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ANALYSIS OF INVESTMENT POTENTIAL OF SAMEGRELO-ZEMO SVANETI REGION

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ECONOMIC POLICY RESEARCH CENTER

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The project operates in five regions of Georgia: Tbilisi, Kakheti, Shida Kartli, Imereti and Adjara.

CONTENTS

INTRODUCTION

Healthy economic development of Georgia largely depends on successful activities in territorial units. According to current statistics, Tbilisi is the center of economic development, including direct foreign investments (FDIs). The dynamics of regional distribution of investments clearly shows that the investment environment of Georgia is created in Tbilisi. Fall and rise in investments directly correlate with the dynamics in Tbilisi. According to the 2020 indicators, investments in Tbilisi dropped by 70% while in other regions remained almost the same. This is because Tbilisi accounts for 73% (due to nature of investment portfolio) of all FDIs implemented since 2009 to date, as compared to 10% in Adjara and 17% in all other regions of Georgia. In 2020, the Samegrelo-Zemo Svaneti region saw GEL 231.6 million worth investments of which 45% was made in transport and warehousing, 31% in electricity, gas, steam and air conditioning supply, and 11% in agriculture, forestry and fishing.

A better use of their own investment potential will enable the regions, on the one hand, to play a greater role in the economic development of the country and, on the other hand, to shoulder their fair share of responsibility and stimulate the process of economic decentralization.

That's why the aim of this paper is to assess and analyze the investment potential of Samegrelo-Zemo Svaneti region, including the Tsalenjikha municipality, that will facilitate future economic development of the region.

The analysis of investment potential is the first step towards analysis-based policy planning and implementation.

EVALUATION OF POLITICAL AND LEGAL ENVIRONMENT

Georgia is a democracy in transition, with a declared path towards Euro-Atlantic integration. The country enjoys a visa-free travel regime with European countries. It has free trade agreements with the EU, China, Turkey, CIS countries as well as bilateral agreements with CIS member states. The country faces a serious challenge in establishing a proper, impartial legal system and achieving a stable political environment – crucial elements in attracting international investment capital.

Oligarchic type of governance in Georgia undermines the trust towards public institutions and enhances the threats, intrinsic to informal rule, for investors.

In Georgia, investors have access to investor-state dispute settlement (ISDS) procedures, including international arbitration, if the government violates provisions of an agreement. Furthermore, Georgia has bilateral investment agreements with 33 countries, which represent yet another important document of legal investment framework. Investment agreements protect investors against expropriation and discrimination. Nevertheless, the legal investment framework faces various challenges in Georgia. One of serious challenges is a legal environment established as a result of the organic law on Agricultural Land Ownership, adopted by the parliament of Georgia in 2019, which complicates the acquisition by foreign investors of the title to agricultural land parcels. This has already had an adverse effect on the inflow of FDIs into the agricultural sector. Yet another impediment to international investors is a court system backlog that protracts the resolution of disputes and makes it worthless for potential investors to file a lawsuit. The investment potential of Georgia was damaged by the high-profile cases, such as the construction of Anaklia Deep Sea Port and a large hydro power plant, Namakhvani HES. Both of these projects were suspended and fell through due to improper position of the state.

Although over the past decade the Georgian government has been run by a single political party, Georgian Dream, the political situation lacks stability which manifests in frequent cabinet reshuffles, frequent mass protest rallies, lack of constructive cooperation between the ruling and political opposition forces, decline in the rate and quality of implementation of international agreements, the country's regress in international democracy rankings and indices. Despite a whole set of challenges, the Georgian Dream has managed to will all the municipal and parliamentary elections held in the past decade. It should be noted that election results have not been fully recognized as legitimate by society and the Georgian Dream government has to cope with the crisis of legitimacy between the elections. This crisis results from electoral structure, unequal distribution of resources and political events that affect the election process and, in the conditions of unfair competition, favors the ruling team.

The Tsalenjikha municipality is an interesting exception to the rule, as it is the only municipality that has a mayor from the opposition party. A high degree of political independence provides an interesting opportunity for enhancing the development and investment potential of the municipality.

However, a full realization of that potential to ensure a favorable investment environment in the region is difficult due to limited powers of local self-governments in Georgia and also, attempts of the ruling party to counter opposition-minded self-governments by protracting a local decision-making process (for example, through delaying the approval of local budget or in some other ways).

Municipal revenues are divided into three categories: taxes, grants and other income. Tax revenues include local taxes such as property and land taxes, as well as value-added tax (VAT) which is distributed among municipalities from the total VAT revenue received by the central budget. Grants include transfers from the central budget and grants from international organizations: earmarked transfers, capital transfers, special transfers. Other income includes all other sources of municipal revenues, such as:

- property revenues;
- sale of goods and services;
- administrative fees and payments (construction permit fee; compulsory military service postponement fee; local fee for garbage collection from a residential area; gambling business fee, etc.);
- goods and services sold on non-market terms and conditions (revenues from services rendered); penalties, sanctions and interest;
- mixed and other.

In numerical terms, the largest source among all these revenues to a regional budget is special, earmarked and capital transfers and grants allocated from the central budget, which makes a region heavily dependent on the central government and its goodwill.

An interesting thing from the perspective of investments is that a local self-government has the power to sell immovable property (land and buildings) owned by it; however, when it comes to large facilities, such property, often located on the territory of a region, is centrally subordinated to the ministry of economy of the country.

MAIN CHALLENGES TO THE INVESTMENT ENVIRONMENT IN GEORGIA

When talking about main challenges posed to a general investment environment, the focus is, naturally, broader than our target region. However, problems existing in this regard can, as a rule, be seen across the entire country, including in its regions.

It is therefore interesting to highlight several aspects of Georgia's investment environment: according to the OECD index, Georgia is among countries that are most open to foreign investors. Regulations and restrictions are practiced only in few sectors and those restrictions are in full conformity to the regulations of other OECD member states. Key economic sectors that attract FDIs are almost fully open to international capital (the financial sector, the industry, etc.). Restrictions and regulations apply to international investors only in strategic sectors, such as aviation, forestry, transportation, real estate and media. However, when it comes to regions where agriculture can be identified as an important sector for investments, a major restriction is the ban on the transfer of agricultural land parcels into the ownership of foreign citizens.

According to various studies, investors, when considering investments in Georgia, pay a great deal of attention to the following factors: availability of qualified labor force; international shipments (airports, ease of access to international markets); qualified education system and possibilities of cooperation with educational institutions; transparency of business operation procedures; availability of infrastructure (transportation, storages, buildings); political stability and respect of law; trust in court system and independence of courts; protracted court disputes with investors; level of development of a sector and availability of supply chain; cost of labor; frequency of exchange rate fluctuations; undeveloped capital market, etc.

Majority of the aforementioned are, no doubt, the issues that must be decided on the central level; however, separate regions have regional peculiarities and characteristics in some of these issues (for example, labor force and education, availability of transport, etc.), which might be worth considering in terms of attracting FDI as well as domestic investments.

