development launched the next technical cooperation programme to support energy sector reform in Georgia in December 2021.

Georgian Energy Sector Reform (GESR), with a budget of €8,44 million, aims to strengthen the country's energy security and improve the energy efficiency of public, industrial, and residential buildings and relevant infrastructure. In line with E.U. directives, Georgian Energy Sector Reform supports the ongoing reforms of the electricity market and endorses the further development of renewable energy.

Georgia's path to continued E.U. energy sector harmonisation within the program will be supported and adapted to the Georgian context. The program will support the establishment of an energy performance certification (EPCs), a system of accreditation and certification of energy assessors, energy auditors and energy inspectors, the development and introduction of an energy-efficient procurement system and a long-term renovation strategy.

According to the Deputy Minister of Economy and Sustainable Development, David Tvalabeishvili, the program will aid the country in fulfilling obligations committed under the DCFTA agreement. The 4-year program aims at attracting additional private investments into energy efficiency, strengthening the competitiveness of Georgian economic sectors through the improvement of energy efficiency, development of renewable energy and reduction of GHG emissions. The program will also support deploying a competitive electricity market and increasing public awareness of the implemented reforms.

Overall, Georgia has received €554 million (Germany/KfW allocated €199 million and France/AFD - €355 million) over the past four years, along with a grant financing for technical assistance in the amount of €8.44 million from the E.U., implemented by KfW.

### European Bank for Reconstruction and Development programs

EBRD activities in Georgia spread across various sectors, including the financial industry, energy, infrastructure, corporate and small-medium enterprises. They **reached €4.3 billion in 268 projects** since the beginning of the operations. EBRD supports Georgia's energy security, defining and implementing Green City programmes in Tbilisi and Batumi. To support Georgia - E.U. association under DAFTA, the Bank focuses on energy efficiency credit lines to financial institutions, skills standardisation, mining sector reform, private enterprises and agribusiness development.

In 2021 - 2026, the Bank will pursue the following strategic priorities in Georgia 2021-2026:

1. Improving productivity and resilience of the economy through enhanced competitiveness and access to finance
2. Promoting equal opportunities through inclusion and balanced territorial development
3. Accelerating Green Transition through increased investments and sound governance

On 6 May 2022, the EBRD [announced](#) the loan allocation for reforming education, healthcare, and social protection in Georgia. The loan amounts to **€358.5 million with a term of 27,5 years.**

## OTHER STRATEGIC PARTNERS

### GEORGIA – CHINA RELATIONS

China established diplomatic relations with Georgia after gaining independence from the Soviet Union. Soon after that, Beijing began pursuing a special accord with Georgia by offering exclusive investment, trade, and educational exchanges, making Georgia a pivotal partner to China's Belt and Road Initiative (BRI).

In 2010, China and Georgia signed the **Agreement on Economic and Technical Cooperation**, allocating 20 million Chinese renminbi (\$3 million) for projects in Georgia, jumpstarting an investment relationship. Since this first agreement in 2010, Georgia and China have engaged on numerous fronts, including mental health reform, law enforcement cooperation, and bolstering energy infrastructure.

Although Georgia is geographically far from China, it is a critical bridge between Europe and Asia via the Black Sea. As Georgia's economic competitiveness is heavily based on its capacity as a transit country, it is a subject of interest to China. Without Georgia's trade routes, Chinese goods transiting along BRI routes would have to cross Russia or Iran, which have poor relations with the rest of the world.

**In 2016, Georgia officially joined the Belt and Road Initiative (BRI)**, opening an additional avenue to secure Chinese investment.

As the BRI heavily emphasises infrastructure development, another major investor is the Asian Infrastructure Investment Bank (AIIB). Other financial institutions, such as the China Development Bank, Exim Bank of China, Bank of China and Industrial and Commercial Bank of China (ICBC), and some Chinese private companies have also played significant roles in investment projects in the South Caucasus.

Xinjiang-based Hualing Group is Georgia's largest foreign investor, building an investment portfolio of \$600 million in the country since 2007. With Georgia's attractive investment and business environment, strategic geographical position, and easy accessibility to the regional and European markets, Hualing Group established a Hualing Free Industrial Zone in Georgia

located on the company-owned territory in Kutaisi, Georgia's second-highest populated city.

The project received significant support from the Georgian government. In 2009, the Hualing Group and the Georgian Ministry of Economic and Sustainable Development signed the Memorandum on establishing Free Industrial Zone in Kutaisi. Hualing FIZ was built by Hualing Group with Chinese investments and began operating in 2015. Despite the COVID-19 pandemic, Hualing FIZ increased its investor client base in 2021, with 25 new companies registered during the past year.