SAMEGRELO-ZEMO SVANETI – LOCATION AND ADMINISTRATIVE ARRANGEMENT

The Samegrelo-Zemo Svaneti region covers 10.8% of Georgia's territory. The region borders with the Black Sea, Abkhazia, Imereti, Racha-Lechkhumi and Kvemo Svaneti, Guria, and the Russian Federation. The Samegrelo-Zemo Svaneti region includes nine administrative units:

1. City of Poti;
2. Abasha municipality;
3. Zugdidi municipality;
4. Martvili municipality;
5. Mestia municipality;
6. Senaki municipality;
7. Chkhorotsku municipality;
8. Tsalenjikha municipality;
9. Khobi municipality.

The approved budget of Samegrelo-Zemo Svaneti for 2022 comprises GEL 972.3 thousand. GEL 967.3 thousand is allocated for expenditures, while GEL 5 thousand is earmarked for the growth of non-financial assets. Revised revenues of the 2022 budget of Tsalenjikha municipality stand at GEL 11091.1 thousand of which 94% is generated through taxes while the rest through grants (2%) and other income (4%). The largest share of the expenditures of Tsalenjikha municipality, 56%, is spent on subsidies and labor remuneration. Detailed breakdown is provided below:

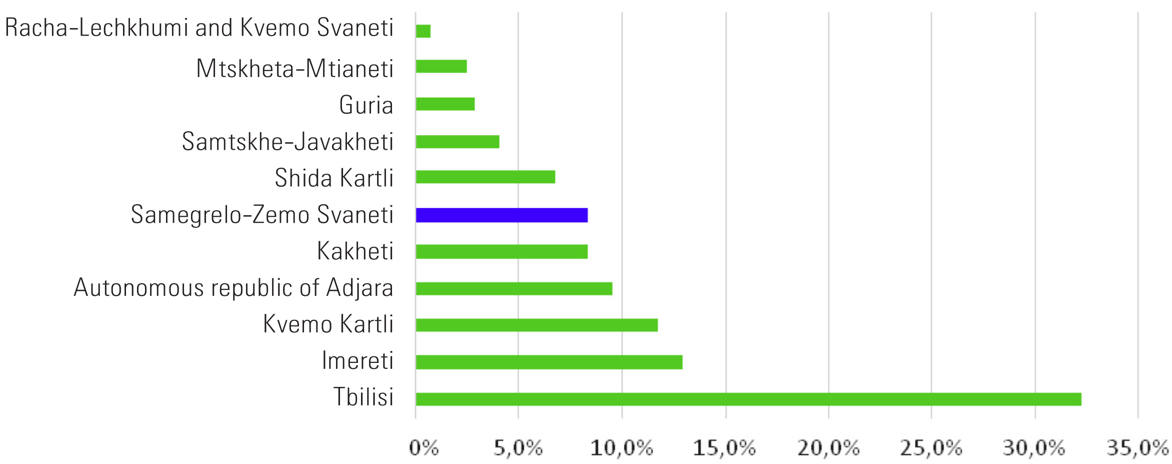
Description	Revised plan for 2022 (GEL thousand)
Revenues	**11,091.1**
Taxes	10,466.1
Grants	225.0
Other income	400.0
Expenditure	10,520.1
Labor remuneration	2,342.0
Goods and services	915.0

Interest	81.0
Subsidies	5,934.8
Grants	0
Social assistance	707.0
Other expenditures	540.3

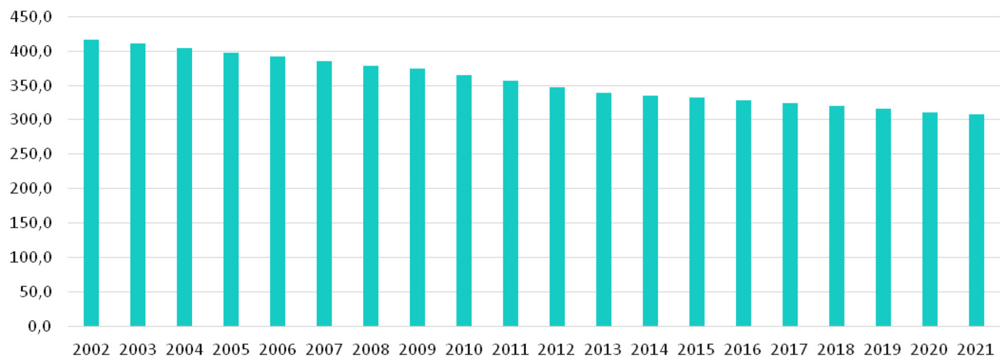
DEMOGRAPHIC STRUCTURE

The Samegrelo-Zemo Svaneti region is home to 8.27% of Georgia's total population (see Figure 1). Some 40% of regional population live in urban settlements while the remaining 60% in rural areas. Over the period between 2002 and 2021, a stable downward dynamic was observed among the regional population. The number of region's population has decreased by 1%-2% annually and shrunk by 1/4 in the past 20 years (see Figure 2). This downward dynamic is also supported by a negative natural change – the number of deaths is larger than the number of live births during the time period considered. The negative natural change is observed both in urban and rural areas, albeit with unequal distribution. Natural population decrease is higher in rural settlements than in urban settlements. However, a more important factor that causes the decrease in regional population is mobility. Although no data is available on the regional level, the national data allows to infer that a high unemployment indicator and lack of economic opportunities in the region are the main causes of migration. It is important to note that an unemployed segment of workforce comprises 15.9% in the Samegrelo-Zemo Svaneti region, which is lower by 18.5% than the Georgian indicator, but a closer look at the data shows that 44% of employees are self-employed people with the majority of them engaged in household farming.

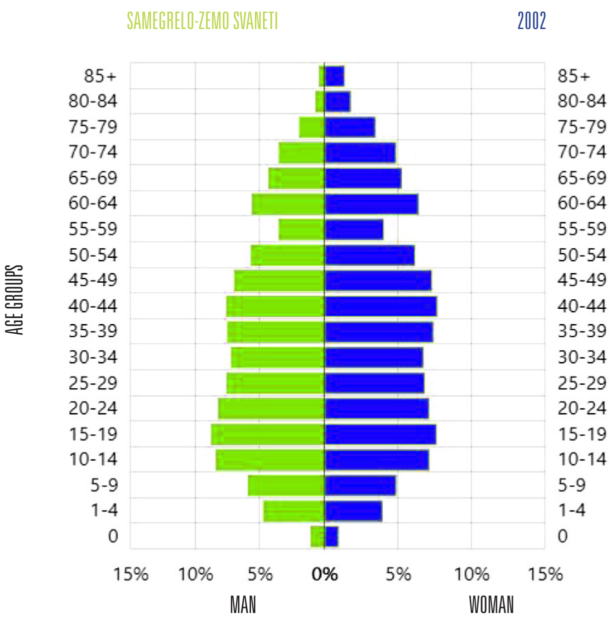
SHARE OF GEORGIA'S POPULATION BY REGIONS (GEOSTAT)

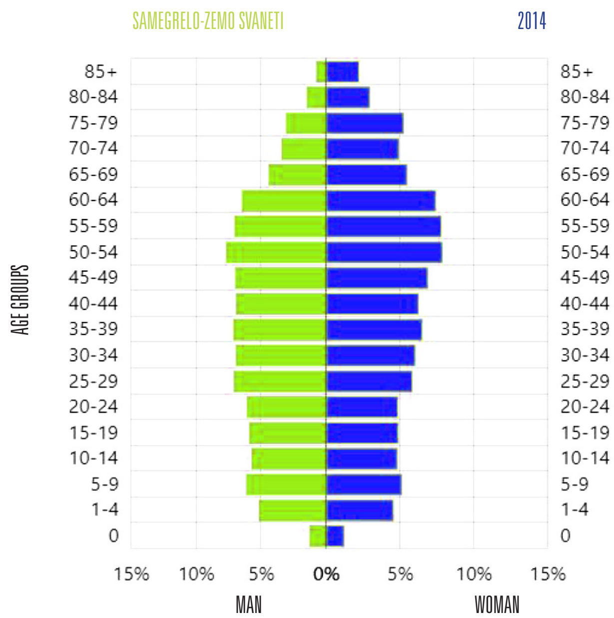


DYNAMICS OF SAMEGRELO-ZEMO SVANETI POPULATION (THOUSAND)



The trend of aging of the population in the Samegrelo-Zemo Svaneti region is apparent when comparing the regional population pyramids of the years 2002 and 2014 (see Figure 4 and Figure 5). In 2002, the largest segment of the population comprised labor force, i.e. young people. By 2014, the picture changed as the labor force started to age and the share of new labor force and youth in the total population of the region proportionally decreased. As the population started to age, the share of people dependent on labor force has increased. Since the majority of regional population is self-employed, they, when turning the retirement age, do not abandon economic activity, but their labor productivity diminishes. The current dynamics of age distribution of population is a challenge for future generations and makes it necessary to increase effectiveness of labor force against a simultaneous decrease in this force. For the region to continue economic growth, the labor force must be able to create a greater economic wealth than it has created so far. Considering that the number of residents depending on labor force will increase whereas the share of economically active residents will decrease, the share of employees in the region must increase in those economic sectors that create a higher added value, rather than in the existing sectors. The easiest way to achieve this is to make the labor force available in the region develop skills, which can be done by attracting and allocating additional investments to secondary, vocational and higher education.





As regards the Tsalenjikha municipality: the population in the municipality comprises 23,300, as of 1 January 2021; of these, up to 4,600 people live in rural settlements (Tsalenjikha, Kvari) and up to 18,700 people in rural settlement. In 2015, the population of the municipality exceeded 26,000 people.[1] Consequently, the dynamic of the municipal population reflects the dynamic of the entire population of the Samegrelo-Zemo Svaneti region.

1 Geostat.ge Population by cities and boroughs, as of 1 January.

EDUCATION SECTOR

Access to modern quality education in the Samegrelo-Zemo Svaneti region is an investment opportunity. Today, a characteristic feature of the region is the excess of secondary schools as compared to the number of its population. One of main reasons of that is a broad redistribution of the population.

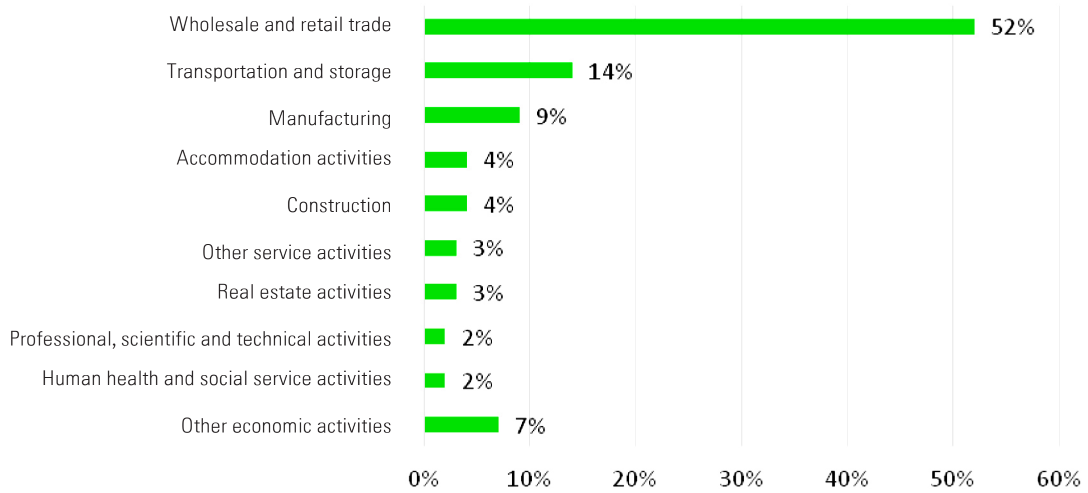
The enrollment in schools operating in Tsalenjikha municipality is small. According to the 2021 data, there are 31 schools with 3,592 pupils enrolled. Consequently, 116 pupils, on average, attend each school in the Tsalenjikha municipality, which is lower than the average indicator in the Samegrelo-Zemo Svaneti region – 174 pupils per school.

Vocational education institutions operating in Samegrelo-Zemo Svaneti region may also be viewed as a significant precondition and opportunity for investments. Development of modern skills that are in demand will provide a better opportunity to attract human resources-oriented investments. According to the 2021 data, six vocational education centers operate in the region of which two are private and four are public institutions. It should be noted that this number shows a decrease compared to 2018 as three vocational education centers were closed down, but shows an increase in student enrollment, compared to previous years. In 2021, as many as 1,253 students were enrolled in vocational education institutions.

BUSINESS ENVIRONMENT

The Samegrelo-Zemo Svaneti region counts 64,501 registered enterprises of which 15,142 are economically active. This means that 7.48% of all economically active enterprises in Georgia operate in the Samegrelo-Zemo Svaneti region. Of these enterprises 22 are large, that is 3.74% of large active enterprises in Georgia. Some 131 economic entities are medium-sized enterprises, i.e. 4.75% of medium-sized active enterprises in Georgia. As regards small-sized enterprises, they amount to 14,200, which is 7.56% of total active small-sized enterprises in Georgia. The size of 789 economic entities is not identified. In 2020, economically active enterprises in Samegrelo-Zemo Svaneti produced GEL 2273.3 million worth products. The distribution of these products by the size of enterprise is as follows: large enterprises – 26%, medium enterprises – 36%, and small enterprises – 37%. Added value created in the region amounted to GEL 986,6 million of which 33% was created by large, 29% by medium and 37% by small size economic entities.