Hualing FIZ in Kutaisi covers 36 hectares and represents an important connecting hub between Tbilisi and the Black Sea Ports of Poti and Batumi. Hualing Kutaisi FIZ has a convenient transportation infrastructure in rail, road, ports and air transport and can serve as an industrial, logistics and trading hub within the Black and Caspian Sea region.

China has also invested a significant amount of money in hydropower. In the 2000s, China funded the construction of the Khadori Hydropower Plant (also known as the Khudoni Hydropower Plant) in the Pankisi Gorge region, located just south of the Georgian-Chechen border. This Khadori Hydropower Plant project is the first foreign-funded power station in Georgia. It provides housing for Chinese workers and a power supply to the residents of the northwestern Kakheti region. Additionally, through the AIIB, China has shown interest in the Nenskra hydropower plant, a hydroelectric power station located in the Central Caucasus Mountains in Svaneti.

Chinese investment has also been directed at ground transportation development. In 2017, the AIIB offered Georgia \$114 million to build a Batumi bypass, easing international transit around the major Black Sea resort. China's BRI plans, aligned with Georgian ambitions to create a web of transportation routes with its neighbours, led to the opening of the Baku-Tbilisi-Kars Railway in 2017. According to a former Chinese Ambassador to Georgia, Ji Yanchi, as of 2017, Chinese companies had built **82.1 kilometres of roads and 40.6 kilometres of railroads in Georgia**.

In May 2017, China and Georgia solidified their economic partnership with a free trade agreement to remove customs barriers.

## GEORGIA – US RELATIONS

Georgia is a crucial U.S. ally in the Caucasus region and a gateway for energy resources from the Caspian Sea to Europe.

The United States and Georgia work together to increase bilateral trade and investment through a High-Level Dialogue on Trade and Investment strategy established in 2012. The two countries also have the U.S.-Georgia Strategic Partnership Commission's Economic Working Group.

In 1994, the U.S. and Georgia signed a Bilateral Investment Treaty. Now, Georgia is eligible to export products duty-free to the United States under the Generalised System of Preferences (GSP) program.

Since 1992, USAID has been operating in Georgia, providing over \$1.8 billion in assistance through USAID. Building on this successful partnership, the U.S. Government dedicates approximately \$40 million annually to 50 wide-reaching programs that support Georgia's democratic, free-market, pro-Western path.

US-funded initiatives are aimed to stimulate economic growth, develop democratic institutions, enhance energy security, mitigate climate change, improve education, and foster the inclusion of minority and disadvantaged groups, including those living across ethnic and geographic boundaries. Given Georgia's strengthening relationship with the European Union following the 2014 Association Agreement, these goals are fundamental for the US-Georgia relations.

USAID also funds more than 35 programs to strengthen Georgia's resilience to malign influence, consolidate democratic values, enhance responsive citizen governance, and enable high-value employment through increased economic growth.

Overall, Georgia has received \$4,348,400,000 in financial aid from the United States between 1992 and 2020.

Throughout 2014 – 2019, USIAD runs the USAID Economic Security Program, which focuses on enterprises that show strong potential to create jobs, increase individual income, and support diversification to more productive economic activities. Focus sectors are tourism, light manufacturing, creative industries, shared intellectual services, and solid waste management. The program intends to create at least 4,800 new jobs, support at least 720 small firms, boost sales of assisted enterprises by \$60 million, and leverage \$18 million in partnerships.

Overall, the American-Georgian Strategic Partnership has four core areas: democracy and governance, defence and security, economic, trade and energy cooperation, and people-to-people and cultural exchanges. As such, it covers a broad spectrum of fields for cooperation. Therefore, democracy, governance, defence and security, and economic, trade and energy cooperation are central to collaboration.

However, the central challenge for Georgia is that the U.S. government possesses no strategic vision for the country or the region altogether. That makes it hard for Georgia to justify its strategic relevance and, thus, to deepen and develop the Strategic Partnership in its direction.



# SOURCES

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- [Georgia-China bilateral relations](#)
- [Hualing Free Industrial Zone](#)
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- [Factsheet: EU and Georgia](#)
- [European Union, Ministry of Economy and Sustainable Development and KfW joined efforts to support Energy Sector Reform in Georgia](#)
- [Georgia energy and green sector agenda continues with support of KfW, AFD and EU](#)
- [European Bank for Reconstruction and Development, Georgia overview](#)
- [Georgia — USAID Economic Security Program](#)
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