DISTRIBUTION OF OPERATING BUSINESS ENTITIES BY ECONOMIC ACTIVITIES, 2019



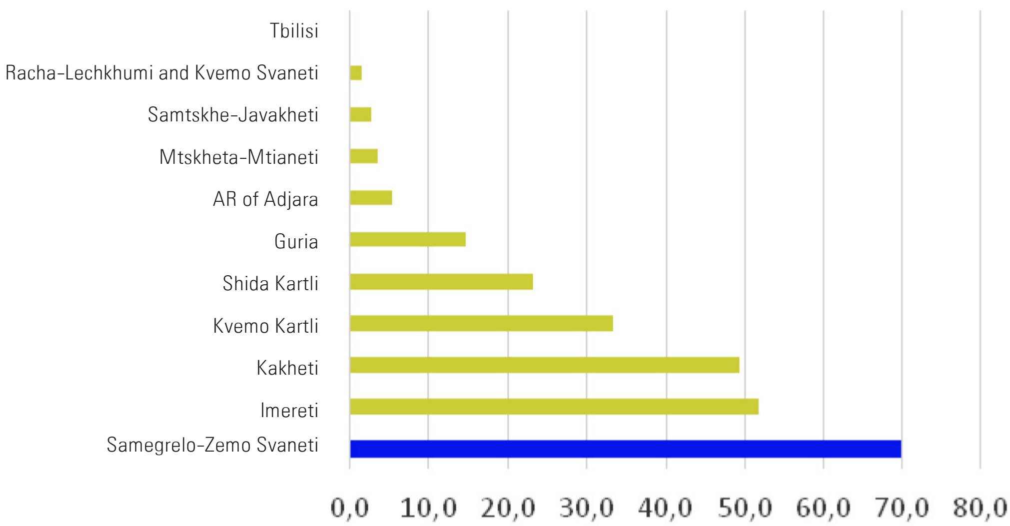
The majority of active economic entities in the Samegrelo-Zemo Svaneti region are engaged in wholesale and retail trade (52%). Other intensive economic activities are transportation and storage (14%) and manufacturing (9%). Distribution of companies by the size of economic activities is the following: 38% of companies are concentrated in the transportation and storage, while 25%-25% of companies operate in manufacturing and education. The largest share of medium-sized companies, 27%, operates in the field of transportation and storage. Some 19% of medium enterprises are engaged in manufacturing, while 14% operates in the area of human health and social services. Small-sized companies are concentrated in three sectors: wholesale and retail trade (52%), transportation and storage (13%) and manufacturing (9%).

ECONOMIC ACTIVITY	SAMEGRELO-ZEMO SVANETI			
	SMALL	MEDIUM	LARGE	TOTAL
Wholesale and retail trade	52%	5%	13%	52%
Transportation and storage	13%	27%	38%	9%
Manufacturing	9%	19%	25%	9%
Construction	4%	8%	0%	4%
Accommodation activities	4%	0%	0%	4%
Real estate activities	3%	0%	0%	3%
Other service activities	3%	0%	0%	3%
Human health and social service activities	2%	14%	0%	2%
Professional, scientific and technical activities	2%	0%	0%	2%
Financial and insurance activities	2%	0%	0%	2%
Agriculture, forestry and fishing	1%	4%	0%	2%
Administrative and support service activities	1%	6%	0%	1%
Education	1%	5%	25%	1%
Mining and quarrying	1%	0%	0%	1%
Information and communication activities	1%	0%	0%	1%
Arts, entertainment and recreation activities	0%	6%	0%	0%
Water supply; sewerage, waste management and remediation activities	0%	3%	0%	0%
Public administration and defense; compulsory social security	0%	1%	0%	0%

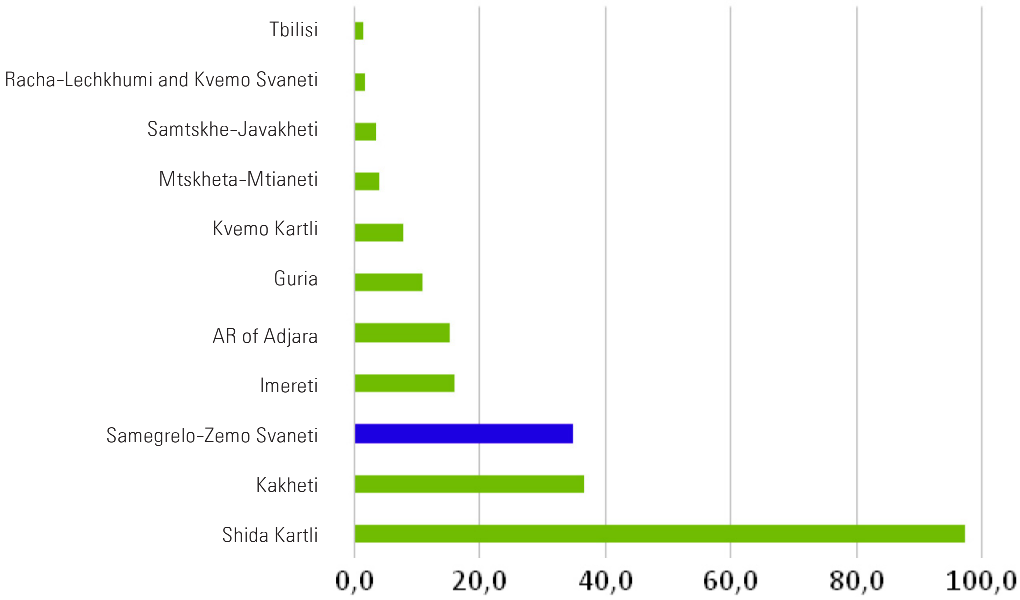
AGRICULTURE

A large segment of population of Samegrelo-Zemo Svaneti region is engaged in agriculture. Consequently, a further development of agriculture will contribute to the economic growth of self-employed population. According to the 2020 data, Samegrelo-Zemo Svaneti is the leader by the production of corn as well as by the sown area of corn. The Samegrelo-Zemo Svaneti region accounts for 27% of total corn produce in Georgia (see, Figure 8). The region plays an important role in the production of fruit as well. In 2020, the Samegrelo-Zemo Svaneti region produced 34.6 thousand tons of fruit, which amounts to 15% of fruit produced throughout Georgia (see, Figure 9). Only two other regions of Georgia (Shida Kartli and Mtskheta-Mtianeti) produce more fruit than Samegrelo-Zemo Svaneti. The majority of nuts (44%) and subtropical fruit (37%) are produced in this region (see, Figures 10 and 11). The Samegrelo-Zemo Svaneti region accounts for 54% of hazelnut produced in Georgia. Although only 6% of total vegetables is produced in the Samegrelo-Zemo Svaneti region (see, Figure 12), it is important to note that the average vegetable yield in the region exceeds the average national yield indicator and shows a higher productivity. The Samegrelo-Zemo Svaneti region is also actively engaged in animal husbandry. Twenty percent of cattle is registered in Samegrelo-Zemo Svaneti. The region is the leader by the heads of cattle; also, the region produces 16% of total milk produced in Georgia. The region is also a leader by the number of pigs and counts around 24% of all pigs registered in Georgia. Twenty percent of goats and 10% of poultry are registered in the Samegrelo-Zemo Svaneti region.

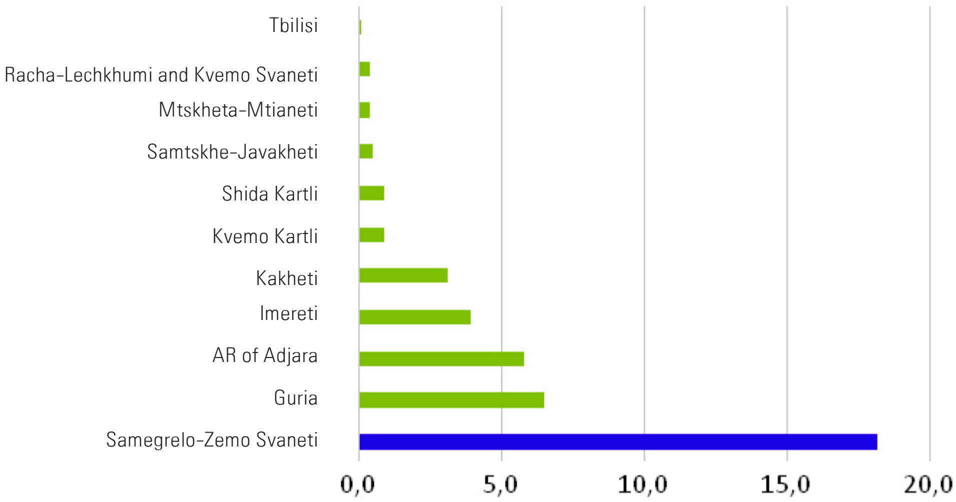
PRODUCTION OF CORN (THOUSAND TONS)



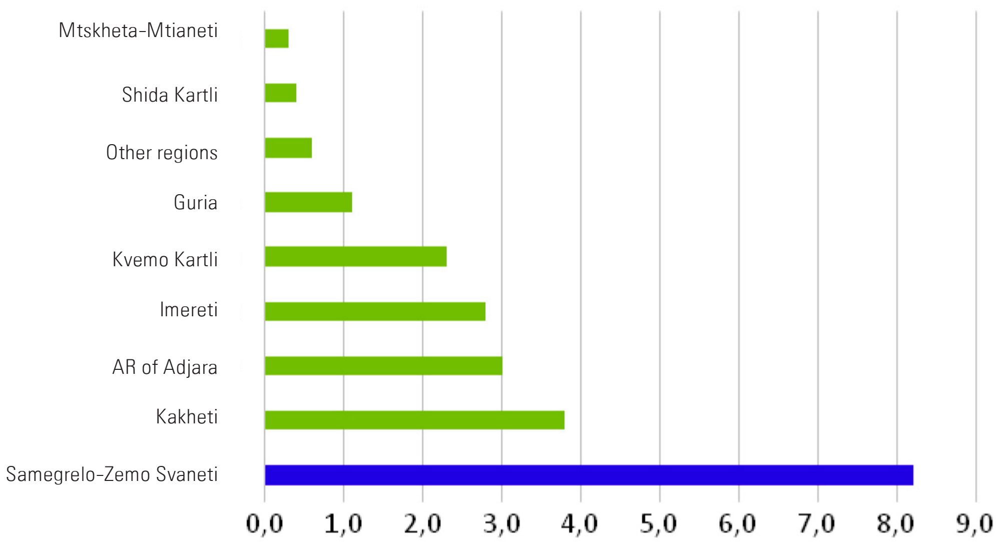
PRODUCTION OF FRUIT BY REGIONS (THOUSAND TONS)

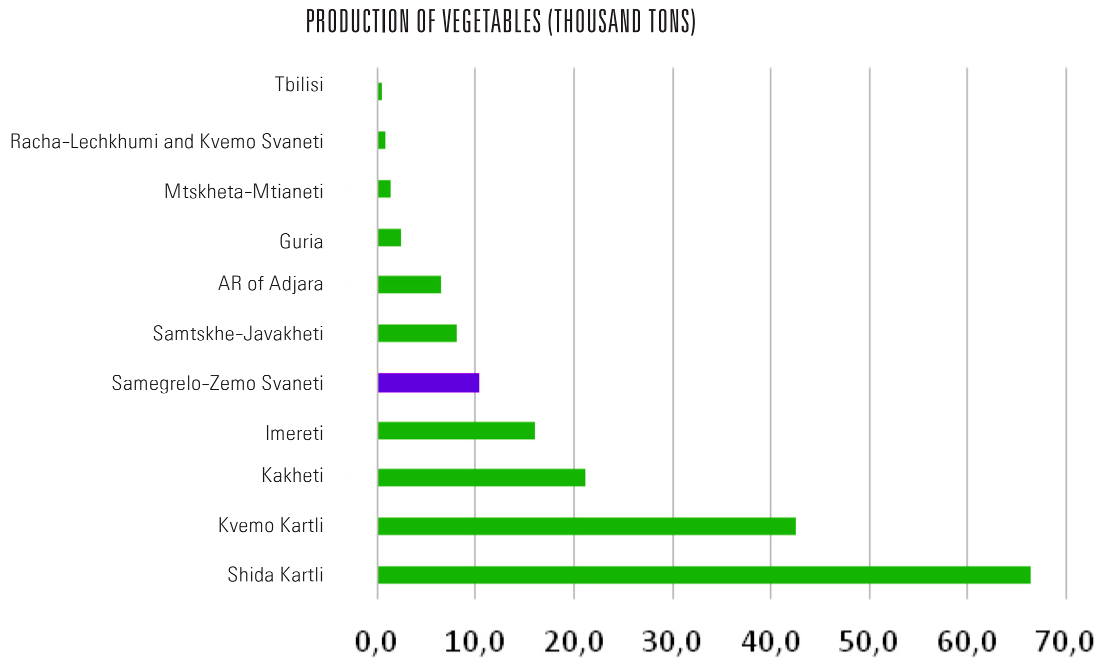


PRODUCTION OF NUTS BY REGIONS (THOUSAND TONS)



PRODUCTION OF SUBTROPICAL FRUITS BY REGIONS (THOUSAND TONS)





OPPORTUNITIES

Bearing in mind that the agriculture sector is well-developed in the region, especially in the corn and fruit growing and animal husbandry, it will be easy to attract new interested actors by creating additional opportunities. The above-named agricultural areas are productive, well researched and consequently, represent a safe investment opportunity for attracting small- and medium-sized investment capital. A deep knowledge of these activities, experienced labor force and historic legacy available in the region are conducive to this process.

Yet another interesting investment opportunity is vegetable growing. Although the region does not produce much vegetable today, its high productivity provides an opportunity to increase the amount of produce, which will make it an attractive investment opportunity.

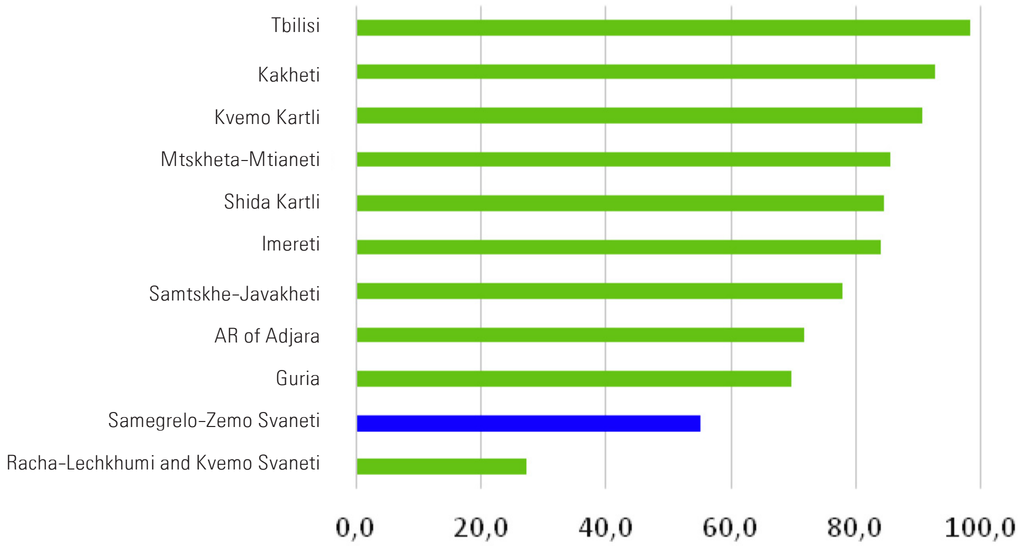
Subtropical climate and in its north part, subalpine and alpine climate of the Samegrelo-Zemo Svaneti region, coupled with ample water resources create a natural habitat for cultivating non-endemic species. An interesting precedent set in 2010 is the kiwi orchards in Samegrelo, which is a non-endemic species for the region, but in light of natural and climatic characteristics of the region, proved an effective and successful initiative.

A well-established activity in the Tsalenjikha municipality is tea growing and processing, as proved by small-and medium-sized enterprises operating there. JSC Tsalenjikha-Kolkheti is a large enterprise engaged in production and export of tea. This activity is also a core business of medium-sized companies – a joint liability company, Jvari 93, and an individual entrepreneur, Shota Gelovani. A medium-sized hazelnut processing enterprise, Legi LLC, and an individual entrepreneur, Salia Badri, operate in the municipality. Considering existing practices and infrastructure, tea and hazelnut production represent interesting investment opportunities as the experience in these economic activities is already available in the municipality and new enterprises may be set up by emulating the operating enterprises and drawing on their experience.

INFRASTRUCTURE AND TRANSPORTATION

Properly developed regional infrastructure plays an important role in mobilizing and attracting investments. A persisting challenge for the Samegrelo-Zemo Svaneti region is the supply of natural gas to households (see, Figure 13). This problem is caused by insufficient supply of natural gas to the Zemo Svaneti region and this problem shall be resolved in the region in order to enable the utilization of its investment potential.

NUMBER OF HOUSEHOLDS SUPPLIED WITH NATURAL GAS (%)

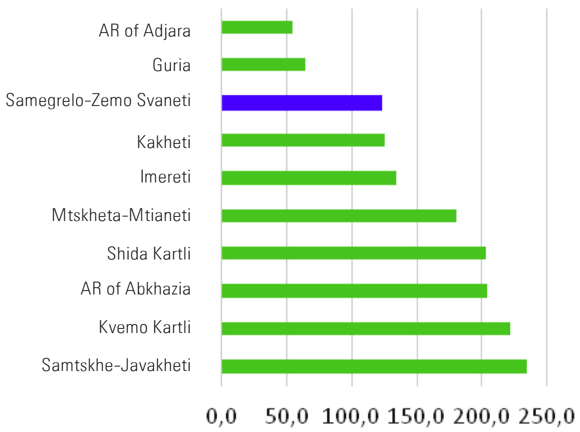


Availability of proper transportation infrastructure facilitates the economic engagement of the region in local and international activities. Only a small part of the motor roads across the Samegrelo-Zemo Svaneti region are of international importance whereas the rest is of national importance (see, Figures 14, 15). Furthermore, the Samegrelo-Zemo Svaneti region is crossed by Tbilisi-Senaki-Poti and Tbilisi-Senaki-Zugdidi transit and transportation railway lines that play an important role in domestic and international shipments. Poti Seaport, the largest seaport by economic activity in Georgia, is an important logistic hub in the Samegrelo-Zemo Svaneti region. According to the 2019 data, some 6,8 million tons of cargo were handled in the seaport, which is less than in the previous years but much more than in other seaports.

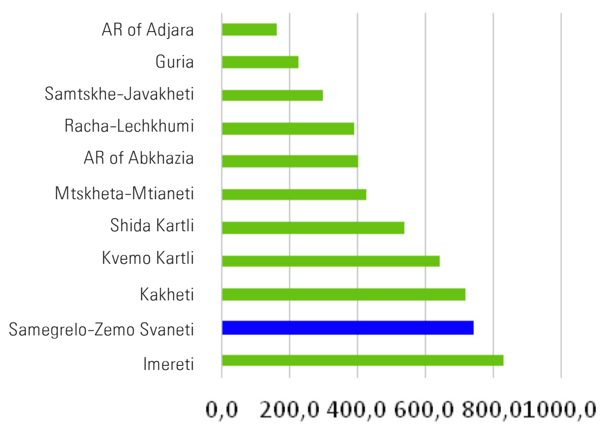
OPPORTUNITIES

The engagement of the region in international and national supply chains and realization of its logistic potential will bring a substantial economic benefit to the population. New economic opportunities will emerge, jobs will be created, quality of living will improve. There is a potential in the region in the area of transportation and logistics, through a better utilization of the Black Sea coastline. The construction of a deep seaport (Anaklia) is an interesting opportunity as it will enhance the importance of the region in international trade relations. The seaport will have a positive effect on railway as well as international road cargo turnover. Attracting investment capital in the construction of the deep seaport will have an immediate positive impact on economic indicators of the region. Modernization of the Poti seaport and creation of a deep-sea wharf may also be an opportunity for future investment potential (let us recall that the Poti seaport applied for the relevant permit to the government in 2020 and the implementation of the corresponding project has begun).

LENGHT OF MOTOR ROADS OF INTERNATIONAL IMPORTANCE (KM)



LENGHT OF MOTOR ROADS OF NATIONAL IMPORTANCE (KM)

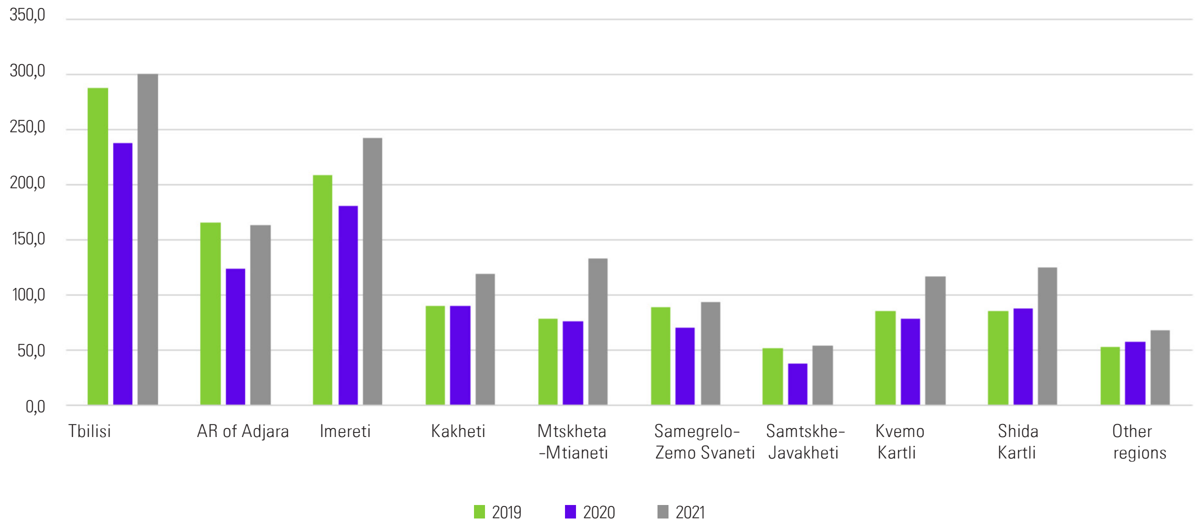


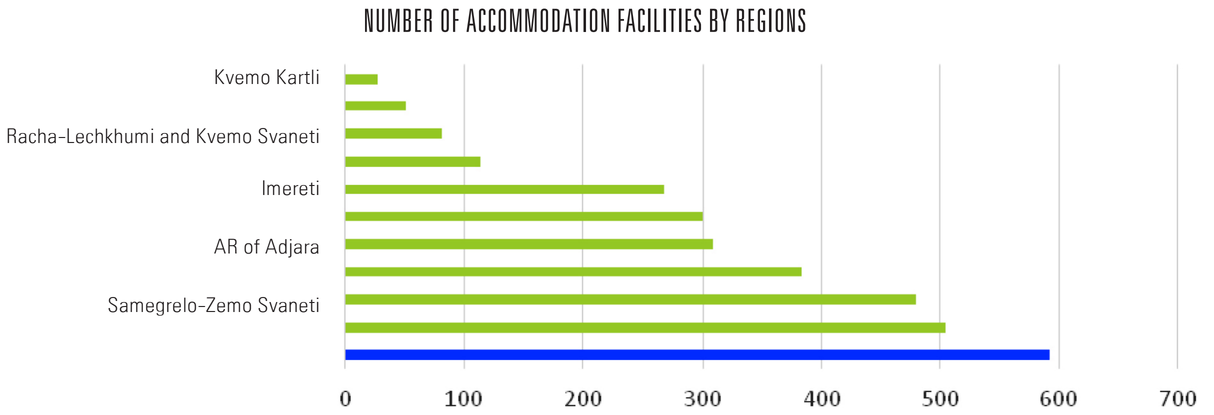
The Tsalenjikha municipality does not have any particular potential in terms of transportation infrastructure at this stage; however, its vicinity to the Poti seaport and hopefully, to the Anaklia seaport in future, will turn it into an interesting location for investments in the production of export goods.

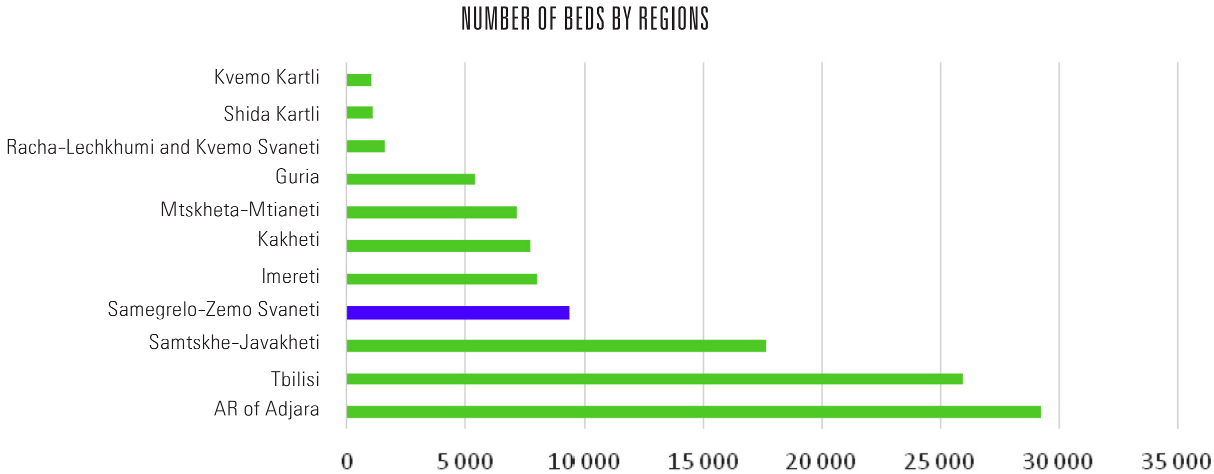
TOURISM

The Samegrelo-Zemo Svaneti region is actively engaged in the tourism sector. The region is rich in cultural heritage and history, with numerous historical monuments and nature tourism attractions. However, until 2019 (no further updated data is available), separate statistics on international visitors to the Samegrelo-Zemo Svaneti region was not maintained because of their insignificant numbers, while the data with other regions (Shida Kartli, Racha-Lechkhumi and Kvemo Svaneti) shows that the share of international visitors comprised 5% of all visitors. The region is more popular among local visitors (see, Figure 16). The region counts 591 accommodation facilities, which is higher than in any other region, but the total number of beds amounts to 9,348 beds which means that accommodation facilities operating in the region are, on average, of small size. Only 10% of accommodation facilities in the region have more than 10 beds; 63% of them can accommodate five or less guests while 27% between six to 10 guests. The data indicates that the majority of facilities engaged in the tourism sector are small-sized guesthouses and family hotels. With the increase in tourist flows, the need for larger hotels will inevitably emerge, which is an opportunity for potential investments.

NUMBER OF LOCAL VISITS (THOUSAND)







OPPORTUNITIES

The region has enormous potential for various types of tourism. There is a huge potential to develop experience and cultural tourism in Samegrelo while numerous possibilities for ski and extreme tourism are available in Zemo Svaneti. Current global challenges pose high risks to the tourism sector, but considering that the number of international visitors to the Samegrelo-Zemo Svaneti region is insignificant in all visitors arriving in Georgia, the risk that in case of the development of tourism infrastructure the efforts to attract international tourists will fail is small. Consequently, along with the development of tourism infrastructure, the Samegrelo-Zemo Svaneti region has a potential to attract small and medium investments in the tourism sector, which will have a benevolent effect on both local business and population.

As regards the Tsalenjikha municipality, economic studies into and data on the capacity of the municipality in this sector are rather scarce. One of important issues is that the arch dam of the largest hydropower plant in Georgia, Enguri HPP, is located in the region. Upon the ordinance of the government of Georgia of 14 March 2017, the implementation of various attractions has been planned in the territory adjacent to the Enguri HPP dam. This project envisages the installation of a Discovery Center, viewing platforms, panoramic elevator, cable car and zip line and at the same time, the development of water sports. According to government's estimates, the Enguri tourism zone will serve up to 400 thousand tourists per year. The implementation of the above-mentioned project in the region will create an additional tourism attraction, thus increasing a possibility to attract both local and international tourists. This may be an interesting opportunity to seek tourism investments.

In order to make a prospect of attracting tourism investments realistic and to not have the Tsalenjikha municipality a day-trip destination from other municipal centers of the region (for example, from Zugdidi and hotels there, etc.), it is important to develop tourism routes and existing cultural opportunities locally, which is now at an extremely poor level. For example, a study[2] into prospects of Tsalenjikha municipality to develop adventure tourism showed that the development of ecotourism could be extremely interesting for international tourists: there is already the experience of tourists undertaking mainly mountain adventure tourism routes, such as Tobavarchkhili, the riverhead and the entire gorge of Intsra, Qvira mountain, Tsipurona (beech forest), Kernakhona and others. It is important that, according to the study, there are no tourism companies that would offer visitors to the municipality various routes which would be integrated into the routes of large travel agencies of Georgia; a large segment of tourists do not use a local catering service; the most demanded and prospective type of accommodation for stay is guesthouses, where gastrotourism elements may be integrated. Consequently, to support the development of adventure tourism, the government must primarily take efforts to create a service infrastructure which will necessarily encourage private initiative too. Thus, ecotourism and gastrotourism represent a rather interesting opportunity for the municipality.

2 Challenges and prospect of development of small and medium business in Georgia, 2018.

ENERGY

It is impossible to plan and effectively implement industrial and entrepreneurial activities without a safe energy environment. Investors who might display interest towards the region as an investment opportunity will necessarily pay a great deal of attention to the availability of safe energy infrastructure. By 2021, all 100% of households in the Samegrelo-Zemo Svaneti region have power supply, but only 54% of households have natural gas supply.[3] The region faces problems in water supply too. Only 40.7% of regional population has water supply system installed inside dwellings and 9.8% has the water system tap in the yard or in the vicinity, whereas 47.9% of population use wells in the yard or in the vicinity and 1.6% use natural springs in the yard or in the vicinity.

According to analytical sources of energy sector, the region has geothermal water resources, solar and biomass energy[A1] potential. If utilized, they can increase the investment potential of the region by ensuring energy safety, renewable energy sources[A2] and low tariffs. At this stage, however, the activity in this direction is hardly planned. A more realistic option is to focus on the implementation of hydropower plant projects, which is more common for Georgia.

The largest HPP in Georgia, Enguri HPP, is located in this region and it is an important source of electricity generation in the country. In particular, the Enguri arch dam is located in the Tsalenjikha municipality, thus enhancing the importance of the municipality not only in the area of power generation but also in terms of interesting prospects for investments in tourism (prospects of tourism have been discussed above).

Furthermore, there is a Skuri HPP, a small, diversion type, run-of-river hydropower plant on the river Chanistskali, in the Tsalenjikha municipality. The installed capacity of the HPP comprises 1.02 megawatts while the average annual generation stands at 5 million kWh. Skuri HPP was commissioned in 1958. The generated electricity is transmitted to Georgia's electrical grid through a 10 kV power transmission line.

3 Geostat.ge

The projects that are underway or planned in the region are mainly implemented in the area of power distribution. In particular, the construction of a 500 KV transmission line “Jvari-Tskaltubo” is underway as a backup to the crucial transmission line, “Imereti 500.” This project also envisages a safe delivery of new capacities from the western Georgia (integration of Enguri HPP into Jvari substation). The project includes the construction of 500 KV power transmission line, “Jvari-Tskaltubo,” as well as the extension to the existing substation “Tskaltubo” of 500 kV wing. Then, a connection will be installed between “Tskaltubo-220” and “Tskaltubo-500.” The completion of the project is scheduled for 2023.

Another ongoing project is Jvari-Khorga interconnection network. This component of the project includes the construction of a double circuit 220 kV transmission line between the Jvari substation and the Khorga substation (approximately 60km); the looping of a double circuit 500 kV transmission line Kavkasioni in the Jvari substation (approximately 8 km). The implementation of (a) and (b) components of the project will facilitate the transfer of electricity from the hydropower plants located in north-west of the country to western Georgia, Poti free industrial zone and Turkey, and at the same time, will make it possible to increase the power supply to eastern Georgia. The project encountered some problems as a contract was terminated in the course of implementation; now it is planned to complete the project by the end of 2022.[4]

Various projects are now implemented on Enguri HPP to increase the sustainability of the power plant. For example, Phase IV of rehabilitation is underway with the funding from the European Bank for Reconstruction and Development (EBRD). Also, the above-mentioned tourist attraction project is being implemented, etc.

OPPORTUNITIES

The energy sector of the regions is an interesting opportunity for local as well as international investors. Such investments will help mobilize additional resources. Investing in the energy sector is particularly interesting inasmuch as it is profitable for the region as a net investment and at the same time, contributes to ensuring energy safety and creating a better energy infrastructure[A3].

It is worth to note that the region is rich in water resources. The region counts 2,441 large and small rivers. Owing to steep slopes of rivers and much precipitation, rivers in Samegrelo represent a source of electricity generation. Their hydro energy resources make up 3.3 million kilowatts, which comprises 13% of total energy resources of Georgia[A4].

4 Georgian State Electrosystem (GSE).

That's why it has been years that the prospect of constructing Khudoni HPP in this region, namely, in the Mestia district, has been an issue of permanent discussions. If implemented, Khudoni HPP will be the second largest hydropower plant in Georgia after Enguri HPP (installed capacity of 1,320 megawatts and annual generation of 3.8 TWh). Installed capacity of Khudoni HPP is estimated at 702 megawatts, while an annual generation at 1,5 billion KWh. Although the most recent efforts to revive the idea of the project were observed in 2013, the project is still suspended. The reason of it is environmental problems and stiff resistance of the local Khaisi community and the population of Svaneti.

In case of the implementation of the project, the volume of generated energy will be important not only for the Samegrelo-Zemo Svaneti region, but the energy safety of the whole of Georgia.

Today, experts say that small- and medium-sized HPPs are the easiest and most sustainable and more importantly, the most realistic and feasible option for the creation of additional energy sources.

In any case, this region is interesting from the perspective of constructing hydropower plants; however, an important question which must be answered is whether it is better to implement 10 small HPP projects than one large HPP project from the perspective of ecology as well as profitability, cost-effectiveness, etc. This concerns both the entire region and the Tsalenjikha municipality.

Yet another source of energy is thermal waters the fields of which can be found in Tsalenjikha, Chkhorotsku, Zugdidi, Khobi, Martvili and Senaki municipalities. Implementing small-size projects on them may be interesting for investors with local aims and scales.

CONCLUSION

The data discussed above show the areas in the Tsalenjikha municipality, a rather small district by population and size, with the possibilities of improving investment climate and consequently, attracting investments. Such opportunities are seen in the tourism sector (in terms of the development of Enguri HHP cascade attractions and adventure, ecological and gastrotourism); in the agriculture sector in terms of growing and exporting new cultures; in the energy area in terms of constructing small hydropower plants and utilizing thermal waters. At the same time, an interesting point is that except for Enguri HPP and construction of transmission lines, the central government do not plan any other large project; nor does a privatization plan show any substantial opportunities in this regard.

The local government may undertake efforts to inventory the state-owned facilities and put them up for sale – to compile a comprehensive list of such assets and speedily disseminate information about them with the aim to attract potential investors.

It is important to form concrete investment packages, for example, around already ongoing attractions projects (Enguri HPP) and realize these investment opportunities/packages. It will also be interesting to find specific opportunities concerning small hydropower plants, thermal waters and produce corresponding packages, which may also be done with the involvement of donors.

To develop a tourism potential in the municipality, it is important to create comprehensive tourist routes; while to raise the quality of service and diversify tourism offers, it is important to provide relevant knowledge and upgrade the qualification of local potential entrepreneurs and operating businesses (guesthouses, catering facilities, attractions).

For small businesses, it is important to educate them about government and non-government grants and assistance (for example, about a grant component of the state agency, Enterprise Georgia; components of the Rural Development Agency as well as the Georgia's Innovation and Technology Agency) and help them engage by, for example, helping them enhance their skills, assisting in preparing project applications, etc.